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THE MULTI-FIBRE ARRANGEMENT AND CHINA'S GROWTH PROSPECTS

John Whalley*

1. Introduction

How important is the removal of trade restrictions against exports of textiles and clothing under the Multi-fibre Arrangement (MFA) for China's future growth prospects? This paper tries to answer this question by posing three further questions.

The first is whether a textile export growth phase comparable to those experienced by rapidly growing developing countries which have preceded China must inevitably form part of Chinese growth and, if so, what implications follow? The experience of Japan, Korea and Taiwan underlies the view, held strongly in some quarters, that a period of rapid growth in both production and exports of labour-intensive manufactures such as textiles and clothing is an inevitable part of such a growth spurt.[1] China's growth to date has been dominated by strong productivity performance in the agricultural sector (McMillan, Whalley and Zhu 1989), and only now is China beginning to move towards significant attempts at reform and growth in the manufacturing sector.[2] How textiles and clothing exports fit into this picture, and what the potential is for China, are the issues.

The second major question is how severe is the MFA as an impediment to GDP and export growth for China, given that Hong Kong, Korea and Taiwan all seem to have achieved substantial growth in textile and clothing exports despite the MFA's presence?[3] Unlike Taiwan and Korea, China may soon become large

enough in both population and GDP terms for large increases in volumes of its textiles and clothing exports to cause major adjustments in importing countries. It may seem at first sight that a Chinese textile and clothing export-led growth phase can only occur with major dislocation on global markets, which, in turn, would intensify the existing pressures in advanced industrial economies for protection of textile and clothing industries. How large would such dislocations be in industrial countries? Is a major sustained export surge for a period of, say, ten or fifteen years accompanying high Chinese growth therefore a realistic scenario? And what are the prospects for the MFA? Is it likely to be weakened as a trade-restricting device in the near future, and could this possibly facilitate heightened Chinese growth?

The third major question is whether China's somewhat tenuous current position within the multilateral trading system as a non-contracting party to the GATT, along with the current uncertainties over how clear the trade rules in the system actually are, weakens the attractions of this route to higher growth for China. Concerns expressed by the industrial countries in the now-suspended GATT negotiations on a Chinese protocol of accession have focused on the threat of large import surges from China which might result from manipulation of domestic price controls and other policies. These would still remain outside of GATT disciplines after China had obtained the benefits of GATT membership (such as unconditional MFN).[4] While negotiations remain on hold on Chinese GATT accession, and without clear multilateral disciplines within the trading system which guarantee China's access to large export markets, it seems clear that, unlike for smaller economies, the trade route to high growth for China may be substantially more difficult to follow.

With a much larger domestic market compared to other developing countries, it is equally less clear that the trade route is the most obvious one for China to follow for higher growth. China, therefore, is faced with a conflict in her policy choices in this area. She may have to take on additional international

disciplines over her domestic policies in order to guarantee firmer rules of access for her exports to industrial country markets. But, in the process, China may be foregoing the use of precisely those policy instruments which may be necessary to propel the economy towards high levels of accumulation and, ultimately, income growth.

The picture which this paper paints is thus somewhat clouded. The future form the MFA might take remains uncertain pending the outcome of the current GATT Uruguay Round. The prospects for Chinese accession to the GATT are now far from clear, and are made more problematic by the apparent insistence by industrial countries that China agree to the use of selective safeguards. Also, it is unclear to the present author that a period of dominance of textile and clothing exports in Chinese growth, comparable to that experienced in other smaller developing countries, is necessarily possible or even desirable.

With all these uncertainties, the paper concludes that, in the present environment and facing trade restrictions abroad, Chinese policymakers may be unwise to assume that unlimited market access for textile and clothing exports would be theirs for the taking to fuel their economic growth. Nor may a policy that is heavily oriented towards trade and growing exports of labour-intensive textiles and clothing necessarily be the best policy for China to pursue.

2. Textiles and clothing exports in China's developmental process

The interrelationship between textile and clothing exports on the one hand, and economic growth on the other, has been much debated in recent literature. This follows the growth experiences of Japan, Korea and Taiwan in which rapid growth of textile and clothing exports characterized their initial growth surge, only to be followed subsequently by growth in exports of other manufactured exports such as steel, consumer electronics, motor vehicles and higher technology products, and a relative decline in textile and clothing exports.

The special significance of textile and clothing products is that they are typically among the most labour-intensive, least technology-demanding manufactures for developing countries to produce. In an initial developmental phase involving large transfers of labour from the tradition-based farm sector to more modern manufacturing sectors, textiles and clothing production provides the opportunity to both employ and train large numbers of workers new to industrial activities. Increased exports of textiles and clothing accommodate increased production, which implies increased human capital accumulation and ultimately higher economic growth.

This link between increased textile and clothing exports on the one hand, and higher GDP growth on the other, is widely believed to be strong. Indeed, the OECD (1985) argues that "the expansion of textile and clothing exports had become for the developing countries an increasingly important determinant of their economic develpment". Their view is that growth in textile and clothing exports is central to wider economic growth and social development. This, they argue, has been demonstrated in the growth experiences of first Japan, and then Hong Kong, South Korea and Taiwan. Implicitly, their argument is that in order to grow, developing countries need ever-expanding access to markets of the major industrial countries, and growth in exports of textiles and clothing are central to this process.

