The Multi-Fibre Arrangement:
An Analysis of a 'Regime' and its Economic, Political and Theoretical Implications

by

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Abstract

The Multi-Fibre Arrangement (MFA) is a multilateral framework agreement for the establishment of trade restrictions in textiles and apparel. It is associated with the General Agreement on Tariffs and Trade (GATT). The MFA is both a regime, limiting protectionism and promoting freer trade to the benefit of all textile trading nations, but especially the industrialized countries, and an alliance, facilitating protectionism to the benefit of the industrialized countries' textile industries and the detriment of the industrializing and developing countries. This analysis has theoretical implications for the understanding of both regimes and alliances.

To My Family

&

To Erin, for all her patience.

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The Multi-Fibre Arrangement (MFA) is a multilateral framework agreement regarding international trade in textiles and apparel. It is associated with the General Agreement on Tariffs and Trade (GATT). It specifies rules which its signatories must follow when restricting imports by means of unilateral actions or bilateral agreements. These rules allow many actions which are inconsistent with GATT.

But the MFA must not be seen as a mere derogation from GATT. The main thesis of this paper is that a mixture of goals and interests among the textile trading states, especially the powerful industrialized importers, causes the MFA to resemble both a regime, limiting protectionism and promoting freer trade to the benefit of all, and an alliance, facilitating protectionism to the benefit of the DCs and the detriment of the LDCs.

First, to the extent the MFA was set up to manage, coordinate and control protectionism in order to avoid its worst effects, it acts as a regime. The benefits (or avoidance of costs) it creates in this way are a global increase in utility, though disproportionately more benefits accrue to the industrialised countries than the industrialising ones.

Second, to the extent that the MFA simply helps the industrialized countries impose protectionism on the developing countries and their exports, it acts as an alliance of industrialized countries. As with members of any alliance, the industrialized members of the MFA have their targets: the low-cost clothing and textile exporters of the Third World. They are allied, on behalf of their textile workers and firms, against the competitive effects of low-cost imports from the less developed countries (LDCs) entering into their markets. They seek to stop the transfer of wealth that is implied by free trade in textiles - manifested in plant closures and unemployment in developed countries (DCs) and investment and expansion of employment in LDCs.[1]

To look at the MFA as simply a derogation from GATT forced by the ad hoc wills of states is to miss its economic, political and theoretical significance in and of itself and in terms of the overall trading system. It is equally misleading to look upon it as a regime which facilitates fair and efficient trade in textiles. The reality appears to fall somewhere in the middle.

Textile and apparel trade has the same problems associated with trade in most sectors, only their magnitude is multiplied many fold. The magnitude of price differentials in textiles is due mostly to differences in wage costs between

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[1] Part of the effect of free trade in textiles would, of course, be a global increase in utility due to increased efficiency through better resource allocation implied by the unfettered operation of comparative advantage. But, often states will focus on the distributional effect alone because of its political impact.

These utility effects are to be treated as premises for the purposes of the argument only. Later they will be explored further. The exact parameters and functioning of each are still subjects for debate by economists.

exporters and importers, especially in the more labour intensive apparel sectors. If it is assumed that free international trade promotes efficiency and generates wealth, then it is desirable for there to be free trade in all sectors, including textiles and apparel. Indeed, the importation of low-cost clothing and textiles by one country from another leads to great savings for consumers in the importing country. However, the competition from low-wage exporters can lead to plant closures and unemployment in the importing country's textile industry. This often leads to pressure for governments to provide income support and industrial adjustment or to protect industries with trade barriers. For a variety of reasons, governments often choose more protection than adjustment.

Economically, protectionism in textiles is inefficient overall, making jobs and firms in the DCs' textile industries viable, but costing first world consumers and Third World producers heavily. Protectionism, even if limited at first to the textile sector of the international economy and perpetrated against its weaker actors, can lead to more protection in other sectors and even to trade wars through trade diversion and retaliation. Unbridled protectionism, even against a limited number of weaker countries in a specific industrial sector, can have other risks and costs in the financial, economic and geo-political spheres. The industrialized countries have needed a way to manage trade and protectionism in textiles and the LDCs have generally supported anything which will limit trade barriers blocking their exports to developed countries' markets. Thus the MFA has become a facilitator, manager and limiter of protectionism: both an alliance and a regime.

This paper will develop this thesis and explore its implications. In order to do this, Chapter I will present basic theoretical frameworks and definitions to guide analysis. Chapter II will relate the history and development of the textile regime and explore the basic contents of its incarnations, focusing on the Multi-Fibre Arrangement. Chapter III will discuss important legal aspects of the MFA as well as exploring some of its domestic economic and political causes and effects. Chapter IV will fully develop the central thesis of the paper regarding the MFA as a regime and an alliance, as well as the implications this may have on the understanding of both as distinct concepts. Finally, some general theoretical conclusions and observations regarding future directions in clothing and textiles and the international trading system will be offered in Chapter V.

Chapter I

Theory of International Textile and Apparel Trade and Politics

Before the MFA can be properly explored, a theoretical context must be developed. Basic international trade and regime theories are central to establishing the necessary theoretical contexts for the political and economic analysis of the MFA. In order for a judgement to be made about the principles and norms of the MFA, a basis for comparison must be identified.

This chapter will discuss the basic economic theory of international trade and how it applies to the clothing and textile sectors. This will be followed by a discussion of international relations theory pertinent to the MFA, particularly regime theory. Finally, there will be a discussion of the key norms and concepts of the GATT, providing a basis for comparison with the MFA.

1.1 Theory of International Trade: Textiles and Apparel

The first and central concept of the economics of international trade, and the first important economic concept regarding the MFA, is comparative advantage. The concept of absolute advantage dictates that each country should specialize in the production of goods which they can produce better and more cheaply than any other country. Comparative advantage makes the further argument that even in an international economy of two goods (one and two) and two countries (A and B), where one country (A) is better at producing both goods, country A will and should tend to concentrate production on that good which it is most efficient at producing,[2] leaving production of the other good to B.[3] A

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[2] Assume a competitive market. This is a price driven effect. Country A will tend to shift toward the production of the good (e.g, cars) which it can produce at the lowest cost per unit of output, based on the valuations of consumers in both countries. Thus, consumers in both countries will be able to have more cars, at a lower price, with the expenditure of fewer resources for the system than without specialization.

[3] Specialization is limited by a function of marginal cost and marginal revenue/price. Producers in country A will shift resources away from production of good 2 (e.g., wheat) and into production of good 1 (e.g., cars) as long as the marginal cost (MC) of each additional car is less than the marginal revenue (MR) which that car will earn when sold. MR equals price (P), which is dictated by supply versus demand in a competitive market. Demand will be determined by the incomes of consumers in both countries (assuming fixed consumer preferences over time). If incomes are low, demand will be low, and so will the price of cars. Since P equals MR, the threshold above which MC will exceed MR will be low. This in turn will limit the impetus for specialization, as incentives for producers in country A to switch resources into cars will taper-off when MC exceeds MR at an early stage.

Since a good portion of demand will be determined by the incomes of consumers in country B, the terms of trade for wheat versus cars will be important in determining the level of specialization which occurs.

In reality, specialization is also limited from what is suggested by two country, two good models in another way. In scenarios of many countries and types of goods, specialization does not lead to each country exclusively producing a small range of goods in which it has comparative advantage. What is evident instead is broader categories of countries specializing in broad categories of goods (e.g., LDCs producing mostly labour intensive goods and DCs producing mostly capital intensive goods).

and B will then simply trade with each other to satisfy their needs for each good.[4] Theory argues that this is utility maximizing for the two national and the international economies, distributional considerations between sub-state groups which benefit from freer trade versus groups which are hurt notwithstanding.

A country's resource endowment will determine which goods it will be best in producing. If a country has much of a particular resource or factor of production (e.g. labour) it will be more efficient at producing labour intensive goods, which it may then export in exchange for goods requiring resources in which it is poor. This is the Heckscher-Ohlin (H-O) theory of international trade. To quote from Ohlin:

> Commodities requiring for their production much of [abundant factors of production] and little of [scarce factors] are exported in exchange for goods that call for factors in the opposite proportions.

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[4] A caveat to this is that one good (1, cars) may be relatively "more valuable" than the other (2, wheat). For example, if A produces cars, country B may have to trade a lot of wheat to satisfy its need for cars. In fact, it may have trouble producing enough wheat to buy all the cars it needs because of the value and, therefore, the price of cars, relative to that of wheat based on the preferences of consumers in both countries. This concept is referred to as "terms of trade". In this case, country B has a disadvantage in the terms of trade regarding wheat and cars.

Many LDCs face the same situation in the international market. They sell relatively less valuable goods and commodities such as rice or clothing, and must trade for high value-added goods such as cars and factory machinery. Free international trade, while efficient at generating a net overall increase in wealth for the international economy, does not necessarily lead to an equitable distribution of wealth between countries.

> Thus indirectly, factors in abundant supply are exported and factors in scanty supply are imported.[5]

Thus countries with abundant (low-cost) labour resources, for instance, will tend to export labour intensive goods. Countries which have relatively more capital will export capital intensive goods.

Countries do not export the same goods throughout their histories. Clothing manufacturing, for instance, was very important for Japan in the early post-war period. Today it produces cars which rival Germany's and computers which rival those of the United States. Often countries or regions of countries which are under-industrialized successfully diversify and develop an industrial base. According to H-O theory, if the types of goods produced in a country are to change, the factors of production must change in their relative abundance as well.

Technology is the key to understanding how the factor endowments of a country may "change". Technology can be thought of in terms of method, altering the way or the proportions in which factors are used in the production of goods. Technology can be thought of as another factor or resource as well. A country could, therefore, change its factor endowments by developing or importing more (better)

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[5] Bertil Ohlin, quoted in Peter H. Lindert, International Economics, 8th ed. (Homewood, Illinois: Irwin, 1986) p. 31

technology. As the quality of technology and its availability increases, it will be used more in production. The kinds of goods in the production of which the country has comparative advantage will change. Production and export will shift toward those goods.[6]

This process is called the product cycle, the second key economic concept regarding the MFA.[7] Most countries exhibit at least some elements of it. Some, like Korea, are models of advancement along the industrialization stage of the product cycle, as technology for the production industrial goods as now been full disseminated to such newly industrializing countries and they now compete directly with the industrialized nations. As industrialization in countries such as Korea offers greater competition to the industrialized countries, the DCs must develop new industries in a post-industrial, high-technology stage in order to maintain their economic well-being. To the extent that they fail to do this, the movement of Newly Industrializing Countries (NICs) into ever higher value-added industries will be a continuing source of competition for first world industries and a continuing source of friction between NICs and DCs.

A third important concept for the international economic

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[6] Capital, which can be "developed" or imported, can be thought of in the same way as technology. In fact, in the case of new factory machinery, for example, the capital may embody the new technology.

[7] Lindert, International Economics, 1986, pp. 109-112

and political analysis of textile trade is Pareto optimality. Pareto optimality is a condition of resource allocation under which it is not possible to reallocate the goods among actors in order to make some (or at least one) actor(s) better off without making any other actor(s) worse off. A system such as the international economy reaches Pareto optimality when it has completely fulfilled its potential for wealth generation, reaching the highest possible level of utility, though the distribution of this wealth may be extremely uneven.[8] Theoretically free international trade will yield Pareto optimality for the international economy. This view is generally accepted by economists, given certain conditions and caveats, particularly with regard to the distribution of wealth.

A fourth economic concept important to the analysis of

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[8] Steven T. Call and William L. Holahan, Microeconomics, 2nd. ed. (Belmont, California: Wadsworth, 1983) p. 420

Pareto-optimality does not require a price mechanism for its attainment by an economy or market. In fact, extrenalities and imperfections in markets can lead to sub-optimal outcomes, though the markets may appear to be in equalibrium. This thesis assumes that a competitive free market in textiles would be generally free of imperfections and externalities and that its functioning under free trade would be Pareto-optimal for the system of textile trading states.

