AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Volume 4 Number 1, 2003/p.75-85 esteyjournal.com

The Estey Centre Journal of
International Law and Trade Policy

The Agreement on Textiles and Clothing: Is It a WTO Failure?

Jaime Malaga

Assistant Professor, Department of Agricultural and Applied Economics, Texas Tech University

Samarendu Mohanty

Assistant Professor, Department of Agricultural and Applied Economics, Texas Tech University

The historic GATT–Uruguay Round Agreement was signed in April 1994 after years of difficult negotiations. Although the textile and clothing sector was not included, a separate agreement, the Agreement on Textiles and Clothing (ATC) was also signed, with the specific purpose of dismantling the complex quota system in place and gradually incorporating the sector into the rules and disciplines of GATT-UR over a period of ten years. On the verge of the established deadline, the liberalization results achieved seem disappointing for most textile exporting countries. These results have implications for the new round of WTO negotiations. What went wrong? Is anyone to blame? This article analyzes the ATC rules and discusses conflicting interpretations of the results so far, as well as expectations for 2005.

Keywords: ATC, developing countries, MFA, textile & clothing

Introduction

The textile and clothing (T&C) sector accounts for US $ 370 billion in world exports, almost 8 percent of the total world trade in manufactured goods. Being labour intensive, the industry offers developing countries an opportunity to advance the early stages of industrialization, with high potential for employment generation and export expansion. T&C exports account for more than 70 percent of total exports for Bangladesh and Pakistan, 50 percent for Sri Lanka and around 25 percent for India and China. Given the disparity in labour costs between developed and developing countries, it is not surprising that trade restrictions have been the norm in T&C trade since the 1930s.

T&C trade has been taking place outside of General Agreement on Tariff and Trade (GATT) rules but within the framework of consecutive multilateral arrangements that provided some level of transparency. These temporal arrangements established sets of bilateral 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 the MFA (Sweden, Switzerland, and Australia among them). By 1994, MFA members were four importers (the United States, the European Union, Canada and Norway) and some 30 developing exporting countries, with a total of 1,300 T&C bilateral import quotas. MFA members also agreed to a quota expansion mechanism to increase each quota volume, with rates going from 1percent to 6 percent a year.

The Agreement on Textiles and Clothing (ATC)

Finally, the GATT–Uruguay Round (GATT-UR) led to the end of what many saw as the sector's special treatment in the context of world trade liberalization: the Agreement on Textiles and Clothing (ATC). The ATC was born with the objective of fully incorporating the T&C sector into WTO rules and disciplines through a gradual process that would give importing countries a transition period to adjust their domestic sectors to the new rules, avoiding sudden and costly disruptions. The major components of the ATC agreement are: (a) the designation of "product coverage" or a "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, 1998-2001 and 2002-2004; (c) a "quota liberalization system", also in those three stages; and (d) a mechanism of "transitional safeguards".

The “list of products” was defined to include all T&C items (yarns, fabrics, made-up textile products, and clothing) that were previously subject to MFA or MFA-type quotas 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 figure 1) was based on the gradual integration into WTO rules (GATT-UR) of subsets of the “list of products”, representing a growing percentage of each importing country’s volume of imports for 1990. These percentages were established as: 16 percent for the first stage (1995-1997), an additional 17 percent for the second stage (1998-2001) and 18 percent for the third stage (2002-2004); the remaining 49 percent would be integrated on January 1 of 2005. It is important to clarify that “integration” does not mean elimination of all trade restrictions, but rather use of only those governed by GATT-WTO disciplines.