These arguments are, in turn, related to the famous sequence of stages that Rostow (1960a,b) believes countries pass through during the course of their development. He argues that, at any point in time, all countries typically are in one of five stages: traditional society, showing the preconditions for a growth take-off, at the take-off to sustained growth, showing a drive to maturity, or at a stage of high mass consumption.

Beginning with Rostow's traditional society, development starts with the reallocation of surplus agricultural workers, whose productivity is low, to industries where they become more productive. The precondition phase sees a build-up of infrastructure, notably in the form of ports, railways and roads, which are also important inputs for primary exports. Technological advance also occurs in agriculture, along with expanded markets, an expanded supply of funds to the modern sector, and a rise in the level of investment to at least 10 percent of national income. This is accompanied by an expansion in imports, including capital imports, financed by the surplus generated in agriculture.

The take-off phase is characterized by a rise in investment to a level in excess of 10 percent of national income, and rapid growth in a limited group of manufacturing sectors. In the nineteenth and early twentieth centuries these leading sectors ranged from textiles and clothing (Britain and New England) to railroads (the United States, France, Germany, Canada, Russia), to modern timber-cutting and railroads (Sweeden). Agricultural processing, oil, import-substitution industries, ship-building and rapid expansion in military production helped to provide the initial surge in other cases.

During the drive to maturity, Rostow saw growth proceeding through a changing sequence of leading sectors. There is, therefore, no need for the sequence of leading sectors in developing countries today to repeat the pattern of, say, Great Britain, that is, cotton, pig iron, steel, engineering, and so on. In fact, in the twentieth century some of the leading sectors have been petroleum (Arab nations), agriculture (Australia, Argentina, Africa, Ivory Coast), rubber, palm oil and timber (Malaysia), in addition to textiles and clothing (Japan, Korea, Hong Kong, Singapore, Sri Lanka, and others).

Leading sectors, during the drive to maturity, are determined by the available pool of technology, as well as by natural or acquired resource

endowments. They may also be determined by the policies of governments. Countries generally develop through structural change in response to shifts in comparative advantage - beginning with specialization in primary products and advancing to single-process, labour-intensive manufactures, capital and technology-intensive goods, and finally to higher technology and knowledge-intensive products (Balassa 1979; Balassa and Bauwens 1988).

The issue, therefore, is how China's future growth pattern in manufactures will fit into this picture. Will it be dominated by rapid growth in both production and exports of textile and clothing products, with subsequent rotation to other leading sectors? Or will trade be less central because of China's size, with other leading sectors emerging?

China's recent growth record is shown in Table 1, with comparative data reported for other Asian developing countries.[5] The sharply elevated growth performance of China in the 1980s is clearly discernible.

Data on China's textile and clothing exports are reported in Table 2, along with data on their destination. These data show a share of textile and clothing exports in total exports which, during the recent growth surge beginning in 1978, initially falls before recovering to its earlier record level. These shares are not greatly above the 20 percent levels of the 1960s and early 1970s.[6] Taiwan's share of textile and clothing exports in total exports increased from 14 percent in the mid-1960s to 30 percent in the early 1970s, and fell to 22 percent in the early 1980s. Korea's share similarly increased from 27 percent in the mid-1960s to 39 percent by the early 1970s, falling to 26 percent by the early 1980s (Anderson and Park 1989, Table 2) Despite China's high GDP growth rate since 1978, growth of textile and clothing exports in proportional terms thus has yet to match that experienced by Taiwan, Korea, and other rapid growers. In part this is because China's growth during the decade to the mid-1980s was so heavily agriculture-led. These data also emphasize the emergence of Hong Kong as China's most

TABLE 1: Real GDP growth rates, China and other Asian developing countries, 1960 to 1986
(percent, annual compound rates)

	1960–70	1970–80	1980–85	1986[a]
China	4.0	5.8	9.8	7.4
NIEs				
Hong Kong	10.1	9.8	4.2	8.7
Korea, Rep.	9.5	8.2	7.5	11.4
Singapore	9.2	9.3	6.0	1.9
Taiwan	9.6	9.7	6.1	9.9
ASEAN–4				
Indonesia	3.8	8.0	3.6	2.0
Malaysia	n.a.	7.9	5.1	0.5
Philippines[b]	5.2	6.3	–0.9	0.1
Thailand	7.9	6.9	5.3	3.8
South Asia				
Bangladesh	n.a.	5.8[c]	3.9	5.2
Burma	2.8	4.2	5.2	3.7
India	3.9	3.2	5.4	5.0
Nepal	2.2	2.0	3.9	4.2
Pakistan	n.a.	5.6[c]	6.3	7.2
Sri Lanka	5.8	4.7	5.0	4.0

n.a. not available

a 1986 preliminary estimates except for Bangladesh, Burma, China, Nepal and the Philippines.

b GNP

c 1973–80

Source: James et al. (1987, Table 1.3).