Pareto-optimality would not necessarily require total specialization, with each textile trading nation functioning exclusively as either an importer or an exporter. Specialization will be limited as a function of marginal cost and marginal revenue/price, as described in fn. 3 above. Thus, while there will be net exporters and importers, nearly all the textile trading nations will each export and import textiles, even while attaining Pareto-optimality under free trade.

the MFA is the concept of oligopoly, or more accurately, oligopsony. Oligopoly is an industry in which there are few enough suppliers such that they are able to collude to limit supply and maintain prices at a higher level than would occur under competition. An oligopsony is a market which has many suppliers who must sell competitively to few buyers. Because of their few numbers, these buyers may collude, agreeing to offer the many suppliers low prices and to not break ranks by offering more than the agreed price.[9] To a great extent, the large textile importing countries operate this way. They collude in coordinating the amount of market access and the terms of trade they will give the many textile exporters so as to favour themselves.

An important concept for analysis of the MFA, related to oligopsony, is that of dominant-firm (or in this case, consumer) price leadership. In a market with a relatively small number of buyers operating under dominant-firm leadership, there is one buyer who will so dominate - perhaps buying 50% or more of the total market - that it will dictate the price. The other buyers will act as price-takers, adhering to the price set by the dominant consumer.[10] This is analogous to America's position in the overall western political economy, as well as the roles filled by the US and later the EC with regard to textiles.

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[9] Ibid., pp. 288-89

[10] Ibid., pp. 308-09

1.2 International Relations Theory

The most widely used theoretical construction in the political analysis of the Multi-Fibre Arrangement, as with GATT and other economic framework arrangements, is the theory of regimes. In the literature, even when authors are not specifically using regime theory in their analysis, they will often simply refer to the MFA as a regime. Herein lies part of the problem. Exactly what various authors mean when they talk about regimes in the literature is unclear. Admittedly, even the question as to whether regimes exist as distinct phenomena from other international theory concepts is still controversial.

This section will briefly survey the regime literature in order to identify the generally accepted notions regarding the nature of regimes. The related Theory of Hegemonic Stability will also be explored. Finally, the regime based typology developed and specifically applied to the MFA by Aggarwal will be introduced as a theoretical starting point for this paper's analysis of the MFA.

1.2.1 Regime Theory

Stephen Krasner has perhaps provided the most widely recognized definition of regimes. He defines them as

> sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations.[11]

He goes on define these four main elements of regimes.

> Principles are beliefs of fact, causation, and rectitude. Norms are standards of behaviour defined in terms of rights and obligations. Rules are specific prescriptions or proscriptions for action. Decision-making procedures are prevailing practices for making and implementing collective choice.[12]

This definition may serve as the basis for argument in several directions. However, the most compelling and important would seem to be that regimes are set up for the attainment or preservation of certain principles. The selection of the principles regimes will pursue is largely based on the interests of the states participating in the regime. If the decision-makers of a group of states believe - based on their knowledge of facts, causal links and/or even their sense of what is right - that free trade serves their interests, then they may seek to set up a regime which will uphold the principle of free trade.

Any regime will tend to pursue or uphold the principles

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[11] Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables", International Organization, 36, 2 (Spring 1982) p. 186.

[12] Ibid.

which are in the interests of the most powerful nations. This is the structural basis for regimes. A regime will tend to reflect the distribution of power and constellation of interests among the participating states. Factors such as technology or knowledge of the consequences of interaction among states will affect states' understandings of their interests and eventually change the principles which a regime pursues or the way in which they are pursued. Structural changes, changes in the distribution of power among the states, will also affect the principal orientation of a regime as it slowly begins to reflect the interests of the ascending states more and the descending states less.[13] It is also possible that changes in knowledge or technology will change states' interests so as to compensate for changes in power structure.[14]

Regimes serve in several respects as a brake on change in the international system caused by changes in states' interests or the distribution of power among states. First, they set patterns of behaviour and interaction for states which states may be slow to relinquish, even after the power structure or constellation of interests has changed. Second, there may be institutional or other costs which may tend to delay changes in the prevailing regime or delay its demise.

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[13] Arthur A. Stein, "Coordination and Collaboration: Regimes in an Anarchic World", International Organization, 36, 2 (Spring 1982) pp. 319-20.

[14] Ibid., p. 321.

Third, the way a regime organizes relations may have a legitimacy in the minds of decision-makers, leading them to try to preserve the regime. Fourth, during its operation a regime may change states' interests or they way they perceive those interests. As suggested above, this alteration of interests may act to reduce or negate the effects of changes, such as power shifts, which would tend to undermine the regime.[15]

There are many situations and issue areas in international relations in which a state, regardless of its capability, cannot achieve its objectives on its own. Often a group of states will find that they cannot achieve their goals by independent action. In such cases states find it useful to establish rules based on certain norms intended to facilitate the coordinated or collaborative pursuit of a set of principles which satisfy their interests or values. The decision-making required for the formulation of rules to prescribe or proscribe actions, for the implementation of those rules, and even for the development or establishment of norms is based on procedures which ensure decisions are made collectively. Decision-makers in the states involved may act consciously or unconsciously in this way, forming a regime.

Arthur Stein identifies this unique characteristic of regimes and the type of situations in which they are useful. Using a game theoretic approach, he identifies a type of

[15] Ibid., pp. 322-32

situation in international relations in which regimes obtain and three in which they do not.[16]

The first situation type is that of no conflict. No regime obtains here because the actors involved have the same interests, which they will pursue independently, without the need for a coordinating regime. An example of this would be the giving of some forms of foreign aid (e.g., disaster relief). The second situation type is referred to by Stein as the assurance game. An example of an assurance game would be the establishment and the mutual adherence to extradition treaties between states. No regime is required under assurance. In the extradition example, both countries are prepared to retaliate and minimize their losses by immediately refusing to extradite criminals the moment the other does not do so. But both recognize the mutual advantage of cooperation on the extradition issue and give and seek assurances to this end. A regime is not required because the payoffs to an actor who cheats are lower (not getting the criminals it wants returned for prosecution) than the payoffs under cooperation. The third situation type is probably the one most familiar to observers of international relations: that in which the result leaves one actor aggrieved. Here there is no regime because one state, the more powerful one, is imposing a result on

[16] Ibid., pp. 301-04. Stein actually identifies three separate situations in which regimes do obtain, but only the classic collaborative solution to the "Prisoner's Dilemma" is of concern here.

another state. This is essentially a zero-sum situation in which some benefit or utility is being transferred by a unilateral action of the more powerful state.

The fourth situation type is that of collaboration in the pursuit of common interests. In this situation, often described by the analogy of the "Prisoners' Dilemma", the actors have common interests, but can only achieve them through collaboration. The difference between this and an assurance scenario is that the initial payoffs to actors which cheat and "go it alone" are higher than payoffs under cooperation. However, this soon leads to cheating by other actors resulting in a sub-optimal result for the group.[17]

Groups of states will often develop regimes, consciously or unconsciously, to facilitate collaboration in pursuit of common interests. The successful operation of such a regime can lead to the attainment of Pareto optimality, or at least a net gain in utility for the system. This utility will generally be distributed to all actors in the regime, but the distribution may not necessarily be even.[18]

Situations in which states can only achieve their goals through the formation and operation of a regime have the theoretical potential of forming anywhere. Cooperation between states has the potential to yield benefits in any area, be it arms control or civil aviation procedures.

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[17] Ibid., pp. 304-08.

[18] See pp. 6-8 and footnote 2 of this chapter.

However, regimes tend to form in areas which are, or perhaps more importantly, are perceived to be by decision-makers, characterized by non-zero-sum, as opposed to zero-sum, dynamics. In a zero-sum situation, any gain of utility by one actor is an equal loss for another. Security issues are often like this. In strategic affairs, security can be seen as a good which provides utility to states. Under certain conditions, the addition of, say, 10,000 troops to the army of one country will increase (or will be perceived to increase) its security by the same amount as its neighbour's security is reduced. This is a zero-sum situation or game. If the neighbour raises an additional 10,000 in response, there will be an equal (perceived) reallocation of utility back to the neighbour as the original balance of power is re-established.

But other fields in international relations work differently. A good example is trade. If one country (A) blocks the imports of another (B), it may gain utility in protecting its markets. Certainly A's producers will gain due to the reduction in competition. But, on net, country A may actually experience a welfare loss, if the increased cost to its consumers from the loss of cheap imports exceeds the gain by its producers generated by increased domestic market share. If B retaliates against A's actions by blocking A's goods from its markets, A will lose even more as its firms lose markets in country B. The consumers in country B will now also have to pay higher prices: more welfare loss.

Assuming certain conditions,[19] the theory of comparative advantage would determine the original free trade situation to be Pareto optimal. Certainly movement away from free trade, while possibly making some producers in the two countries better off, imposed great cost on consumers and likely created a misallocation of resources as domestic industries moved to produce goods once imported more cheaply from abroad.

Thus, it may be shown that countries often act in ways that are not in their collective or individual interests and are not Pareto optimal. The best example of this occurring in the area of international trade was during the 1930s, when upward-spiralling rounds of tariff increases stifled trade and exacerbated the Great Depression. In areas such as international trade - which are non-zero-sum - cooperation may more easily yield gains to some or all actors without hurting others, resulting in a net utility gain for the system. States will seek to form regimes in such areas to gain these benefits, moving the system toward Pareto optimality.

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[19] Such assumptions would include that the costs of industrialization in the newly competitive exporting countries will be low, as will be the costs of retraining of workers and redeployment of capital in the importing country. It is also assumed that the period required for these adjustments will be short.

If these assumptions do not hold true in reality, the costs and time required for the adjustments could be so great as to effectively negate the benefits theoretically attainable in the long run under Pareto optimality.

1.2.2 The Theory of Hegemonic Stability

The preceding argument partly explains why states may want regimes to coordinate relations in certain fields; it explains the demand for regimes. It does not explain who will set up or supply regimes, or the procedures and processes to do so. Some theorists argue that inducements and side payments must be provided for countries to participate in regimes. They further argue that the only entity with the capability and the interest in creating and maintaining regimes are hegemonic powers.[20] The theory which articulates this view is the Theory of Hegemonic Stability (THS).

The key subject of the THS is the hegemon. A hegemon in this sense is a state in the international system which has the majority or the preponderance of capabilities across the definable range of international relations, from diplomatic to economic to military, even cultural. Not only does the theory predict that hegemons are required for regimes to be created, but that the more the hegemon dominates the system, the

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[20] Robert O. Keohane, "The Theory of Hegemonic Stability and Change in International Regimes, 1967-1977," in Ole R. Holsti, et al., eds., Change in the International System, (Boulder, CO: Western View Press, 1980), pp. 131-62; Robert Gilpin, The Political Economy of International Relations, (Princeton, N.J.: Princeton University Press, 1987), pp. 72-80; Charles P. Kindleberger, "Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides," International Studies Quarterly, 27 (1983), pp. 242-254.

stronger the regimes will be.[21] Through the post-war era, the United States has acted to provide regimes, particularly within the western world economy. GATT, the International Monetary Fund and the World Bank are the examples most often cited. Since the United States is a liberal democracy and identifies the maintenance of a liberal international economy as being in its interest, the regimes it created sought liberal goals or principles.[22]

But the Theory of Hegemonic Stability has several short comings. First, while it shows, quite convincingly, that hegemons are often required for the creation of regimes, the theory tends to gut the essence of the concept. Rather than regimes being created to provide Pareto efficiency to a group of states through cooperation, they wind up serving the interests of the hegemon.[23] More importantly, one of the key requirements of a regime, collective decision-making among the participating states, is undermined by the cajoling and coercion required of the hegemon in the creation of regimes.