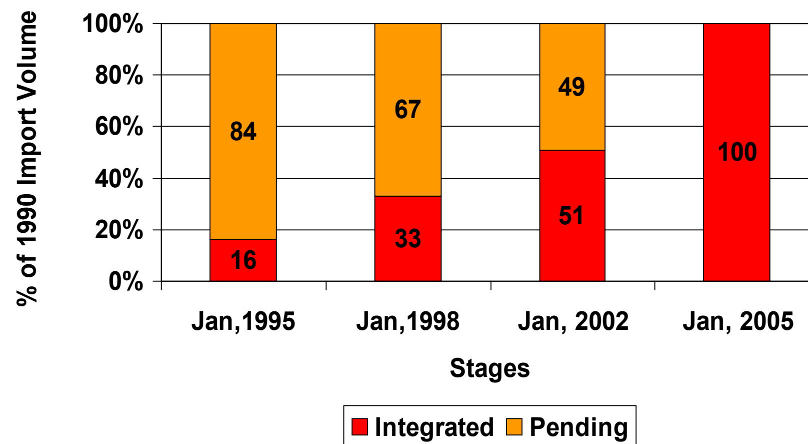

Figure 1 ATC Integration Process by Stages

Thus, although integration means the automatic elimination of quantitative restrictions (quotas) and any form of discriminatory trade policies, it does not preclude imposition of the tariffs that each country has negotiated under the WTO. Additionally, the ATC spelled out the augmented annual growth rates applied to the remaining quotas. The agreement calls for 16 percent higher growth rate on the existing growth rate (part of the MFA arrangement) during the first stage, 25 percent higher than the stage-one rate during stage two and 27 percent higher than the stage-two rate during stage three. For example, an annual quota growth rate of 6 percent under the MFA would become 6.96 percent during the first phase, 8.7 percent during

the second phase and 11.05 percent for the final phase of the transition period. As shown in figure 2, the augmented growth rate under the new system would increase a quota of 100 units in 1994 to approximately 225 units in 200 as compared to the 179 units that would result from 6 percent growth under the MFA. The same quota with a 1 percent growth rate under the MFA would have increased to approximately 110.5 units in 2005 as compared to 115.8 units under the ATC system. 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.

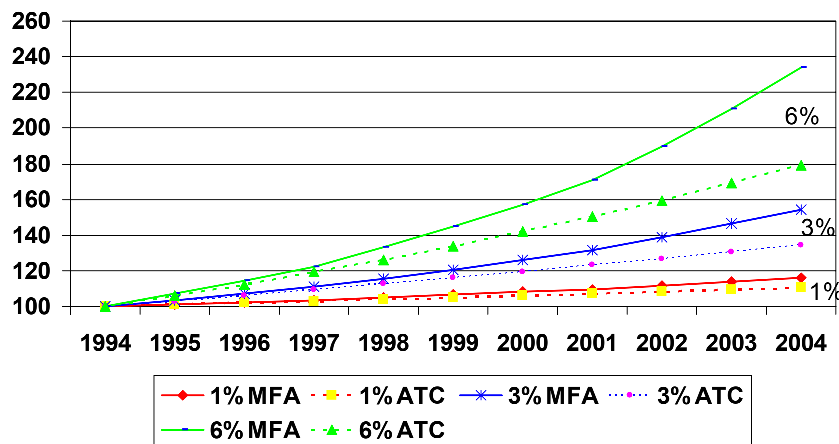

Figure 2 Quota Expansion: ATC vs. MFA

The ATC was received with great expectations from developing countries, especially those whose exports were restrained by the MFA system. The expectation was that during the period 1995-2005 the ATC would gradually eliminate quotas, generating a smooth transition to the total integration of the sector with the GATT-WTO system of disciplines. T&C trade was expected to greatly expand during the transition period and create at least 20 million new jobs in developing exporting countries (World Bank, 2002). Evaluation of results in terms of trade liberalization at the beginning of the third stage has been, to say the least, controversial.

Evaluation of the First Two Stages

Based on the reports of the Textile Monitoring Body (TMB), created to supervise the implementation of the agreement, the evaluation of the first two stages of the

ATC agreement showed very slow progress towards the elimination of the existing restrictions, despite the fulfillment of the commitment by the importing countries to integrate the agreed percentages of T&C products. 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 United States and the EU integrated some products that had been previously subject to quotas but represented only a small percentage 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 percent of EU imports in 1990.

During the first two stages of the integration process, the developed importing countries have fulfilled their ATC commitments by integrating more than 33 percent of the 1990 imports volume into GATT/WTO rules, but they were able to do so without dismantling most of the existing quotas. Out of 1,325 original quotas, only 219 have been eliminated in the first seven years of the integration process, and consequently the remaining 1,106 (approximately 83 percent of the original number in 1995) would have to be removed during the remaining three years (January 2002-January 2005) (table 1) in order for the provisions of the agreement to be met. Leaving aside Norway, which had abolished all of its quota restrictions four years in advance of the agreed deadline, the number of quotas that remained in place at the end of the second stage for the other three major importers were 701 out of 757 in the case of the United States, 164 out of 219 in the case of the European Union and 241 out of 295 in the case of Canada.