TABLE 2: China's textile and clothing exports, by value and destination, 1979 to 1987
(billion US dollars)

A. China's Total Textile and Clothing Exports

	Textiles	Clothing	Textile and Clothing Exports as % of Total Exports
1979	2.3	1.4	27.6
1980	2.6	1.7	23.2
1982	2.5	2.0	20.4
1983	2.9	2.1	22.7
1984	3.5	2.5	24.2
1985	4.2	2.1	23.0
1986	5.8	2.9	28.1

B. China's Textile and Clothing Exports by destination

		US	Canada	Japan	EC[a]	EFTA	Hong Kong	Singapore
Textiles								
	1979	0.07	0.05	0.31	0.27	0.04	0.62	0.09
	1980	0.15	0.04	0.30	0.36	0.05	0.83	0.12
	1981	0.26	0.05	0.30	0.35	0.05	1.04	0.13
	1984	0.39	0.06	0.52	0.41	0.05	1.68	0.10
	1985	0.40	0.06	0.50	0.46	0.05	1.63	0.10
	1986	0.51	0.07	0.58	0.58	0.06	2.29	0.13
	1987	0.55	0.11	0.78	0.74	0.08	3.30	0.17
Clothing								
	1979	0.17	0.05	0.17	0.13	0.03	0.22	0.01
	1980	0.28	0.05	0.24	0.27	0.05	0.46	0.01
	1981	0.46	0.05	0.25	0.31	0.04	0.66	0.02
	1984	1.00	0.11	0.37	0.35	0.05	1.19	0.02
	1985	1.05	0.11	0.46	0.40	0.07	1.35	0.02
	1986	1.88	0.13	0.56	0.62	0.12	2.12	0.01
	1987	2.19	0.20	0.83	1.09	0.24	2.84	0.02

a EC-9 for 1979-81; EC-12 for 1984-87.

Sources: GATT (1982, Table A17).
GATT (1986, Table A24).
GATT (1988, Tables AB5-AB9, AB16, AD3).
United Nations (1983, Table 52).
United Nations (1988, Table 50).

important textile and clothing export market. The former (textiles) is for further processing in Hong Kong, and the latter (clothing) reflects Hong Kong's major role in trans-shipment.

Hence, exports of textiles and clothing have yet to play the dominant role in China's growth that they have played in other smaller Asian economies, and as a result the seriousness of MFA restrictions remains a contentious matter for China's development. If textile and clothing industries *are* to play a key role in any future Chinese industrialization surge, then access to markets abroad is presumably crucial in allowing China to realize traditional gains from trade, and in speeding Chinese growth by moving through a sequential product line developmental process. This view of the growth process suggests that trade restrictions against textile and clothing exports may be important for China, even though some other countries, notably Hong Kong, Korea, and Taiwan, have had remarkable growth rates despite increasingly restrictive quotas on their exports of textiles and clothing (Trela and Whalley 1990). But growth in China may not be so heavily trade-led as in other smaller countries due to the larger size of the internal market of that populous country.

One can also complicate matters by arguing that trade restrictions on textiles and clothing exports can actually be helpful by forcing certain types of developing countries to progress through stages more quickly, and hence grow more rapidly (Cable 1981). When combined with the observation that there are several successful growth experiences which appear not to have relied on an initial surge of production (and trade) in textiles and clothing, the significance of both textiles and clothing (and trade restrictions against exports) for the growth prospects of China becomes even more difficult to pin down.

3. The Multi-Fibre Arrangement and export growth prospects for China

Beyond the question of how crucial textile and clothing exports may be to China's future growth, a further isssue is whether the set of trade restrictions which China faces under the MFA could frustrate an export-led growth phase were it likely to occur.

MFA restrictions facing developing country exports are the outcome of bilateral negotiations between individual industrial and developing countries which cover exports of both textiles and clothing.[7] Restrictions are renegotiated every few years[8] in the GATT Committee on Textiles despite the fact that they are clearly inconsistent with several GATT articles (including Article 1 (non-discrimination) and Article 24 (bilateral trade agreements)). Their GATT incompatibility has never been tested through the dispute settlement procedures of the GATT. They involve export quotas typically administered by developing country governments and trade associations.

There are currently nine developed country participants in the MFA: Austria, Canada, the European Community, Finland, Japan, Norway, Sweden, Switzerland and the United States, although Japan and Switzerland do not currently apply MFA restrictions on imports.[9] Developing country participants in the MFA are more numerous, numbering thirty-three in late 1987.[10]

Like the trade restrictions which preceded it in the 1960s, the MFA was intended to provide temporary protection for producers in industrial countries. At its inception, the main objective of the MFA was stated as "achieving the expansion of trade, the reduction of barriers to such trade, and the progressive liberalization of world trade in textile products" (GATT 1975 ,pp. 3-19). The aim was to allow advanced industrial countries time to adjust to foreign competition from developing countries, while at the same time giving exporters orderly access to industrial country markets. This was considered by developing countries as

preferable to having their exports subjected to a series of more restrictive and ad hoc controls.

After twenty-seven years of "temporary" protection outside of GATT rules, however, there is little evidence that trade in textiles and clothing is currently any closer to a return to GATT disciplines.[11] Instead of liberalizing textile and clothing trade, successive bilateral agreements reached under the MFA appear to have grown progressively more restrictive.[12] Annual growth rates for quotas have generally been below 6 percent; fibre coverage has been extended to include silk blends and other vegetable fibres; country coverage has been extended to include small suppliers; and flexibility provisions have been reduced. "Anti-surge" mechanisms have also been included to limit full utilization of previously under-utilized quotas and to further protect industrial country markets from rapid increases in imports.