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[21] Robert O. Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (Princeton, NJ: Princeton University Press, 1984) p. 34

[22] Robert Gilpin, The Political Economy of International Relations (Princeton, NJ: Princeton University Press, 1987) p. 72

[23] Pareto optimality may indeed be achieved for the system, but most of the benefit will accrue to the hegemon. In fact, in the extreme, system-wide Pareto optimality and utility maximization for the hegemon may become one and the same.

The THS also predicts that as the power of the hegemon begins to decline in relation to other actors in the system, the regimes it created will decline in effectiveness. Certainly the relative decline of the United States can be associated with the deterioration of discipline in a number of regimes. In terms of the GATT, since the 1970s the US itself has often been the worst offender in its failures to support the regime, acting in its more narrowly defined self-interest. Through its relative decline, its interests have in reality probably become narrower. But this can be linked as much to internal economic developments (or lack of development, reinvestment and modernisation) which have altered its interests and capabilities on particular issues, as linked to its relative decline in power broadly defined.[24]

The theory does not explain why so many specific post-war regimes, created under US hegemony, still survive more or less intact in the face of its decline.[25] It may seem that GATT has fallen into irrelevance in the post-hegemonic era, yet countries continue to justify their derogations from it in terms of its provisions. They still seek to maintain some semblance of its norms by instituting voluntary export restraints (VERs) rather than violating it openly with

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[24] Stephen D. Krasner, "The Tokyo Round: Particularistic Interests and Prospects for Stability in the Global System", International Studies Quarterly, 23, 4 (December 1979) pp. 497-500.

[25] Keohane, After Hegemony, 1984, pp. 183-84

unilateral quotas and tariffs. The Theory of Hegemonic Stability runs into particular difficulty explaining changes in particular fields of the international political economy over the last 25 years, such as why there has been a rapid breakdown in some GATT disciplines while others have remained strong.

Some of the answers come from what Keohane calls the functional theory of international regimes. Focusing on the demand for regimes, the theory argues that given states' continuing need for regimes, they will continue to create them and, especially, to preserve ones created during a previous hegemonic period. Combining the THS with the functional approach, a pattern can be demonstrated in which there is a hegemonic period of regime creation followed by a period in which most of the regimes are preserved, reformed and even strengthened due to a continuing demand for them by states, despite hegemonic decline. Demand would have been partly developed during the learning which took place while the regime was instituted and initially operated under hegemony. This would be particularly true of more focused, technical or "functional" regimes with a weaker political content.[26]

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[26] Donald Puchala and Raymond Hopkins, "International Regimes: Lessons from Inductive Analysis", International Organization, 36, 2 (Spring 1982) p. 270. The notion of states' knowledge or cognition being so altered during their participation in a regime that it may compensate for changes in the international system's power structure which might otherwise undermine the regime, is also put forward in Stein, "Coordination and Collaboration", 1982, p. 321.

Part of the reason the THS ignores the role of demand in the creation of regimes is because it is a purely systemic paradigm which fails to focus on specific issues or fields where actual problems create the demand for regimes. These problems can be such that states' interests will lead to the maintenance of a particular regime, once supplied, even in the face of overall hegemonic decline. In some instances, usually involving less political, more technical, non-zero-sum situations, a regime may be created without the active leadership of a hegemon. To understand the development of a specific regime, one must look to the changing interests and capabilities of the state and non-state actors in the relevant field. Broad statements about changes in the relative overall power of the hegemon and the other actors in the system will be of little assistance.

1.2.3 A Regime Theory Framework for Analysis of the MFA

The above suggests that systemic theories, such as the Hegemonic Theory of Stability, fail to yield accurate insights into the development of specific regimes because they do not account for the demand for regimes in specific fields. Sub-systemic typologies which can be applied to individual fields and focus on demand for regimes are required.

Vinod Aggarwal has developed a typology for the examination of the textile regime which categorizes phenomena from the systemic level through to particular inter-state actions within specific fields/regimes.[27] He outlines four basic concepts. The first, at the systemic level, is his concept of a meta-regime. A meta-regime, for Aggarwal, is an overarching theoretical and normative framework which guides the actions of states. It embodies the principles and norms which guide states in the formation of regimes at the sub-systemic, field-specific level. One may speak of an overarching western liberal economic meta-regime which includes regimes in specific fields, such as GATT (trade) and the IMF (currency exchange rates and short-term, international public financing), to uphold liberalism.

Regimes themselves, the second of the concepts he uses, contain the rules and decision-making procedures which facilitate the pursuit of liberal principles in specific areas of the international economy.[28] For the analysis of particular regimes at the field-specific level, Aggarwal uses the concepts of scope, strength and nature. Strength refers to how consistently the norms and rules of the regime are adhered to by participating states. Scope refers to the issue areas a regime covers. Over the years, the textile trade

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[27] While Aggarwal is the only regime theorist to directly modify and apply regimes to textiles, his is not the only work which is applicable to the MFA, as later analysis here will show. Indeed, most of the constructs he employs are well within the modalities of the general regime literature as outlined in sub-section 1.2.1.

[28] Vinod K. Aggarwal, "The Unravelling of the Multi-Fibre Arrangement, 1981: An Examination of International Regime Change", International Organization, 37, 4 (Autumn 1983) pp. 618-19

regime has gone from covering just cotton trade, to man-made fibres, wool and others under the Multi-Fibre Arrangement (hence the name). The nature of a regime refers to the principles it upholds. A regime upholding the principles of free trade would be liberal in nature.[29]

The third concept is that of controls. These are the bilateral agreements or unilateral actions which states undertake. They may be instituted as part of or in agreement with a regime, or they may be particular actions. Finally, there are transactions which the controls, perhaps a regime and, ultimately, even the prevailing meta-regime, may guide and organize. Transactions include trade or other specific interactions between states or sub-state actors in different states.[30]

Aggarwal identifies three reasons why states might seek a regime. The first is based on the concept of "nesting". Certain regimes and their issue areas are nested in larger regimes or meta-regimes. States may seek goals within certain regimes not only to attain specific objectives concerning that regime or its issue area, but to attain goals within the context of higher-order regimes or meta-regimes in which the

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[29] Ibid. It is this regime level typology which is Aggarwal's most unique contribution to the regime literature generally and the analysis of the MFA specifically. This typology will be used for initial analysis and description of the MFA here, but will be reinterpreted later, in light of this paper's theoretical conclusions.

[30] Ibid.

first regime is nested. For example, the US has sought to limit protectionism in textiles not so much because it has wanted free trade in the field, but because it has worried about the effects of protectionism in textiles on the openness of the entire international trade system and the impact economic instability might have on the security of the West.

Second, according to Aggarwal, countries seek regimes to control the actions of other countries. One of the main reasons the US wanted a textile regime was to control European protectionism and the resulting diversion of cheap Third World exports to American shores. At various times, the EC sought to do the same vis a vis the Americans.[31] The pursuit by both sides of their interests in this respect serves as the basis for a regime to coordinate actions on trade and protection.

Third, Aggarwal argues that states seek regimes because they reduce information and organization costs. This is true in the case of the MFA. Under the MFA the Textile Surveillance Body (TSB) collects information concerning the conduct of textile trade under the MFA for its members and for the purposes of dispute settlement. The MFA provides a forum for negotiation on textile trade issues.[32]

Aggarwal also recognizes the importance of international structure, domestic structure and perception and cognition in determining the kind of regime which will form. In terms of

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[31] Ibid., p.620

[32] Ibid.

international structure, he recognizes the importance of a hegemon for the formation and maintenance of regimes. However, he fails to distinguish fully between overall hegemony across the issues of international relations and a preponderance of capability in one specific field.

The domestic economic structure of states is important in the analysis of the textile trade regime since it determines the competitiveness of countries' industries and may change over time. The domestic political structure is also an important determinant of the policies a state will pursue in the face of competition, and, therefore, whether it will seek adjustment in the form of retraining and redeployment of capital and workers from declining industries to other, more profitable industries or try to protect existing declining industries. This in turn will help determine the kind of regime a particular state may favour.[33] Aggarwal also recognizes the impact of regimes on perception and cognition of state decision-makers.

1.3 The Norms and Concepts of the GATT

In order to appreciate the significance of the MFA, one must compare it to the "normal" rules of international trade, abused as they may be. Most trade in the western economic

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[33] Ibid., p. 619

system is organized under the rules of GATT, the General Agreement on Tariffs and Trade. GATT itself was only to be part of a larger trade regime, the International Trade Organization (ITO). The focus of the agreement was the reduction of tariffs. Non-tariff barriers (NTBs) and other trade issues were to be handled elsewhere in the ITO. In fact, the basic treaty comprising the General Agreement never formally came into permanent force. It has been applied since 1947 through a "Protocol of Provisional Application".[34]

Since then, the GATT system has really only expanded into issues such as NTBs and other "grey-area" measures since the Tokyo Round of Multilateral Trade Negotiations (MTN) from 1973 to 1979. By this time the Contracting Parties (CPs) of GATT had moved fully away from the stock market-like "rounds" of bilateral negotiations for reductions in specific tariffs - which were then generalized to apply to all Parties under the "most-favoured-nation" norm - as was the order of the day until the Kennedy Round of the early 1960s. By the Tokyo Round, the Parties were engaging in multilateral negotiations on linear cuts to tariffs, and these took a back seat to negotiations on NTBs and other issues.[35]

The rules and functioning of GATT are based on several

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[34] John H. Jackson, Restructuring the GATT System (New York: Council on Foreign Relations Press, 1990) p. 1.

[35] Jock A. Finlayson and Mark W. Zacher, "The GATT and the Regulation of Trade Barriers: Regime Dynamics and Functions", International Organization, 35, 4 (Autumn 1981) p. 296.

norms, some of which are substantive, others procedural. These norms tend to uphold either the principle of sovereignty or interdependence.[36] The first among the substantive norms is non-discrimination: the so called "most-favoured-nation" doctrine of GATT. This norm pursues the liberalization/interdependence principle. It stipulates that every CP must afford every other CP the same tariff and other trade concessions, without discrimination between Parties. Over the years there has been derogation from this norm, especially with regard to safeguards under Article XIX and elsewhere, and preferential treatment for LDCs.[37]

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[36] Ibid., p. 275. Finlayson and Zacher do not refer to sovereignty and interdependence as principles, but, according to the definition of principles, they can be thought of in this way.

The principles of sovereignty and interdependence could also be equated with the principles of protectionism and liberalization, respectively, since states acting in their own narrow, sovereign interests often tend to be protectionist, but states seek liberalization in trade in recognition of their interdependence. Later, it will be shown that the principle of sovereignty/ protectionism is associated with the preservation of existing industries, while interdependence/liberalization in associated with industrial adjustment. Which nuance of either principle is most applicable is determined by the specific norms or issues in question in any particular analysis.

[37] Ibid., p. 278. Safeguards under Article XIX of GATT allowed CPs to introduce or raise tariffs against imports of specific goods if it could be shown that the relevant industry in the importing country was being "injured" or faced a real possibility of injury due to the low cost or volume of the imports. The tariff would have to be raised against imports of that good from all supplying countries. But, many CPs have used NTBs to protect against injurious imports. Often these NTBs have not been applied to all suppliers. Examples of this are the restraints under the MFA, by which the first world importers limit textile imports from LDCs, but do not

The second is the trade liberalization norm. This obviously upholds the principle of liberalization and interdependence. The GATT has been hugely successful at reducing tariffs on industrial goods. However, it has had more difficulty dealing with the myriad of non-tariff barriers which have sprung up as the post-war era has continued.[38] This is particularly true for agricultural and other commodities. The best example of difficulties over NTBs regarding manufactured goods is, of course, textiles and apparel.