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	757	45	11	56
EU	219	55	0	55
Canada	295	54	0	54
Norway	54	3	51	54

Source: Council of Trade in Goods, 2002

Moreover, the major importing countries have fulfilled their ATC commitments, which were set in volume terms, by integrating low-value products such as yarns, fabrics and made-ups (table 2). The big three (the United States, Canada and the European Union) on average have integrated 31 percent low-value products and less than 3 percent high-value products to get to 33 percent ATC commitment. In terms of value, the integrated products account for far less than 33 percent of the value of 1990 imports, leaving probably around 80 percent of import value to be integrated over the final three years.

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

	Percentage of Imports			
	Yarns, Fabrics and Made-ups	Clothing	Volume Total	Value Total
USA	29.34	3.9	33.24	17.35
EU	31.91	2.47	34.38	21.62
Canada	32.24	1.38	33.62	29.74

Source: Tang, Using WTO, TMB Notifications

Developed importing countries' perspective

The ATC agreement has been faithfully and scrupulously fulfilled during the first two stages. The integration target percentages of the respective 1990 import volumes have been surpassed in every case. The remaining quotas have been growing at the agreed rates, and the transitory safeguard mechanism has been used only when needed and according to the stipulated regulations. The cost of implementation has been high in terms of the reduction of domestic production and employment in the industry. Norway had integrated 100 percent of their 1990 imports to GATT-WTO rules and regulations by January 1, 2001. The other three (the United States, the EU, and Canada) have claimed that their imports from developing countries have increased at a considerable rate during the first seven years of the integration process. They have substantiated their claim by showing that clothing imports in the European Union increased more than 54 percent during the 1995-2000 period and most of these imports came from developing countries. Similarly, in the United States the rapidly rising volume of clothing imports has been causing contraction of the domestic

clothing sector since 1995. Overall, the developed members consider that the integration process is progressing well, and they reconfirm their commitments to 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 it seems that the high-value items are being kept out until the end of the program. Furthermore, the average quota growth rate of less than 1 percent during the first two stages has not provided significant improvements in market access primarily because of low pre-ATC growth rates for most products.

Developing countries have countered the view put forth by the developed countries that the integration process has led to substantial increases in clothing imports into the developed countries by arguing that most of the growth in T&C imports in the developed countries has occurred through their regional trade agreements, favouring very specific countries: Mexico (through NAFTA) and the CBI (Caribbean Basin) countries by the United States; Turkey and some North African and Eastern European countries by the European Union. Developing exporting countries also allege that the importing countries have extensively used the "transitory safeguard mechanisms" to maintain protection of their industries and the EU has excessively used the "antidumping" instruments allowed by the WTO. Some countries have modified their "Rules of Origin" regulation to additionally restrict imports. Overall, there is concern that the developed 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 the ATC a WTO Failure?

As explained earlier, developed countries are technically correct in arguing that the required percentage of product integration has been met, as nothing in the ATC states that a certain percentage of products under quota would be required to be integrated at each stage. Also, according to 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 textiles and clothing, during the life of the ATC. Contrary to this expectation, 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 groups (developing exporting countries and developed importing countries), it is clear that the difference between their positions can 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 developed importing countries interpreted the ATC as the full integration of the textile and clothing sector into GATT and WTO disciplines 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 the volume requirements of each stage, and full integration by the end of the transition period.

The outcome of another key aspect of the integration process – the 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 additions to the existing growth rate during the first two stages. According to their figures, ATC implementation during the first two stages amounted to only 0.73 percent per year in the EU, 1.03 percent in the United States and 1.22 percent in Canada. On the contrary, developed countries emphasize that the quota growth rate increases resulted in a substantial rise in their imports. For example, clothing imports in the EU increased by 54 percent during the 1995-2000 period. Similarly, in Canada, total clothing imports had increased by 71 percent from developing countries since 1994. In addition, developed countries use the example of Norway, which had removed all of its remaining quota restrictions by January 1, 2001, four years in advance of the agreed deadline.

It is clear from the above discussion that the two groups differ substantially on the interpretation of the various provisions of the agreement and are unlikely to change their positions under any circumstances. However, developing countries need to realize that the pattern of product integration followed by most importing countries seems to be logical and similar to what has happened with tariff reduction commitments under the GATT–Uruguay Round agreement. Before signing the agreement, developing countries should have known that developed counties were likely to postpone integration of the most sensitive products until the end of the period unless otherwise specified in the agreement. Even with these disagreements and the

slow progress of integration after seven years of the transition period, it is still too early to conclude that ATC has failed to achieve its ultimate goal of complete integration of trade in textiles and clothing. All parties to the agreement, particularly the developed countries, still affirm their commitment to achieve full implementation of the ATC by January 1, 2005.