The importance of trade restrictions under the MFA for developing countries is immediately apparent once the country pattern of textile and clothing trade is understood. In 1986, world exports of textiles and clothing were $128 billion[13] ($66 billion in textiles and $62 billion in clothing), of which exports by industrial market economies accounted for $71 billion (55 percent), exports by developing countries for $43 billion (34 percent), and exports by the East European trading area $14 billion (11 percent). Worldwide, exports of all manufactured goods totalled $1,430 billion in 1986, out of a total of $2,120 billion for all merchandise exports. In other words, trade in textiles and clothing alone accounts for about one tenth of world merchandise trade. Inter-industrial country trade (which includes intra-EC trade) still accounts for about half of world trade in textiles and a little more than 40 percent of trade in clothing. Even so, textiles and clothing exports are of major importance to developing countries, representing one quarter of their exports of manufactured goods.

Textile and clothing exports are heavily concentrated geographically. Clothing exports are far more concentrated than textiles, with Korea, Hong Kong and Taiwan accounting for over 60 percent of exports to industrial countries.

As Table 3 indicates, China has a rapidly growing share of exports of clothing, and an even larger, if slower growing, share of textile exports. Table 4, based on Cline (1987), shows that over the period 1982-84, Chinese annual export growth to the United States averaged 25 percent for textiles and 73 percent for clothing (in square yard equivalent terms). Table 4 also shows that U.S. imports of textiles from principal suppliers increased in physical quantity terms by 113 percent between 1982 and 1984, while their value rose by 90 percent. U.S. imports of clothing from these countries also surged, but by far less than for textiles.

These rapidly growing import volumes in the U.S. have, in recent years, led some to question the extent to which the MFA actually restricts textile and clothing exports of individual developing countries. Data for China from the World Bank data base on the MFA, and reproduced here in Table 5, emphasize how sharp this debate is.

According to Table 5, quota utilization rates for China averaged, over a series of product categories covering both textiles and clothing, below 100 percent. However there are four instances in these data where imports under the quota system, due to the flexibility provisions in the MFA, exceeded the quotas granted. Futhermore, the rate of utilization differs across importing regions. For example, in 1987 China's utilization rate of Sweden's quota was 111 percent, while for quota granted by Canada it was only 93 percent. Utilization rates are also volatile over time and differ between products, reflecting the use by exporters of the flexibility provisions under the MFA to respond to changing market conditions and shifts in fashion.[14]

TABLE 3: Textile and clothing imports of industrial countries from China and other developing countries, 1973 and 1984

(percent)

Source	Textiles		Clothing	
	1973	1984	1973	1984
China	11.6	17.8	2.6	8.7
Asian Big Three[a]	29.3	26.8	67.7	61.1
Other Asia[b]	29.2	22.4	7.7	13.4
Latin America and the Caribbean[c]	7.2	9.2	2.7	3.2
Other[d]	22.7	23.8	19.2	13.6
Total	100.0	100.0	100.0	100.0

a Hong Kong, South Korea and Taiwan.

b Bangladesh, India, Indonesia, Pakistan, Philippines, Sri Lanka and Thailand.

c Argentina, Brazil, Colombia, Costa Rica, Dominican Republic, Haiti, Peru and Uruguay.

d Greece, Portugal, Spain, Turkey and Yugoslavia.

Source: Goto (1988, Table 4).

TABLE 4: United States imports of textiles and clothing from China and other major suppliers, 1982 to 1984[a]

	1982				Percentage increase over the period 1982-84			
	Textiles		Clothing		Textiles		Clothing	
	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity
China	201	314	590	357	80	73	27	25
Hong Kong	107	153	1,746	690	66	53	27	18
Taiwan	102	190	1,408	748	387	240	38	25
Korea	154	188	1,088	576	138	155	38	19
Japan	460	435	231	76	27	39	88	80
Sum of those 5 countries	1,024	1,280	5,064	2,447	94	96	35	23
India	767	60	149	73	64	105	78	80
Philippines	7	10	234	161	21	-24	57	46
Singapore	11	22	171	82	-50	-44	73	55
Thailand	33	64	93	53	49	65	129	101
Mexico	20	53	131	56	206	259	56	54
Sum of those 5 countries	148	209	778	425	69	110	73	61
Italy	171	195	138	14	82	132	209	302
United Kingdom	85	37	64	6	54	233	116	176
France	72	46	66	6	59	88	95	145
Germany	62	122	18	2	113	132	149	183
Canada	51	131	43	8	91	120	51	43
Sum of those 5 countries	441	531	329	37	78	132	144	191
Sum of all 15 countries	1,613	2,020	6,171	2,908	87	107	46	31
Other suppliers	429	533	940	474	100	138	96	92
World total	2,042	2,553	7,111	3,382	90	113	53	39

a MFA categories only. Values are in millions of current U.S. dollars, quantity in square yard equivalents.

Source: Cline (1987, Table 7.2).