The reciprocity norm can be seen as a sovereignty or even a protectionist norm (i.e., supports both elements of the sovereignty/protectionist principle). It demands that there be balance in the liberalization of trade between CPs; that the concessions given by one Party to another be reciprocated with concessions of equal economic value, even if the concessions have to involve different categories of goods in order to do so. As countries have sought to justify protectionism at various times, they have often cited a lack of reciprocity from other countries, strengthening the operation of this sovereignty norm within GATT and emphasising its protectionist nature.[39]

The fourth norm is a sovereignty and, potentially, a

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generally limit textile trade between themselves.

[38] Ibid., 282-85

[39] Ibid., pp. 286-87

protectionist norm: safeguards. The General Agreement recognizes that the institution of free trade can initially increase competitive pressure on a country's industries so as to cause "serious injury" to those industries, and even the economy as a whole. The main safeguards clause is Article XIX. It allows concessions to be revoked in cases where serious injury occurs or threatens to occur. According to the Article, countries must only use tariffs to increase protection under these conditions and there should be some kind of compensation for the exporting Party. But both of these provisions have been violated in some invocations of XIX. Other safeguards include provisions for increases in protection in cases of balance of payments difficulties. These are in Articles XII, which envisages short-term use of safeguards, and XVIII:B, which provides for a longer term to be used by LDCs only. Overall, the way in which safeguards have been used and the length of time for which many have been maintained has tended to strengthen the sovereignty principle in GATT and emphasise its protectionist aspects.

The fifth substantive norm has been the development norm. The development norm in GATT was introduced with the addition of Part IV to the General Agreement in 1965. It was reinforced by the introduction of the General System of Preferences (GSP) in the 1970s. The GSP gave some preferential treatment to Third World countries in trade. However, because the development norm seeks to give better treatment to LDCs than other nations, it contradicts the most-favoured-nation doctrine. This has been accepted by the Contracting Parties as a trade-off for encouraging development. But, development has often been used by countries as an excuse to get away from strict non-discrimination while concessions to developing countries have often turned out to be rather hollow. Depending on the way it has been used, the norm has upheld both the sovereignty/protectionist and the interdependence/liberalization principles.[40]

GATT has two main procedural norms. The first is that of rule making and rule implementation. It upholds the principle of liberalization and interdependence. Clearly the CPs of GATT seek to make decisions about rules and their implementation collectively. Rules are amended and passed in the GATT Council and during the "rounds". The GATT Secretariat monitors trade practices; panels interpret rules and settle disputes, although panel rulings may not always be followed.

The second procedural norm is the major interest norm. This is a sovereignty norm. This norm reflects the fact that the decisions of GATT most often reflect the interests of GATT's most powerful member nations or the interests of the most powerful groups in those nations (e.g., farmers in France and the US). This can, but need not always be a protectionist

[40] Ibid., pp. 293-94

norm, depending on the interests of the most powerful countries.[41]

Overall, the members of GATT recognize and value the principle of liberalization and interdependence, more than that of sovereignty and protectionism. Within the liberalization/ interdependence principle, GATT seems to uphold the interdependence element more, seeking to manage trade and limit protectionism rather than pursue free trade. Despite the common rhetoric at G-7 and similar gatherings, there is no evidence of pursuit of free trade as an ideal or a long-term, beneficial goal. The state actors seem only to recognize that they are interdependently linked and seek to cooperate at the minimum level required by their economic interdependence without seriously compromising sovereignty/protectionist economic and political realities at home. As long as the member nations' interests and the norms of GATT seek to do this much, the GATT will survive and may strengthen.

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[41] Ibid., pp. 297-300

Chapter II

The Post-War History of International Textile and Apparel Trade and Politics

The history of textile and apparel trade over the last forty-five years has been a complex one. From the beginning of the period the industrialized nations, save the United States, erected protective barriers against textile imports. This intensified, even within the US, as their textile and clothing industries began to perceive competition from low-cost, mostly Third World suppliers. The threat from the Third world was a real one. For example, in 1961 the US received just over half of their apparel imports from non-OECD countries: $156 million out of $269 million. By 1984, just over 85% of American apparel imports came from outside the OECD: $12.6 billion out of $14.6 billion.[1] Industry and labour pressures led first world governments to take increasingly protective measures. These were characterized by unilateral actions, such as quotas, and bilateral restraint agreements.

Such steps had perils of their own for the developed countries, including export diversion and the potential spread

[1] The change in textiles has not been as dramatic for the US. In 1961, about three-quarters of their imports came from within the OECD. This fell to only half by 1984, with half the imports coming from non-OECD countries. These figures are not corrected for inflation. William R. Cline, The Future of World Trade in Textiles and Apparel (Washington: Institute for International Economics, 1987) pp. 54-57, table 2.10.

of protectionism to other sectors of the international trading system. The industrialized consumer countries soon moved to establish multilateral arrangements to limit unilateral and bilateral protectionism. Naturally, actions to limit protectionism in textile trade have been generally supported by the developing area exporters, but they have usually found the extent of liberalisation in these arrangements disappointing.

There have been three major periods in the history of post-war textile trade: the pre-regime stage, the multilateral cotton arrangements, and the period of the Multi-Fibre Arrangement (MFA). The MFA itself has had three protocols of renewal, resulting in four different generations of the arrangement. This paper will focus on the second major incarnation of the textile trade regime, the MFA.

2.1 The Pre-Multilateral Arrangement Period: 1945-1961

As early as 1953 Japan was seen as a threat by the US cotton textile and apparel industries. At that time, the Japanese share of the American market was only one percent, making the industry's calls for protection seem almost xenophobic. By 1955, however, the Japanese share of the market more than doubled.[2] It was not long before the textile industry began to be closely heeded by government, especially the US Congress.

By 1956 the textile lobby in the US was uniting and becoming more powerful. In March of that year three major textile industry associations formed the National Council of Textile Industries.[3] This lobby carried much weight in Congress, which has historically done the bidding for protectionist American interests in the post-war period. The Eisenhower administration had other ideas, however. They saw the textile issue as being nested in both the larger issues of international trade and western security.[4] In particular, they worried that Japan would become economically and politically entangled with Communist China and even the Soviet Union if not brought into GATT and other organizations of the western camp.[5]

Nevertheless, the US administration had to take some

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[2] Vinod K. Aggarwal, Liberal Protectionism: The International Politics of Organized Textile Trade (Berkeley: University of California Press, 1985) p. 44

[3] H. Richard Friman, "Rocks, Hard Places, and the New Protectionism: Textile Trade Policy Choices in the United States and Japan," International Organization, 42, 2 (Autumn 1988) pp. 706-07.

[4] see, Aggarwal, Liberal Protectionism, 1985, p. 27

[5] Friman, "Rocks, Hard Places, and the New Protectionism", 1988, pp. 701-02. Such concerns would later apply to a range of Third World textile exporters, playing a major role in giving the Americans pause in consideration of any protectionist measures against such suppliers.

action to mollify the Congress and the textile industry. In December 1955 Japan agreed to institute a voluntary export restraint (VER) on a number of its cotton-based exports to the US after months of less than subtle pressure. The VER was to last one year.[6] Neither the range of goods covered nor the length of the restraint was sufficient for the US industry, however. Thus, in 1957 the US government extracted a five year VER agreement from the Japanese which set levels of cotton-product imports in a broader range of categories than the 1955 restraint.[7]

Reducing Japanese access to the American market had an effect which would be repeated throughout the post-war history of textile trade. Other low cost, Third World suppliers began to replace Japan in the US market. From 1957 to 1959, Hong Kong's share of cotton clothing and textile exports to the US increased from 13% to 27%, while the Japanese share declined from 63% to 26%.[8] The US textile industry now faced increasing competition from Hong Kong and other low cost suppliers which filled the gap left by Japan. Looking at table 2.1, it is apparent that while Japanese exports to the

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[6] Aggarwal, Liberal Protectionism, 1985, p. 50

[7] Stephen Woolcock, "Textiles and Clothing", in Louis Turner and Neil McMullen, eds., The Newly Industrializing Countries: Trade and Adjustment (London: George Allen & Unwin, 1982) p. 31

[8] Donald B. Keesing and Martin Wolf, Textile Quotas against Developing Countries (London: Trade Policy and Research Centre, 1980) p. 15

US were declining, other low cost Asian suppliers, Hong Kong in particular, increased their exports significantly in the late 1950s.

The United Kingdom began losing its comparative advantage in clothing and textile production by the turn of the century. By the late 1950s its industry was subject to low cost competition from its current and former colonies such as Hong Kong and India under the Imperial Preference System, and from other low cost suppliers such as Japan. In 1959-60, Britain arranged several VERs with low cost Commonwealth members such as Hong Kong, India, and Pakistan under the Lancashire Pact.[9] However, non-Commonwealth suppliers were still gaining access to the British market.

TABLE 2.1

US IMPORTS OF COTTON MANUFACTURES (current million dollars)

Countries	1956	1957	1958	1959	1960	1961
Total from all countries	154.3	136.2	150.0	201.3	248.3	203.3
Japan	84.1	65.8	71.7	76.7	74.1	69.4
Hong Kong	0.7	5.8	17.4	45.8	63.6	47.0
Other Asian countries	15.3	13.0	14.3	24.0	34.0	25.0
Egypt	0.4	0.5	0.3	0.3	5.9	1.0
Spain	0.3	0.3	0.4	1.6	7.2	3.2
Portugal	0.0	0.1	0.3	1.0	5.2	2.3

Source: Aggarwal, Liberal Protectionism, 1985, p.53

The European economies were still recovering from the war during the late 1950s. Most of them were restricting textile and many other kinds of goods with tariff and non-tariff

[9] Ibid., p. 54

barriers under the balance of payments safeguard in Article XXII of the GATT.

2.2 The Multilateral Cotton Arrangements: 1961-1973

By the late 1950s, the United States faced two problems which would dog it and other industrialised importers throughout the post-war history of international textiles trade. First, the strategy of seeking bilateral restrictions against individual suppliers who had penetrated the US market left the door open for other, unrestricted suppliers to take their place. An example was Hong Kong's replacement of Japan in the US market. Because of its interests in keeping the international trade system open and the western camp secure, the US, especially its executive branch of government, were reluctant to impose quotas unilaterally. This meant that the US would have to negotiate bilateral agreements for restrictions with successive suppliers: an onerous process, costly and not always successful. It was felt by many that a framework agreement or regime for textile trade would help control all suppliers while avoiding undue protectionism.

The second problem with the bilateral approach was that while the US allowed low cost suppliers such as Japan limited, but relatively generous access to its markets, other importing countries, most notably Britain and the Europeans, kept their tariff and non-tariff barriers against textile imports high. Even after convertibility in 1958, when GATT no longer afforded them protection for balance of payments difficulties, many European countries continued their tariffs and non-tariff barriers (NTBs). This had the effect of diverting more textile exports to the US than would other wise be the case, since Europe was not taking "its share" of imports. A textile regime would help insure that all developed countries shared the burden of receiving Third World exports and maintaining a liberal world trade system.

In 1961, as part of a seven point plan to aid the US cotton industry, President Kennedy called for the establishment of a multilateral framework agreement for cotton textiles and apparel.[10] Ground work for such a plan had been laid since 1959. At that time, US Under-Secretary of State Douglas Dillon got agreement from GATT members to develop a program to deal with "market disruption", the catch term used to describe the effects of low-cost textile imports on industrialized importers' textile industries.[11] A GATT Working Party was set up to study the problem.

The working party side-stepped the safeguards for avoiding "injury" to domestic producers available to Contracting Parties (CPs) of the GATT under Articles XIX and

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[10] Kenneth W. Dam, The GATT: Law and International Economic Organization (Chicago: University of Chicago Press, 1970) pp. 298-300

[11] Aggarwal, Liberal Protectionism, 1985, pp. 77-78

XXVII.[12] It concluded that the "political and psychological elements in the problem" of market disruption in textiles caused states to act outside the rules of GATT and that the issue required a special solution.