Implications for Future WTO Negotiations

If as expected the ATC is respected and fulfilled by January 1, 2005, most of the existing MFA bilateral quotas will be eliminated over a very short period of time, most of them probably on just one day: January 1st of 2005. As a matter of fact, on that day 49 percent of the 1990 import volume will be fully integrated into the GATT-UR rules. However, given the integration strategy followed by the importing countries (low-value items first), the percentage of the 1990 import *value* to be integrated that day will probably be above 60 percent, and perhaps closer to 70 percent. Although this sudden integration at the end of the timeline is entirely possible and legitimate within the ATC agreement, it is questionable whether such a strategy is the best for the industry in the importing countries. The gradualism that inspired the spirit of ATC will have culminated in an abrupt change. Although "integration" with GATT-WTO rules means phasing out of quotas, it does not imply elimination of tariffs. However, for some countries with very low production costs, the quota elimination would represent a drastic reduction in the "equivalent importing tariff". For the United States for example, the average "tariff equivalent" of T&C quotas on products imported from China is estimated to be 40 percent while the prevailing U.S. T&C average tariff that would be applied in January 2005 is about 15 percent. It is likely, however, that most firms within the T&C sector in the United States, Canada and the EU will have made the required adjustments and appropriate business decisions by the deadline of the ATC, and if so, the impact will not be as large as some anticipate. In any case, it could be expected that the direction of trade will be altered, with Chinese and South Asian T&C production replacing some of the imports to the EU, Canada and the United States that now flow from countries favoured 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 pressure from these countries, the Doha Ministerial Declaration included 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 of multilateral institutions like UNCTAD, UNIDO, the IMF and the World Bank. So the future of the T&C tariffs of developed countries could be under great pressure after 2005. It is already expected that the developed countries will react to the fulfillment of the ATC with increased antidumping cases. Arguments related to labour standards and eco-labeling are also being heard at the trade negotiation tables and may be the next instrument to slow down the free flow of T&C products from the developing to the developed countries. It would benefit the overall process of trade liberalization led by the WTO if the ATC agreement were fulfilled by January 1, 2005 and any further liberalization of the T&C sector were as transparent as possible to all parties involved.

References

Campeas, A. (1999) Progress in the Implementation of the Agreement on Textiles and Clothing. In Proceedings of the 1999 China International Cotton Conference, FAO.

Council of Trade in Goods, WT0. (2002) Major Review of the Implementation of the Agreement on Textiles and Clothing in the Second Stage of the Integration Process.

Laird, S. (2002) Does the DDA Reverse the ADD? Policy Issues in International Trade and Commodities Study Series. Geneva: UNCTAD.

Laird, S. (2002) Multilateral Market Access Negotiations in Goods and Services. In: C. Milner and R. Read (eds.) *Trade Liberalization, Competition and the WTO.* Edgar Elgar (forthcoming).

Thongpakde, N., and W. Pupphevesa. (2003) Returning Textiles and Clothing to GATT Disciplines. In: W. Martin and M. Pangetsu (eds.) *Options for Global Trade Reform.* Cambridge University Press. Forthcoming.

Tang, X. (1999) The Implications of the Agreement on Textiles and Clothing and other Trade Policy Developments in Developing Countries. In: Proceedings of the 1999 China International Cotton Conference. FAO.

UNIDO. (1995) Sector Impacts of the Uruguay Round Agreement: Exports of Textiles of Asian Developing Countries. Global Forum on Industry. ID/WC-542/17.

World Bank (2002) Launching Developing Round Could Help Poor Countries Facing Global Downturn. Global Economic Prospects and the Developing Countries NR 2002/11/S.

World Bank (2002) Statement on Trade and Sustainable Development. World Summit on Sustainable Development (WSSD). Johannesburg, South Africa.

WTO (2002) Textiles: Back in the Main Stream. Trading into the Future. http://www/sto.org/english/thewto_e/ whatis_e/tif_e/agrm4_e

WTO (2002) *ATC: Agreement* (1). Http:/www.wto.org/English/thewto_e/whatis_e/wol/wto)2/ wto2_32.

WTO (2002) Textiles Monitoring Body (TMB). The Agreement on Textiles and Clothing. http://www.wto.org /French/tratop_f/texti_f/textintro.

The views expressed in this article are those of the author(s) and not those of the Estey Centre Journal of International Law and Trade Polic*y nor the Estey Centre for Law and Economics in International Trade. © The Estey Centre for Law and Economics in International Trade.*