TABLE 5: Average quota utilization rates for textiles and clothing exports by China to four importing countries, 1981 to 1987

(percentage utilization of annual quota quantity)

Importing Country	1981	1982	1983	1984	1985	1986	1987
United States	95	71	99	96	87	99	94
EC	94	95	98	95	95	103	108
Canada	62	65	89	94	85	97	93
Sweden	65[a]	106[a]	89[a]	79[a]	83	95	111

[a] Quota imposed on value of shipments, not quantity.

Source: Calculated from World Bank Data Base on the MFA.

Unfortunately, these data provide far from conclusive evidence as to the degree of restrictiveness of MFA quotas against China, since there are many reasons why binding quotas can seem to be non-binding. One reason may be the way the quota is allocated among importers. Quotas in the EC, for instance, in some cases are allocated between importing countries on the basis of historical market shares, regardless of the distribution of demands within the EC. hence, demand for, say, winter coats may be unmet in some EC countries with quotas binding, but quotas remain unused in other countries and are not allowed to be reallocated. Also, it can be the case that there are aggregate quotas for, say, shirts which are less than the sum of the sub-aggregate quotas for, say, particular types of shirts. Quotas may thus not appear to be binding at sub-aggregate levels, while they may be binding at the aggregate level.[15] Also, some quotas are issued on a monthly basis at an even rate throughout the year. Quotas in summer months for winter coats, for instance, can go unfilled giving the appearance of unutilized quotas in annual data.

Much of the increase in imports into the United States in 1980-84, as Cline (1987) suggests, can be attributed to the flexible provisions for quota use within the structure of the MFA. These allowed exporters to take advantage of the overvalued dollar and the strong U.S. recovery from recession in 1982. Hence, restrictive effects of the MFA can be partially offset through adjustments to basic quotas through MFA flexibility provisions.

Another way the restrictive effect of MFA trade restraints can be weakened is through product upgrading. Because the MFA involves physical quantity rather than value restrictions on trade (that is, by weight, number of pieces, or surface area), it encourages quality upgrading through changes in product mix. The principle reason for upgrading is that, when faced with a volume restriction on their exports, producers can expand their value of sales by moving up-market into higher-quality lines within quota categories. This has especially been true of Hong

Kong, who has succeeded in establishing a reputation for quality fabrics and fashion sophistication.

Cline (1987 p. 1983) provides evidence of product upgrading of quota-controlled products in the Chinese case, with an 18 percent rise in real unit value of exports between 1982 and 1984. Diversification of trade to industrial country markets with no formal MFA restrictions (typically global import quotas), to minor suppliers and to product categories either uncontrolled or subject to loose "consultation" controls, is another effect of the MFA. The latter dominated the increase of clothing imports by the United States from China, when they rose by 94 percent from 1982 to 1984 (Cline 1987, p. 183).

Geographical diversification in the form 'quota hopping' is yet another response to restraints. For example, the dramatic increase in foreign investment activities of Hong Kong clothing industries in lower-wage, less quota-restricted countries can be viewed as partly a response to Hong Kong quota limitations. Hong Kong investments occurred in Macao in the mid-1970s, Sri Lanka and Indonesia in the late 1970s, and more recently in the Maldives and, on a much larger scale, in China (see Young and Hood 1985). However, MFA IV has tightened restrictions against "false declaration" of country of origin.

All of these features have, therefore, combined to allow for a sharp growth in imports of textiles and clothing by the United States in the mid-1980s. However, as a study by the Congressional Budget Office (1985) notes, further sharp growth in imports cannot continue because rising quota utilization rates eventually run their course as MFA quotas become exhausted, and swing provisions and inter-year quota adjustments provide only temporary flexibility. Evidence in Cline (1987) supports this point of view, showing that the growth in the physical volume of U.S. textile imports fell dramatically from 54 percent in 1984 to only 5 percent in 1985, while the physical volume of clothing imports fell from 21

percent to 9 percent. Although the pace of import growth accelerated again in 1986 (21 percent for textiles and 13 percent for clothing), Cline (1987, p. 180) suggests "the likelihood is that this rise was in response to the extreme overvaluation of the dollar in 1984-85, and perhaps pre-emptive purchasing ahead of feared tightening in view of both MFA renewal and the threatened veto override on the Textile and Clothing Trade Enforcement Bill". There was also a sharp rise in import growth in the EC in 1985, but this was the result of a significant expansion in consumer demand following a delayed recovery from the recession.

The issue, therefore, is whether future restrictions on textile and clothing exports will continue to only slow the growth of Chinese and other developing country exports to major industrial country markets, or whether growth may be more sharply curtailed. While the conclusion from recent literature seems to be that protection under the MFA has thus far only slowed and obstructed rather than terminated the growth of textile and clothing exports by the smaller Asian NIEs, this result largely reflects the flexibility provisions within the MFA structure. Increasingly, these are being exhausted and when this happens, textile restrictions are likely to bite more fully. The implication for China would seem to be that relying on continued expansion of market access for textiles and clothing exports may be a tenuous basis on which to build a growth strategy. Only with fundamental reform, including the dismantling of the MFA, can such a strategy be effectively pursued with confidence.