They suggested a procedural approach in which (1) explicit recognition would be given to the problem of market disruption; (2) multilateral consultations would be used to arrive at "constructive solutions" regarding market disruption generally; (3) the procedures should lead to the orderly expansion of international trade; and, (4) "existing rights and obligations under the General Agreement should not be prejudiced."[13] The Contracting Parties of GATT then adopted a decision in November of 1960 regarding steps to be taken to avoid market disruption. The decision started with a general definition of market disruption:

> These situations [market disruption] generally contain the following elements in combination:
>
> (i) a sharp and substantial increase or potential increase of imports of particular products from particular sources;
>
> (ii) these products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the market of the importing country;
>
> (iii) there is serious damage to domestic producers or threat thereof;

[12] For more discussion of "injury" in the GATT versus "market disruption" in the MFA, see section III.

[13] Dam, <u>The GATT</u>, 1970 pp. 297-98

> (iv) the price differentials referred to in paragraph (ii) above do not arise from governmental intervention in the fixing or formation of prices or from dumping practices.
>
> In some situations other elements are also present and the enumeration above is not, therefore, intended as an exhaustive definition of market disruption.[14]

A major departure from GATT rules is contained in paragraph (iv). This allows a country to take medium to long-term protectionist action in cases of low-cost, "disruptive" imports, even if they are cheaper simply because the exporter's producers have a comparative advantage. Under GATT, such action could only be taken in cases of dumping by exporters or their use of subsidies, in addition to a few, mostly temporary safeguards, invocable only under the injury definition.[15]

While the November 1960 decision was detailed with regard to the definition of market disruption, it was vague on the measures to deal with it. A more detailed outline of allowable measures was developed in October 1961, when negotiations for the Short-Term Arrangement on Cotton Textiles (STA) were completed. The STA was to last for one year. It provided a more detailed outline regarding acceptable measures

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[14] Extract from the Contracting Parties' Decision of 19 November 1960. From "Appendix B: Definition of Market Disruption" in Aggarwal, Liberal Protectionism, 1985, p. 211

[15] Thus, the "market disruption" definition was used to identify situations in which essentially non-temporary measures could be instated under the STA and LTA. See Chapter III for more discussion of market disruption.

to deal with market disruption and referred directly to the November 1960 decision for its definition. It also allowed for the establishment of bilateral restraint agreements with minimum growth rates in cases of market disruption, setting the outline for the first long-term arrangement a year later. Under the STA the Contracting Parties agreed to strike a committee to formulate a long-term solution for cotton textiles by 30 April 1962. This lead to the establishment of the Long-Term Arrangement on Cotton Textiles (LTA) in October 1962.

Negotiating the short- and long-term arrangements was not simply a matter of developing the correct legal wording and definitions. In order to get agreement to the kind of textile regime it wanted, the United States had to exercise its power in textile and apparel trade. This power was based on the fact that it was the largest importer of textiles. The Less Developed Countries (LDCs) which exported low-cost cotton textiles and clothing were against a regime which would legitimize and generalize a system of restraints on their exports by the developed countries (DCs). However, the US was successful in using the threat of cutting the LDCs out of its market with unilateral quotas if they did not support the STA and LTA. Also, the prospect of gaining markets as the new regime forced the British and the Europeans to moderate their barriers appealed to many LDC suppliers, leading most of the major ones to support and sign both the short-, and then the long-term arrangements.[16]

Conversely, the Europeans were not happy at the prospect of having to lower their barriers under a textile regime. However, the US was able to use the threat of diverting cotton textile imports to Europe. The Community and Britain also joined the STA and, a year later, the LTA.[17]

The Long-Term Arrangement on Cotton Textiles of October 1962 was to last for five years. Using Aggarwal's typology, the LTA was fairly weak in strength. It laid down the rules to guide the establishment of trade relations through bilateral agreements and unilateral actions, but there was no effective monitoring or adjudicating body to ensure strict compliance or settle disputes between parties. Also, the flexibility of its Article 4 allowed parties to negotiate long-term bilateral agreements with only general reference to LTA guidelines. This weakness tended to affect the nature of the regime, making it more protectionist overall. Due to the

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[16] Aggarwal, Liberal Protectionism, 1985, pp. 83-90

[17] Ibid. During the last half of the post-war period, the EC has functioned as a single state-actor in MFA negotiations and textile transactions. This is not to suggest that agreement among the EC members on textile policy was easily established; any move the EC made in international textile relations was the product of protracted and difficult negotiation within the EC. This was to become the bane of textile and other trade negotiations over the years. The EC process also facilitated textile negotiations in that once the EC agreed to anything, six, and eventually twelve countries were automatically "on board". The fact that over half of the major industrialized importers negotiated through their own multi-national (regime-like) structure is interesting, but beyond the scope of this thesis' analysis per se.

weakness of the LTA, its nature in terms of liberalization or protectionism was determined mostly by bilateral agreements concluded under it, and often these were quite protectionist. Finally, the scope of the LTA is obvious: all international cotton textile and apparel trade.

Between 1962 and 1965, thirty nations signed the LTA, such that it encompassed three quarters of the world's cotton clothing and textile trade. In 1963 the United States established 18 unilateral restraints against suppliers under Article 3. Using this for leverage, it was able to convert the majority of them into 18 long-term bilateral agreements for restraint under Article 4, while maintaining 5 unilateral restraints.[18]

The LTA did force most European countries to liberalize. The Benelux countries and Italy cut restraints. The Federal Republic of Germany (FRG) liberalized a fair bit, though their levels of protection had been low in comparison with their European neighbours. France continued to be protectionist, now forced to resort more to administrative and regulatory methods of restraint. The UK brought its Lancashire Pact agreements under the LTA and reached new agreements with Israel, Taiwan and Spain.[19]

The LTA had the desired effect. Protected markets were opened up significantly and new restraints were controlled.

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[18] Ibid., pp. 90-91

[19] Ibid., p.91

The US and other developed countries could more easily respond to limit penetration of their markets by new low cost suppliers. This, as well as better sharing of Third World cotton exports by the DCs, meant less risk of them getting into an import diversion war and reduced the risk of a trade war for the system as a whole.

2.3 The Multi-Fibre Arrangement: 1973-1991

The LTA was successful at stabilizing increases in cotton clothing and textile imports into the developed countries' markets from LDC suppliers. However, the fields of man-made fibre (MMF) and wool products now became a problem for manufacturers in the developed countries as imports of these from the LDCs increased. Table 2.2 shows that while imports of cotton-based products into the US were stable on average from 1967 to 1974, wool and MMF imports sky-rocketed until the inception of the Multi-Fibre Arrangement and some of the precursory bilateral restraints which preceded it circa. 1973.

According to Woolcock, in the period between 1964 and 1972 imports of cotton products to the US increased by a moderate 25%, whereas imports of MMF products increased by

1600%.[20]

TABLE 2.2
US IMPORTS OF TEXTILES AND APPAREL (million SYE)
(Rates of Growth, %)

	Textiles		Apparel	
Year	Cotton	MMF+Wool	Cotton	MMF+Wool
1967-68	11.0	51.0	8.4	58.7
1968-69	0.2	18.0	1.9	56.1
1969-70	-7.1	48.3	-8.9	22.1
1970-71	4.8	48.2	4.2	31.6
1971-72	11.5	5.7	9.4	5.1
1972-73	-14.1	-23.0	-17.6	-2.4
1973-74	-8.2	-16.5	0.0	-9.3

Source: Aggarwal, Liberal Protectionism, 1985, p. 113

The situation in Europe was hardly better. Between 1967 and 1970 total imports of MMF textiles and clothing into the EC increased from $1.4 billion to $2.8 billion. MMF imports from LDCs alone increased from $68.4 million to $212.8 million. Over the same period, imports of MMF products into Britain from LDC suppliers increased from $57 million to $88 million.[21]

The developed countries attempted various ways of dealing with the situation. Commensurate with its hegemonic powers and interests, the United States tried to lead negotiations for a wool products arrangement in 1964 and 1965, as opposed to simply pursuing bilateral accords or imposing quotas. This ended in failure. By the mid-1960s the Europeans began to

[20] Woolcock, "Textiles and Clothing", in Turner and McMullen, 1982, p.32

[21] Aggarwal, Liberal Protectionism, 1985, pp. 111-12

institute unilateral quotas and bilateral VERs against low-cost wool and MMF imports, mostly in violation of GATT.[22] In the fall of 1965 the United Kingdom imposed a global quota on all textile and apparel imports.[23] Not only did many of these measures violate GATT and increase the chances of protectionism spreading to other parts of the international trading system, they were not very effective at stopping Third World market penetration, as the statistics above indicate.

The British and the EC did manage to divert some low-cost exports to American shores with their actions. There, the diversion from Europe and the general increase in competition from the LDCs were taking their toll. By the mid-1960s the US clothing and textile industries were calling for a global import quota. However, the US administration worried about maintaining a liberal international trading system, as well as the security implications of driving various Third World suppliers toward the eastern bloc with vexatious and economically damaging protectionist trade policies. The administration wanted to develop a regime for wool and MMF trade or to expand the LTA to include these other products in order to manage international trade in textiles.

There was not much movement on the part of anyone to establish a new textile regime or expand the existing one after the failed American attempts regarding wool in 1964-65.

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[22] Ibid., p. 116

[23] Ibid., p. 102

In April 1967 the LTA was renewed for three years beginning in October, after some requisite wrangling between the US, the EC and the major exporters. By 1969, the US determined that a broad textile and apparel regime was the only way to deal effectively with problems in the field.

The Europeans first rebuffed US attempts in 1971 at broadening the textiles regime to wool and man-made fibres, as did Japan and the Far Eastern exporters. With rising protectionism in the US Congress, the Nixon administration used every reasonable lever[24] to force the Japanese into a "voluntary" export restraint agreement. The other Far Eastern supplies soon followed. The resulting diversion of exports from US to European shores was enough to induce the EC to seek a multi-fibre textile arrangement as well.

2.3.1 Multi-Fibre Arrangement I: 1973-1977

By 1973, most countries seemed to feel that a broader clothing and textile regime was in their best interests. Under a broader regime the American government felt it could manage trade in wool and man-made fibres such that it could offer its industry some protection and ensure that other importing countries, particularly in Europe, took their fair share of Third World exports. This was identical to the main

[24] US inducements included a 10% surcharge on all Japanese textiles, threatened restraints under the American "Trading with the Enemy" Act and a territorial settlement for the island of Okinawa.

US objectives under the LTA. As for Europe, Table 2.3 shows that the US share of total EC and US clothing and textile imports dropped by 16.8% between 1970 and 1973, the years just before the inception of the MFA, when the US enjoyed the protection of the VERs newly negotiated with the major Far Eastern suppliers. Thus, the EC began to favour a regime as a means of controlling US protectionism and the diversion of MMF and wool imports from the US market. The Japanese were beginning to lose comparative advantage in the field, especially in clothing manufactures, and thus became more interested in an expanded textile regime. In 1973, the Japanese domestic clothing and textile market experienced an import surge of 121%, increasing its import penetration ratio from 6% to 16.2% of total domestic consumption.[25] Finally, developing and industrializing suppliers felt that under a regime they would gain better and more stable access to western markets.