One may be tempted to ask how China would fare under an elimination of the MFA. In recent work, Trela and Whalley (1988), using data from Hamilton (1986), have estimated the welfare effects of eliminating both quota and tariff restrictions used by industrial countries towards imports of textiles and clothing. They use a global general equilibrium model which covers three major importers (Canada, the EC and the United States), thirty-four developing country exporters including China,[16] fourteen textile and clothing product categories, and one

composite other good (residual GDP). The fourteen product categories reflect the constraints implied by generating a cross-country data set covering trade under the different MFA quota categories used by the major importing countries.

The model is used in counterfactual equilibrium mode involving calibration to an initial benchmark equilibrium analysis (see Shoven and Whalley 1984). Results using 1986 data clearly show that the vast majority of developing countries gain from the removal of trade restrictions on textiles and clothing, with China gaining around $1.6 billion per year and exports by China increasing by 327 percent (Table 6).[17] This suggests that gains to China and other developing countries from improved access more than offset losses from foregone rent transfers as quotas and tariffs are abolished. This is even the case for relatively large holders of quotas such as Korea and Taiwan, who, it has always been argued, have a protected market niche against lower-cost competition under the MFA.

In the presence of quotas (and tariffs) they, along with China and other developing countries, are non-marginal suppliers to industrial country markets. Thus, rather than losing share to other developing countries under an MFA elimination, higher-income developing countries (including China and other lower-cost developing countries) gain market share due to growth in industrial country markets and to reduced inter-industrial country trade.

4. GATT negotiation, MFA elimination, Chinese accession to the GATT, and the wider implications of the trading system for Chinese growth

At the present time, global negotiations are underway in the GATT aimed at achieving major trade liberalization in the Uruguay Round. It is anticipated that these will conclude at the end of 1990. Among the fifteen negotiating groups is one on textiles and clothing which is explicitly taking up the question of trade restraints in this product area, including MFA restrictions. The issue for Chinese policy makers is assessing what may result from these negotiations as far as

TABLE 6: Estimated general equilibrium welfare effects of removing bilateral MFA quotas and tariffs on textiles and clothing in all industrial countries, 1986[a]

(1986 US $ billions)

Country	Welfare Gain or Loss	Country	Welfare Gain or Loss
Importing Countries		Export Countries (cont'd)	
United States	3.478	Indonesia	0.321
Canada	0.311	Korea	1.562
EC	3.487	Macao	-0.005
		Malaysia	0.191
Exporting Countries		Mauritius	0.030
		Mexico	0.101
China	1.640	Nepal	0.018
		Pakistan	0.004
Bangladesh	0.290	Panama	0.001
Brazil	0.921	Peru	0.045
Bulgaria	0.002	Philippines	0.173
Colombia	0.309	Poland	0.131
Czechoslovakia	0.081	Romania	0.104
Costa Rica	0.007	Singapore	0.016
Dominican Republic	0.005	Sri Lanka	0.053
Egypt	0.046	Taiwan	0.884
Guatemala	0.005	Thailand	0.017
Haiti	0.006	Turkey	0.629
Hong Kong	-0.088	Uruguay	0.003
Hungary	0.105	Yugoslavia	0.056
India	0.074		
		All Developing Countries	7.755
		All Countries	15.032

a See Trela and Whalley (1988) for a more complete discussion of the model, the parameter values used and the sensitivity of results to changes in those parameter values. Welfare effects are calculated in terms of Hicksian equivalent variations for each country.

Source: Trela and Whalley (1988).

textiles and clothing exports are concerned. Indeed, the Chinese position at the present time is made even more complicated by the fact that China is not a Contracting Party to the GATT, and has also been engaged in negotiations on a protocol of accession to the GATT.[18]

The negotiating group on textiles and clothing in the Round achieved little in its early phases, but following the decisions of the Mid-Term Review held in Montreal in December 1988, with negotiations left over in four groups (including textiles and clothing) until April 1989, there has been significant commitment made by industrial countries. They have said that between April 1989 and the conclusion of the Round they will negotiate with developing countries for a return of trade arrangements in textiles and clothing to regular GATT disciplines. These new arrangements are to come into place in July 1991 when the current MFA expires.

Clearly, then, these negotiations and their possible outcome are of substantial importance to China's growth prospects. If the MFA can indeed be eliminated, and if China can obtain significant improvement in her access to the large textile and clothing markets of the EC, United States, Canada and Japan, then export growth prospects, and hence GDP growth prospects, will increase markedly for China. The difficulty is that it is as yet unclear what the industrial countries have in mind when they talk of a return of trade restrictions affecting textiles and clothing to regular GATT disciplines.

The MFA is a voluntary arrangement, driven in large part by the threat of alternative trade actions being taken by industrial countries, and particularly global import quotas allowed under Article 19 of the GATT. What makes the MFA attractive to industrial countries is its use of country selective trade controls, which would be ruled out by a reversion to Article 19. Developing countries generally feel they have more beneficial arrangement under the MFA than they would have under Article 19 actions which could be changed at any time.

Uncertainties over the policy regime in this area, therefore, create problems in assessing China's growth prospects.

Moreover, China's influence over the outcome from this trade negotiating group is further constrained by the fact that China is not a Contracting Party to the GATT and only has observer status. In addition to the issues surrounding the MFA and its impact on Chinese export prospects, there are, therefore, a series of further issues also raised by China's participation in the GATT.

China was one of the original signatories of the GATT but left in 1949. In recent years there has been substantial interest in China resuming its status as a GATT Contracting Party. China joined the MFA in 1974 and in 1986 formally applied for restoration of GATT membership. A GATT working party has, until recently, been examining the question of China's membership, and China has been granted observer status during the GATT Uruguay Round. Substantial confusion has existed in this working party, however, over exactly how China's foreign trade system currently operates.[19]

China's objective of obtaining the status of a Contracting Party is a reflection of her wider concerns over her market access. There is a widespread belief in China that in order to grow China will eventually have to substantially increase her trade volumes. How significant this increase is likely to be depends on the growth strategy China follows, and in particular on how inward- or outward-oriented it is. But a scenario under which there would be a quadrupling of real income per capita in China between 1980 and the year 2000, one of the objectives stated by the State Council in China in the mid-1980s, would presumably produce at least a quadrupling in trade.

The empirical evidence for most economies suggests that trade growth typically exceeds GDP growth. Averaging over all industrial countries in the post-war period, trade growth has been about 4 percent real per capita per year whereas GDP growth has been about 1.5 percent in real terms (Kravis 1982).

This calculation therefore suggests that access to markets abroad is central to Chinese growth. And because China is becoming such a large economy, this access cannot be easily secured without importing countries undertaking significant amounts of adjustment. Growth through trade for a relatively small country such as Korea, with a population of approximately 40 million, is a different proposition to growth through trade for a country the size of China.

China, therefore, sees major advantages in becoming a GATT Contracting Party and receiving some of the benefits of the GATT system which accrue to Contracting Parties. For instance, under GATT rules MFN arrangements apply automatically. China cannot be discriminated against under any country's tariff if it is a GATT Contracting Party, whereas while China remains outside the GATT, such discrimination is possible.

Perhaps more substantively, there is the question of Article 19 safeguard measures under the GATT. Current GATT rules require that any safeguards measure taken because of a problem with import surges be done so in a non-discriminatory manner. Selective safeguards are not allowable.

This is the heart of the GATT issue for China, because China's desire is to avoid selective trade actions being taken against her because of industrial country import surges which would follow from further substantial Chinese growth. Indeed, industrial countries in the GATT working party seemingly took the position that selective safeguards should be a condition for China receiving GATT membership. That is, China would be suject to selective trade actions until this particular provision were removed. This set of arrangements would in some ways have been similar to those which applied against Japan when Japan was admitted to the GATT in 1956.

China, therefore, faces something of a dilemma in her policymaking in this area. In order to comply with many of the concerns of industrial countries and to

obtain GATT Contracting Party status, it may eventually be necessary for China to take on international disciplines over domestic policies in order to remove the perceived threat of policy-manipulated import surges. But this may limit China's ability to use domestic policies to stimulate capital accumulation and achieve higher growth.

On the other hand, from an industrial country point of view the benefit from China joining the GATT would be to provide a set of international disciplines over domestic Chinese policies which would otherwise restrict their access to the Chinese market. How these various considerations play out in the future, therefore, is central both to Chinese export growth prospects and to Chinese dvelopment more broadly.

5. Summary and concluding remarks

This paper discusses growth propects for China in light of both her growing exports of textiles and clothing and trade restrictions under the Multi-fibre Arrangement (MFA). It suggests that, by the mid-1980s the share of China's exports represented by textiles and clothing was not much greater than in the 1960s, and the sharp growth in their importance in exports, as occurred in Korea, Taiwan, and Hong Kong, has only just begun to emerge. It emphasizes that the previous experience of earlier rapid-growing developing countries in Asia, for whom exports of textiles and clothing were crucial, occurred while MFA trade restrictions were in effect. At the same time, however, a textiles export phase comparable to that experienced in Japan and subsequently in Korea and Taiwan need not be inevitable in the Chinese case, in large part because of the size of the Chinese economy.

The paper continues by discussing how MFA restrictions work, and what some of their effects are. If growth of textiles and clothing exports is indeed

central to Chinese development prospects, future Chinese growth may pose major adjustment problems for some producers in industrial market economies. MFA restrictions are intended to slow these adjustments by restricting market access for developing country exporters. A textile and clothing export-led growth phase for China will only worsen these problems, making the eventual phase-out of the Multi-fibre Arrangement as part of the Uruguay Round negotiations that much more difficult.

Despite the difficulties that China has encountered with its negotiations on a protocol of accession for its entry into the GATT (even though these negotiations were suspended, following the events of mid-1989 in China), the fact remains that the system of international rules and disciplines represented by the GATT framework will be increasingly important to China in the years ahead. How to influence this system, and indeed how eventually to gain accession to the GATT, is an important issue for China.

In population terms, China is the world's largest economy. Industrial countries have always been fearful of the adjustment problems a rapidly growing Chinese economy might inflict on them. Whether recent political events in China will end the strong growth China has experienced since 1978, or whether growth will only slow temporarily, remains to be seen. But, whatever the outcome, the issues connecting trade, growth, and textiles and clothing will remain central to Chinese policy debates for some time to come.