In June 1972, the GATT Council voted to set up a Working Party on Textiles to conduct a fact-finding study of

> the economic, technical, social and commercial elements which influence world trade in textiles, distinguishing the various textile sectors, both according to the fibres used and according to the

[25] Friman, "Rocks, Hard Places, and the New Protectionism", 1988, p. 712

degrees of processing.[26]

This study was completed in December of 1972. In April 1973, on the basis of the study, the working party was directed by the Council to identify and examine the problems that existed in international trade in textiles and to develop possible multilateral solutions to these problems. On the receipt of a progress report from the working party, the Council decided on 30 July 1973

> that the working party on textiles be reconstituted into a negotiating group with the objective, taking into account the working party's reports and its mandate of 30 April 1973, of reaching a mutually satisfactory arrangement on textiles by the end of 1973.[27]

Meetings of the negotiating group, chaired by Olivier Long, then Director-General of GATT, were held from October through December. On 20 December 1973, the group concluded negotiations for the Arrangement Regarding International Trade in Textiles, the Multi-Fibre Arrangement (MFA). The MFA was opened for signing on that day and came into force on 1 January 1974. It was to last for four years.[28]

The MFA established six main rules for the management of

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[26] Arrangement Regarding International Trade in Textiles (Geneva: General Agreement on Tariffs and Trade, 1974) [hereafter referred to as the MFA Text] p.3 (introduction)

[27] Ibid.

[28] Ibid.

textile and apparel trade. First, signatories must notify the Textiles Surveillance Body (TSB) of all import controls or export restraints on textile and apparel products, and must bring them into conformity with the MFA. Second, all restrictions must be justified in terms of "market disruption" - defined as unusually low prices, an increased flow of imports, and serious injury or the threat of serious injury to a domestic industry in the importing country concerned.[29]

Third, quotas, whether imposed unilaterally or through bilateral agreement, must normally be increased annually by at least six percent, but lower growth rates are permitted in exceptional circumstances. Fourth, restraint agreements must permit "swing" among categories of products, so that unused quotas in one category may be shifted into another category. Agreements must also allow some "carry-forward" and "carry-back" of imports in order to reduce incidents of quotas going unused.[30]

Fifth, the MFA stipulates in Article 6 that restraints should be avoided on exports from small suppliers and new entrants. More favourable treatment should be given to these countries and to cotton-producing developing countries in

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[29] Frank Stone, Canada, the GATT and the International Trading System, (Montreal: Institute for Research on Public Policy, 1984) p. 105 The definition was modified from the one developed in the GATT decision of 19 November 1960 and used in the STA and LTA. The STA/LTA definition is quoted on p. 39 of this paper. See discussion of market disruption with regard to the MFA in section 3.1.

[30] Ibid.

terms of quota levels, growth rates and flexibility, if restraints are applied at all. Finally, all measures imposed under the Arrangement were to be scrutinized and kept under review by the TSB for the purposes of determining their conformity with MFA rules.[31]

Two key clauses outline allowable restrictions under the MFA. Article 3 outlines short-term measures available to countries whose markets may be experiencing disruption due to another's low-priced imports. The importing country must seek consultation with the exporting country in an effort to reach an agreeable solution to the problem. Such a solution would most likely take the form of an agreement by the exporting country to restrain its exports in categories of goods which are causing the disruption. If such agreement was not reached, the importing country could, after a short period and notification to the Textile Surveillance Board, impose a unilateral quota. This quota would be reviewed by the TSB, which would make a recommendation as to whether it should be kept as originally instituted, adjusted or discontinued. These recommendations are not binding. There are also emergency provisions for the institution of unilateral or bilateral restraints in a case of serious market disruption. Under these conditions the consultation processes are radically shortened.

Normally no actions, unilateral or bilateral, taken under

[31] Ibid.

Article 3 may be continued without review and mutual agreement by the parties. All reviews and any disagreements between parties must be referred to the TSB for recommendation. Also, restraints under this article are usually to apply to an extremely limited number of categories of goods. Bilateral agreements under Article 3 may be concluded for more than one year by mutual agreement of the parties only.[32]

Article 4 provides for the negotiation of longer-term bilateral agreements for restraint. Measures under Article 4 are to be more liberal than those under Article 3. Emphasis is placed on providing much "swing" between categories of goods, as well as temporal shifting, to facilitate "substantial flexibility for the conduct of trade".[33] Most bilateral VERs under the Multi-Fibre Arrangement have come under Article 4.

Article 11 of the MFA created an administrative and quasi-judicial body for textile trade, the Textiles Surveillance Body. The TSB reports to the Textiles Committee of GATT. It scrutinizes bilateral agreements and other actions under the MFA, supervises its general administration, and settles disputes between signatories. It consists of an independent chair with eight members. The United States, the EC, and Japan are permanent members. Other members are chosen such that representation from importing and exporting

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[32] <u>MFA Text</u>., pp. 9-11

[33] <u>Ibid</u>., p. 12

countries is balanced. Under this arrangement, for example, Canada rotates its seat with the Nordic countries.[34]

Article 2 is also important to note. It stipulates that all restrictive measures in existence as the MFA comes into force must be brought into line with its requirements or be rescinded.

Referring to Aggarwal's typology, the MFA could be considered a strong regime. The existence and powers of the TSB as an administrative and adjudicative body within the framework of the MFA meant that, in the vast majority of cases, disputes were settled according to rules rather than the wishes of the most powerful actors. The signatories agreed to collective decision-making in determining rules and individual cases. They adhered to these collectively reached decisions and rules under the MFA far more often than not, fulfilling a key criterion for the existence of a regime.[35] Also, the definition of market disruption, contained in the MFA's Annex A, was much tighter and extensively delineated than the one used under the LTA and STA. It included references to the importance of exports to the economy of the supplier in determinations of market disruption and the

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[34] Stone, <u>Canada, the GATT and the International Trade System</u>, 1984, pp. 105-06

[35] Arthur A. Stein, "Coordination and Collaboration", 1982, p. 301. Stein argues that joint or collective decision-making by actors is a key feature of regimes and necessary for a regime to obtain.

implementation of restraints.[36]

The nature of the MFA, allied with its inherent strength, was quite liberal. All restraints, whether under articles 2, 3 or 4, were normally subject to a minimum six percent increase, as outlined in Annex B. This was adhered to quite well.[37] Annex B also requires substantial flexibility in the structure of quotas, allowing swing between restrained categories and temporal shifting within restrained categories. The scope of the MFA was, of course, expanded to include man-made fibre and wool, in addition to cotton textiles and clothing.

Though the MFA could technically be used by any signatory to control the imports of any country, the only industrialized country to be controlled under the MFA has been Japan. Hence, one of the main functions of the MFA is to provide a means for high wage, industrialized or post-industrial countries to protect their markets and industries against low-cost imports from lower-wage, developing and newly industrializing countries (NICs).[38]

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[36] Aggarwal, Liberal Protectionism, 1985, pp. 134-35

[37] More discussion in Chapter III of how imports have been measured and how this relates to evaluations of the level of adherence to the 6% annual minimum increase requirement.

[38] In this context, industrialized and post-industrial countries would include the United States, almost all European Economic Community members, and, after the early 1970s, Japan. Newly Industrializing Countries (NICs) could include Mexico and Brazil, but for textiles and clothing trade South Korea, Taiwan, Singapore, and Hong Kong are most important. Some of the more important developing or less developed countries

After its successful negotiation in 1973, developed countries sought to negotiate bilateral restraint agreements with suppliers under its auspices. The United States was particularly successful in this regard. By October of 1977, it had concluded 18 bilateral agreements, including agreements with Japan, Taiwan, South Korea, Hong Kong and Malaysia. The EC and other DCs had more difficulty in securing bilateral agreements. For some countries, such as Canada and the Scandinavian countries, this could be linked to a lack of bargaining power due to their small markets and import volumes.[39]

In the case of the EC, the main problem was the amount of time it took for the member states to agree on a mandate in the Council of Ministers on which the Commission would then base its negotiations with individual exporters. By the time the Europeans were ready to start, the US had concluded restraint agreements with most of the major suppliers. Having just agreed to restrain their exports to the US, the major supplying countries had little appetite for restrictive agreements with the EC.

(LDCs) in the area of textiles and apparel include Thailand, the Philippines, India, Pakistan, Indonesia, and Malaysia. There have also been some command economies which have been a source of low-cost production, including Hungary.

[39] Aggarwal, Liberal Protectionism, 1985, pp. 136-37

2.3.2 Multi-Fibre Arrangement II: 1977-1981

The delay in securing restraints in the face of American success in this regard meant yet another diversion of exports to Europe. Partly because of this, by the time of the MFA's first renewal, the EC's share of textile imports in comparison to the US had increased even more (see table 2.3). The increased share of imports would not only give greater impetus to European protectionism, but gave the EC more power in negotiations vis a vis the US on the issue.[40] This and the length and difficultly of internal Community negotiations would come to haunt textile trade diplomacy.

With regard to textiles, the members of the Community have often split into two basic camps. The protectionist camp includes France, Britain, and, sometimes, Italy. They have tended to try to preserve firms and jobs in clothing and textiles with subsidies and tax concessions, not to mention protection from foreign competition. The second group are more liberal. These include the Netherlands, Denmark and the FRG. They have focused on rationalization of their clothing and textile industries through adjustment to higher value-added apparel and textiles (especially MMF textiles) or have taken measures to help firms and workers get out of the industry and diversify and retrain for other industries.[41]

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[40] Ibid., p. 140

[41] Michael B. Dolan, "European Restructuring and Import Policies for a Textile Industry in Crisis", International Organization, 37, 4 (Autumn 1983) p. 584

TABLE 2.3
IMPORTS OF TEXTILES AND CLOTHING
SHARE OF COMBINED US AND EC IMPORTS, 1960-80

From Japan and LDCs Year	US share - %
1960	59.7
1965	58.5
1970	59.6
1973	42.8
1975	37.2
1977	39.0
1980	35.8

Source: Aggarwal, Liberal Protectionism, 1985, p.32

By 1976 it became clear that the Multi-Fibre Arrangement would be extended. The United States wanted a simple extension of the MFA for another four or five years without significant changes. They had been pleased with the results of the regime. Under it they had been able to limit the flow of low-cost imports to the US and control European protectionism, ensuring an equitable sharing of Third World exports by DCs and avoiding the possibility of protectionism spreading from textiles to other sectors in the international trade system.

TABLE 2.4
COMBINED NET TRADE IN TEXTILES AND CLOTHING, 1973-76
(current millions of dollars)

Country	1973	1974	1975	1976
United States	-1,795	-1,334	-1,408	-2,322
EC	1,234	1,025	-29	-1,061
Sweden	-562	-702	-814	-968
Canada	-846	-1,111	-1,130	-1,509

Source: Aggarwal, Liberal Protectionism, 1985, p. 140

The EC, led by France and Britain, wanted a far more protectionist regime. The inability of the EC to conclude bilateral restraints with suppliers quickly, the resulting diversion of imports from the US, and the reduction in domestic consumption due to the 1974-75 recession had taken their tolls on the European industries through the duration of the first MFA. Import penetration of textiles and clothing (imports as a percentage of consumption) increased from 1977 to 1979 from 36% to 40%. Overall penetration was very high compared to other DCs such as the US, which had a rate of 12 percent in 1979.[42] Table 2.4 shows that while the US trade balance in textiles and clothing was in deficit from 1973 to 1976, it was relatively stable. The EC, however, went from a $1.23 billion surplus to a $1.06 billion deficit over the same period. European industry and governments did not take kindly to this reversal in the trade balance. In the end, protectionist forces won out and in January 1977 the initial negotiating mandate sent to the European Commission by the European Council of Ministers was extremely hardline.[43]

As negotiations for the renewal of the MFA approached, the Japanese grew concerned that the MFA may not be renewed. They based this assessment on the forceful protectionism of the Europeans. Japan wanted the MFA to be renewed without major changes. While it was beginning to import more, it was

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[42] Ibid., p.588

[43] Ibid., p. 590

still a competitive exporter of textiles in particular. As late as 1984, while Japan had a trade deficit in clothing of $1.17 billion, in had a trade surplus of $3.41 billion in textiles. In 1983 it was still the largest supplier of textiles to the US, with 18.6% of American imports.[44] Japanese comparative advantage in textiles was at least as great in 1976-1977. Thus, the Japanese wanted the MFA to remain essentially the same. However, they were willing to see the introduction of more flexibility which would allow them to introduce protection in the fields they wanted and would placate the Europeans, making it more likely that the EC would renew the arrangement.