NOTES

* The author is grateful to Kym Anderson and other conference participants for comments. A considerable portion of the material in the paper draws on earlier joint work with Irene Trela on the global effects of trade restrictions on textiles and clothing reported in Trela and Whalley (1988) and Trela and Whalley (1990), with emphasis placed here on the implications for China.

1. See Anderson and Park (1989) for a discussion of the contribution of textile and clothing production and exports to China's recent growth, and Park and Anderson (1990) for these industries' contribution historically in Japan.

2. There are, however, differences of view in the Western research community, with those who argue that recent strong Chinese growth has been accompanied by little or no improvement in productivity in the manufacturing sector (such as Lardy 1987), and those who argue that the productivity growth has been significant (such as Chen et al. 1989).

3. See the more detailed discussion of how this has occurred in Trela and Whalley (1990).

4. See the discussion by Lam (1989) and Author Unknown.

5. See also the discussion of recent Chinese performance in the textiles and clothing sector in Guo (1987, 1988).

6. Anderson and Park (1989, Table 2), report China's share of textile and clothing exports in all exports to be 20 percent for 1965-69, up from 14 percent for 1955-57.

7. Since its inception, the MFA has dealt almost exclusively with exports from developing countries. Over the period, however, restraints have also been applied to Japanese and some East European exports.

8. MFA I lasted from January 1974 to December 1977; MFA II from January 1978 to December 1981; MFA III from January 1982 to July 1986; and MFA IV was adopted in August 1986 and runs until July 1991.

9. Other developed countries, including Australia and New Zealand and, for a period of time, Norway, rely on GATT compatible global import quotas (Article 19 measures) to restrict their imports of textiles and clothing. Australia participated in the earlier Long-Term Agreement (LTA) and in the MFA until December 1974, when the Australian government imposed global "tariff quotas" outside the MFA. New Zealand has never participated in these special arrangements, although throughout the period since 1961 imports of textiles and clothing have been subject to import licensing arrangements, the majority of which involve global quotas (see Lloyd 1989). Norway participated in the LTA and MFA I, but did not participate in MFA II. In 1979, Norway introduced global quotas, but these were phased out within one year after Norway accepted the 1981 Protocol of Extension to the MFA in July 1984.

10. As of 30 September 1987 these were Argentina, Bangladesh, Brazil, Bulgaria, China, Czechoslovakia, Egypt, the German Democratic Republic, Hong Kong, Hungary, India, Indonesia, Macao, Malaysia, Malta, Maldives, Mauritius, Mexico, Nepal, North Korea, Pakistan, Peru, Philippines, Poland, Romania, Singapore, South Korea, Sri Lanka, Thailand, Turkey, Urguay, Vietnam and Yugoslavia. Japan is also a member of the MFA as an exporting country.

11. In the negotiating group on textiles and clothing in the Uruguay Round there are, however, signs of a commitment to eventually return the textiles and clothing sector to GATT disciplines. The Montreal Mid-Term Review in December 1988 and the decisions which followed in April 1989 produced a commitment to engage in substantive negotiations until the end of the Round to find ways of returning textiles and clothing to conformity with GATT (Hamilton 1990). Some of the more active developing countries in this group are seeking a clear timetable for an unambiguous phase-out program for the MFA.

12. The progressive expansion of the MFA in terms of fibre and country coverage has been cited by one leading authority as potentially the most important negative development in world trade in recent years (Corden 1987).

13. The source for the data used in the next few paragraphs is GATT (1987, Table A12).

14. These flexibility provisions include a "swing" provision which allows an exporting country to shift some portion of an under-utilized quota to a product category where the quota in binding, and allowance for a country to "carry over" unfilled quota balances fromt the previous year, or to "carry over" unfilled quota balances from the previous year, or to "carry forward" from the following year's quota.

15. Chaudhry and Hamid (1988), for example, found that in 1983 "the overall U.S. quota for Pakistan was less than the aggregate of category-wide quotas by 13 percent. Thus, though a category-wide quota may be available, increased export sales may become impossible because of aggregate quota limitations."

16. These are Bangladesh, Brazil, Bulgaria, China, Colombia, Czechoslovakia, Costa Rica, Dominican Republic, Egypt, Guatemala, Haiti, Hong Kong, Hungary, India, Indonesia, Republic of Korea, Macao, Malaysia, Mexica, Nepal, Pakistan, Panama, Peru, Philippines, Poland, Romania, Singapore, Sri Lanka, Taiwan, Thailand, Turkey, Uruguay and Yugoslavia.

17. The model results, however, have to be taken with some qualification, since there are a number of unstudied and unquantified factors which potentially complicate the picture, including the degree to which quotas are binding, effects on inter-developing country investment flows, and quality upgrading. Of particular importance is the non-inclusion of an activity called 'international textile and clothing marketing services, in which Hong Kong and to a lesser extent Macao have a very strong comparative advantage. Had such an activity been included in the model, these two economies undoubtedly would be gainers from MFA liberalization as the demands of these services from China increase, rather than losers as suggested by Table 6.

18. Following the events of mid-1989 in China, these negotiations have been suspended by the Contracting Parties until the situation within China is clarified. See *Financial Times*, 6 July, 1989, page 6.

19. See Author Unknown (1988) which contains the responses of the Chinese government to over 800 questions posed by the Working Party as to how China's trade system functions. See also Lam (1989).

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