The LDCs were split in the usual manner. The most competitive, such as the Far Eastern "gang of four",[45] wanted textiles to be brought firmly under the rules of GATT or for the MFA to be made more liberal. The under developed exporters did not mind if the MFA became protectionist overall, so long as it had a strong development norm with generous exemptions for poorer LDCs and new market entrants. Privately they took comfort in the fact that whenever the most competitive exporters during any period of textile trade history have been restrained, less industrialized suppliers

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[44] Cline, The Future of World Trade in Textiles and Apparel, 1987, table 2.9, p. 53 & table 2.11 p. 58

[45] South Korea, Taiwan (not a member of the MFA, but subject to similar bilateral agreements), Hong Kong and Singapore.

have always gained some of the larger suppliers' former market shares. The third group were NICs which were not quite as competitive as the "gang of four" and often had large domestic textile markets and industries of their own. Their position was in some ways similar to that of Japan. They really wanted the MFA to be as flexible as possible so they could protect their textile industries in some sectors and have open export markets for others.[46]

As 1977 dragged on, so did discussion in the Textile Committee of GATT. The delay was caused mostly by the EC. Having assumed the lion's share of world textile and apparel exports due to the various mishaps under the first MFA, many in the EC were determined to use the power that this import share implied to get the revisions to the MFA that they wanted. On 21 June 1977 the European Council finalized the negotiating mandate for the Commission. The six main elements of the mandate were (1) a demand for exceptions to the procedures for selecting base years to allow the selection of years with low import volumes where appropriate; (2) changes to the functioning of the TSB to make it less an adjudicating body for disputes and more of a political mediation body; (3) differentiation between MFA members which were GATT parties and those which were not; (4) linking growth rates for import restraints with growth in importers' domestic demand; (5) changes to the market disruption definition to include such

[46] Aggarwal, Liberal Protectionism, 1985, pp. 148-49

elements as low prices, cumulative effects of imports and growth rates of domestic consumption; and, (6) determination of base years before the beginning of bilateral negotiations to stop forestalling by exporters.[47]

Lest anyone think these proposals were just a tough opener, the EC and its more protectionist members backed it up with threats and action. The day the Council set the negotiating mandate, the French threatened quotas against various clothing and textile imports under the Article XIX safeguards of GATT. On 23 June 1977 the EC said that while it would not allow the French to take Article XIX action themselves, it would take safeguard measures to protect the interests of all its members. It announced restrictions on 6 July. This so up set the already stalled talks in the GATT Textile Committee that Olivier Long suspended formal negotiations to allow a cooling-off period and private, informal consultations. The Community held off with the announced restrictions while consultations continued.

The informal consultations came to fruition when the Textile Committee resumed formal meetings on July 24. Reacting to the EC's protectionist demands, the US put forward a proposal based on what a Hong Kong delegate had put on the record earlier. They suggested that the MFA allow "reasonable departures from particular elements" of the MFA, though the Americans neglected to add the Hong Kong delegate's proviso

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[47] Ibid., pp. 151-52

that such departures should be at least more liberal than actions under article 3. This went a long way toward reassuring the EC.[48] Japan and some of the less competitive LDCs liked the implied flexibility as well.

For the EC however, there was still the matter of negotiating bilateral agreements under the MFA, which the EC insisted had to be concluded before they would renew the MFA. By late summer, the EC was not only threatening not to renew the MFA, but Tran van Thinh, the Commission's chief textile negotiator, said that they would implement the 6 July 1977 quotas under Article XIX of GATT if they were unable to conclude acceptable terms for the 22 agreements they were about to begin negotiating with exporters.[49]

Before the Commission's negotiators could begin work with individual exporting countries to negotiate bilateral agreements, the Council had to develop a negotiating mandate (for the bilateral agreements, as opposed to the MFA renewal). After tough wrangling among the members, the Council developed a mandate which had two main points. First, the Commission decided to use 1976 as the base year from which the quotas and their increases would be calculated, forcing countries who had been exporting large quantities of goods in 1977 to reduce

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[48] By proposing to make the MFA more flexible, the US could placate the EC with a proposal which would allow them to implement much of the protection they wanted, without changing the nature of the MFA (i.e., making it more protectionist).

[49] Aggarwal, Liberal Protectionism, 1985, p. 155

their total exports more under the new bilateral agreements than would normally be the case using 1977 as the base year. Second, to further ensure that imports would be controlled, the Commission was empowered to negotiate "basket extractor" agreements - that is, consultation agreements which came into effect when imports from an exporting country reach a certain percentage of the EC's total imports.[50]

Major textile and apparel exporters held off in negotiations with the EC, hoping to get more generous concessions in their agreements. This further delayed progress on MFA renewal. The final set of negotiations for MFA renewal were to begin on 5 December 1977, but by late November, with few agreements signed between the EC and its major suppliers, it looked as if there would be no renewal. At the last minute the major suppliers buckled en masse, realizing that the EC would not give in and was quite prepared to see the MFA and the bilateral negotiations fail. Seeing that restrictive bilateral agreements under the MFA would be better than the EC imposing unilateral quotas ostensibly under Article XIX of GATT, the major suppliers accepted the former.

This opened the door for the final round on the MFA in the Textiles Committee. By mid-December, negotiations for the renewal had been completed, and on 14 December 1977 the Protocol of Extension was opened for signing. The extension came into force on 1 January 1978, beginning what is commonly

[50] Ibid., p. 156

referred to as MFA II. It was to last for four years, until 31 December 1981. The EC's twenty-two agreements came into force on the same day. In short order it would conclude three more, bring the total to twenty-five under MFA II.[51]

In the end the key change under MFA II was the clause allowing "reasonable departures from particular elements [of the MFA] in particular cases" in the protocol.[52] It allowed derogations from the rules of the MFA in bilateral arrangements as long as both parties agreed. Sub-paragraph 5.4 did call for any departures to be short term and for parties to return to the rules of the MFA as soon as possible in all cases.[53] But, in the final version there was no requirement that they be more liberal than agreements under article 3 restraints, as in the Hong Kong delegate's original proposal regarding departures. Instead, there was a presumption that if they were not more liberal, exporters would never agree to them. However, exporters could be and were coerced into agreeing to more restrictive bilateral arrangements than those allowed under the MFA by importing countries which threatened even more restrictive unilateral

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[51] Dolan, "European Restructuring and Import Policies for a Textile Industry in Crisis", 1983, p. 591

[52] See sub-paragraph 5.3, "Conclusions of the Textiles Committee Adopted on 14 December 1977," GATT document, Com.Tex/W/47, from "Protocol Extending the Arrangement Regarding International Trade in Textiles," L/4616, <u>Basic Instruments and Selected Documents</u>, 24th Supp., Geneva: General Agreement on Tariffs and Trade, 1978, pp. 6-7

[53] <u>Ibid</u>.

measures out side the MFA and/or the GATT.

The functioning of the Textiles Surveillance Body also changed under MFA II. Despite the fact that the only mention of the TSB in the 1977 renewal is a weak phrase advocating that it "continue to function effectively in [its] respective areas of competence",[54] its functioning had changed such as to weaken the overall strength of the regime. Its report in 1980, for instance, shows the continuation of derogations which it identifies, but was apparently unable to end, indicating weakening of the regime under MFA II.[55]

In part because of its weakening, the nature of the regime changed as well. Under the doctrine of reasonable departures and a weaker TSB, the nature of the regime became determined more by the bilateral agreements negotiated under the MFA. Since many of these, involving both the EC and the US, became more protectionist during this period, the nature of the regime became more protectionist in the context of Aggarwal's typology.

In terms of scope, the regime was expanded slightly to include hand-loomed products, as well as some types of flax and ramie products.

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[54] Paragraph 7, "Conclusions of the Textiles Committee Adopted on 14 December 1977," GATT document, Com.Tex/W/47, from "Protocol Extending the Arrangement Regarding International Trade in Textiles," L/4616, BISD, 24th Supp., 1978, p. 7

[55] Aggarwal, Liberal Protectionism, 1985, pp. 162-64

2.3.3 Multi-Fibre Arrangement III: 1981-1986

Despite increased protection under MFA II, the clothing and textile industries in the United States and Europe continued to be pressured by low-cost imports. Table 3.1 shows that by 1980, most industrialized countries still had trade deficits, particularly in apparel, and continued to suffer market penetration.

For some, such as Britain, the situation had deteriorated seriously since 1970 in both textiles and apparel, with net import penetration in 1980 of -2.4% and -14.1% respectively. The United States and Germany both had serious trade deficits and net import penetration in apparel by 1980, though the German industry's use of outward processing probably made this figure look worse than it was. Only the Japanese and Italian industries seemed to be doing well, with Italy's performance in textiles being quite an anomaly indeed for an industrialized country.

The trade deficits and levels of import penetration which the industrialized countries faced by 1980 were reflected in both output and employment in textiles and apparel. Tables 2.5 and 2.6 show levels of employment and output in textiles and apparel respectively. Data for six of the largest industrialized countries are shown: the United States, Germany, France, Italy, Britain, and Japan. In textiles, all the countries experience a decline in output and employment starting in 1971 or 1974, except for Italy and the US. Italy shows strong increases in output through 1980. The US shows increases in employment until 1974, after which there is a sharp decline. Output stabilizes after 1977.[56]

In apparel, employment and production in the six countries seemed to decline even more rapidly, especially after 1971, but with several even more radical deviations in some specific cases than in textiles. The number of apparel workers in Italy continued to expand steadily over the period. In Japan, the performance in apparel was even better than in textiles, rather counter-intuitively, with both output and employment expanding through the period: 1963-1983. Again, output in the United States seems to expand through the period, but this may be due to different methodology in comparison with the data for the other countries, as with textiles.

Competitive pressures on the industries resulted in political pressure on governments. In Europe, industry and labour called for more restrictions generally and a more protectionist MFA specifically. In October 1980, the European Trade Union Committee on textiles and clothing walked out of a meeting with the European Commission because the Commission refused to give serious consideration to their proposals for more protection. To back up their case, organized labour

[56] The US data uses a different methodology than the rest, however. The figures represent real production in millions of dollars at constant 1982 prices. This may have an effect on the portrayal of US performance vis a vis the rest of the nations in the table.

called a one-day strike in December. Labour claimed a high participation rate across the EC: 90% in Germany, 75% in Britain.[57]

TABLE 2.5

TRENDS IN EMPLOYMENT AND OUTPUT (Textiles): 1963-1983

	1963	1968	1971	1974	1977	1980	1983
United States							
N	862.9	958.8	906.4	931.5	875.6	817.5	723.4
Q*	30,823	36,880	41,087	42,670	50,050	49,423	49,812
F.R.G.							
N	573	489	481	394	343	317	256
Q	78	91	105	102	104	103	92
France							
N	545	463	732	697	333	297	258
Q	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Italy							
N	n.a.	410	402	365	329	296	n.a.
Q	100	93	98	113	120	136	121
United Kingdom							
N	817	723	586	550	481	351	n.a.
Q	84	97	100	97	94	75	67
Japan							
N	1,392	1,361	1,293	1,167	986	916	733
Q	55	83	104	100	100	102	99

N = thousands of workers
Q* = real production in millions of dollars at constant 1982 prices (for US only)
Q = index of production, 1970 = 100
n.a. = not available

Source: Cline, The Future of World Trade in Textiles and Apparel, 1987, p. 27 (table 2.1) and pp. 116-17 (table 5.2)

[57] Dolan, "European Restructuring and Import Policies for a Textile Industry in Crisis", 1983, p. 604

TABLE 2.6
TRENDS IN EMPLOYMENT AND OUTPUT (Apparel): 1963-1983

	1963	1968	1971	1974	1977	1980	1983
United States							
N	1,279	1,356	1,319	1,317	1,334	1,307	1,182
Q*	33,389	38,478	36,510	40,595	46,485	45,742	48,932
F.R.G.							
N	388	367	372	310	244	228	175
Q	79	93	103	92	100	94	77
France							
N	388	338	n.a.	n.a.	292	272	238
Q	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Italy							
N	n.a.	162	222	217	198	272	238
Q	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
United Kingdom							
N	458	420	363	347	321	277	n.a.
Q	92	97	105	115	120	113	103
Japan							
N	272	320	372	496	467	466	457
Q	n.a.	85	103	105	105	104	103

N = thousands of workers
Q* = real production in millions of dollars at constant 1982 prices (for US only)
Q = index of production, 1970 = 100
n.a. = not available

Source: Cline, The Future of World Trade in Textiles and Apparel, 1987, p. 27 (table 2.1) and pp. 116-17 (table 5.2)

By 1981, the European Council of Ministers were hammering out a new mandate for the Commission to follow in the negotiations for MFA renewal. The EC members were split in the usual way with regard to how protectionist the European position should be. The FRG, the Netherlands and other states which had engaged in industrial adjustment and outward processing wanted to moderate the EC's protectionist stance; Britain, France and others which were trying to preserve domestic-focused textile industries wanted more protection.

This illustrates the difficulty the EC had in formulating a negotiating position. The mandate was not finalized until late November of 1981. The delays had as poor an effect on the international negotiations for a renewal as one might expect, considering MFA II only lasted until the end of December 1981. In the end the Commission brought a very protectionist position to the Textile Committee table.

Meanwhile, the United States wanted to maintain the weak international regime of 1977 without major changes. The main objective for the US was to have a renewal of the MFA which would allow the control of imports from the three largest exporters into the American market: South Korea, Taiwan and Hong Kong. The US worked on its opening position on renewal during the last few months of the Carter administration and the first few months of Reagan. No policy shift appeared to occur regarding textiles between the two administrations, such that in July 1981, Peter Murphy - the chief US textiles negotiator, later of Canada-US FTA fame - was still taking the line that the US wanted to

> negotiate, as appropriate, a protocol that would provide with some certainty for the negotiation of bilateral agreements with minimal growth for the major suppliers in large quotas on import-sensitive categories.[58]

While the US still preferred to limit imports through a regime

[58] Aggarwal, Liberal Protectionism, 1985, p. 167. According to Simon Riessman, Mr. Murphy was even less articulate during the Canada-US free trade talks.

which would keep other importers' markets open, ensure that all developed importers took a fair share of exports from developing countries, and generally preserve the overall international trade system from protectionism in textiles, these became less of a focus. With capabilities in textile trade relations having shifted to Europe and after the general hegemonic decline of the 1970s, the US was more focused on dealing with the problems of its own industries.[59]

The industries themselves responded to the pressure they faced by calling for a global quota. But, it was widely recognized that this was put forward as a bargaining chip in their consultations with the government and that the industry was really seeking a protectionist regime allowing restrictive bilateral agreements. There was also pressure in Congress for more protection. Representatives and Senators from states with substantial textile interests formed a "textile caucus" and began to push for tough action by the administration, as well as tough legislation. Among these were Senators Storm Thurmond and Ernest Hollings, both of South Carolina, and Congressman Ken Holland.

Despite pressure from their own industry and Congress, the protectionist position of the EC, and US decision-makers' recognition of the EC's power in textile trade relations, the US administration sought what Aggarwal refers to as only a

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[59] See tables 2.5, 2.6 and 3. for position of US textile and apparel industries in 1980 with regard to employment, output and import penetration.

weak protectionist regime for the MFA renewal.[60]

TABLE 2.7
IMPORTS OF MAJOR INDUSTRIAL COUNTRIES FROM NON-OECD SOURCES, 1971-1985 (current million dollars)

	1971	1974	1977	1980	1983	1985
Textiles						
United States	428	787	808	1,342	1,691	2,469
Europe*	808	1,994	2,796	4,940	3,638	3,908
Apparel						
United States	946	1,775	3,437	6,198	9,314	13,755
Europe*	920	2,712	4,905	8,954	7,496	7,764

Source: Cline, The Future of World Trade in Textiles and Apparel, 1987, p. 126 (table 5.6)
* OECD-Europe

The LDCs were more aligned on the issue of textiles for this renewal of the MFA than at any previous time during the textile regime period. At a meeting in Bogota, Colombia in November 1980, trade ministers from the textile and apparel exporting countries issued a joint communique in which they denounced the MFA as a derogation from the GATT, as well as abuses of the few MFA rules which liberalized trade and the refusal of importers to abide by TSB findings in many cases.[61]

A reference to table 2.7 would seem to indicate that exporting LDCs continued to have good access to industrialized markets under MFA II, relative to other periods. According to

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[60] Aggarwal, Liberal Protectionism, 1985, p. 169

[61] Ying-Pik Choi et al., The Multi-Fibre Arrangement in Theory and Practice (Dover, NH: Frances Pinter, Publishers, 1985) p. 19

these figures, exports from non-OECD suppliers[62] to the US increased by 66% from 1977 to 1980 for textiles and by 80.3% for the same period in apparel. In Europe, the increase was 76.7% for textiles and 82.5% for clothing over the same period. Yet many authors argue that Third World suppliers lost significant access in the late 1970s and early 1980s under MFA II.[63] In any case, the LDCs certainly felt they had lost much ground and called with a fairly united voice for a return to the original, more liberal MFA, at least, and preferably for a return to GATT.

Once the European Commission had its negotiating mandate from the Council of Ministers in late November 1981, the process of renewing the MFA was able to conclude quite quickly. With the main difference in the US and EC positions being merely whether the MFA should be a weak (US) or strong (EC) protectionist regime under the renewal, exporters' wishes for a return to greater liberalism were dashed.

Negotiations in the Textile Committee of GATT were

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[62] Includes some socialist and other non-OECD countries, as well as LDC suppliers.

[63] See Keesing and Wolf, Textile Quotas Against Developing Countries, 1980, pp. 87-88 and Choi et al., The Multi-Fibre Arrangement in Theory and Practice, 1985, pp. 86-123. The reasons for these differences are partly methodological. But, there are major theoretical differences involved as well. Differences regarding the volume of imports going into DCs, the market penetration they have faced, export volumes the LDCs have been able to ship, and the amount of benefit they have lost or gained under the MFA goes to the heart of its normative and analytical evaluation. For further discussion, see Section III.

concluded and the <u>Protocol Extending the Arrangement Regarding International Trade in Textiles</u> was opened for signing on 22 December 1981.[64] Under the extension, the US and EC were able to address their concerns in several areas. Paragraph 6 of the protocol addresses the problem of large suppliers with large quotas. It is quite vague, suggesting cooperation among large exporters and importers in dealing with problems, but leaving the possibility for any number of solutions. One example of such solutions which came to light under MFA III was serious derogation from the standard 6% growth rates as a bench-mark in bilateral agreements with major suppliers.

The "reasonable departures" of MFA II were gone and replaced by paragraph 9 in the new extension. It built on paragraph 6 and reinforced the provisions for exceptions originally contained in Annex A and paragraphs 2 and 3 of Annex B of the MFA. It outlined even more specifically that in cases "where there is a recurrence or exacerbation of a situation of market disruption" due to imports "from a particular source" both the six percent growth rate and flexibility (swing and temporal shifting between import categories) may be reduced. "Particular source" was emphasised as an obvious euphemism for specific large suppliers: Hong Kong, Korea and Taiwan in particular. The paragraph 9 reinterpretations essentially voided the

[64] "Protocol Extending the Arrangement Regarding International Trade in Textiles," L/5276, <u>BISD</u>, 28th Supp., 1982, pp. 3-8

considerable restraints on the finding of such exceptional cases in the original MFA.

In paragraph 10 the EC got its provision regarding the prevention of import surges. In paragraph 13, the FRG and other users of outward processing got a reaffirmation of the legality of the practice first given in Article 6, paragraph 6 of the original MFA. Perhaps the single most protectionist clause introduced under MFA III was paragraph 4 of the renewal protocol, which linked findings of market disruption - as defined in Annex A of the original MFA, the key criterion for allowing restraints under the arrangement - to growth rates of consumption. This represented a serious derogation from GATT's goal of allowing the free play of comparative advantage, save only for situations of "injury".[65]

MFA III gave the DCs the latitude to use new restrictive measures, and they took full advantage. The US began using what it called "presumption of market disruption or the threat of market disruption". Under this concept, criteria were set up by the US government to determine market disruption. The criteria were quantitative in nature, measuring the various dimensions of market disruption under Annex A of the original MFA: turnover, market share, profits, employment, and import volume. As soon as certain levels were reached, restrictions would automatically be triggered as outlined ahead of time in

[65] See Chapter III for further discussion.

the bilateral agreement relevant to the exporter in question.[66] There would be no consultation prior to invoking restrictions as generally required under the MFA.

Most of the EC's bilateral agreements ran out in early 1982, so the Council lost no time in developing a negotiation mandate for the Commission regarding new bilaterals. After the usual protracted bickering, the mandate which came out was the most protectionist yet. The overall import growth rates were to be 1% for "sensitive" products and 3% for the rest. The imports from the largest suppliers were to be cut back 10% over five years. To help ram this down the throats of the dominant exporters, the Council stated that it would withdraw ratification of MFA III if bilateral negotiations were not wrapped up by the end of 1982.

The negotiations dragged into the fall. In October the Council instructed the Commission to prepare unilateral restraints in the event bilateral talks failed. By the middle of December the suppliers gave in to the EC's threats. The Commission concluded a total of twenty-seven agreements. Overall, the global level of imports for the Community was reduced slightly for 1983 by cutting back the dominant suppliers by 6 and 9 percent for "sensitive" products and distributing part of the reduction to smaller exporters. The quota growth rates for the following years were reduced to

[66] Choi et al., The Multi-Fibre Arrangement in Theory and Practice, 1985, p. 20

0.9, 3 and 4.5 percent for the "sensitive", "less sensitive" and "non-sensitive" categories, compared with 1, 4.5 and 6 percent under MFA II.

The outcome of the negotiations were seen as a French and protectionist victory within the EC. But, Germany and other liberal states got several concessions, the most important of which were allowances for outward processing to continue unimpeded.[67]

2.3.4 Multi-Fibre Arrangement IV: 1986-1991

There was talk in the early 1980s of integrating textile and apparel trade back into GATT. In November 1982 GATT trade ministers referred to the issue. In a statement they recognized that the MFA was a derogation from the GATT. They also recognized the importance of textile trade, to the LDCs especially, and made a commitment to integrate the MFA into the GATT.[68] But there was little support within the industrialized countries for an end to protective measures in textiles.

By the beginning of 1986, negotiations aimed at renewal of the MFA were well under way. India, Pakistan and Bangladesh were strongest in their calls for a return to the disciplines of GATT for textiles. The timing of their

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[67] Dolan, "European Restructuring and Import Policies for a Textile Industry in Crisis", 1983, pp. 608-09

[68] Choi et al., The Multi-Fibre Arrangement in Theory and Practice, 1985, p. 12

suggestions made sense since the Uruguay Round was to start later in the year. Other LDCs wanted the MFA to continue. The largest suppliers, such as Hong Kong and Korea, enjoyed large institutionalised quotas which, to some extent at least, kept smaller competitors out of first world markets. In addition, quotas under the MFA afforded them the benefit of quota rents. Also, many exporters believed that, realistically, the only thing which would replace the MFA in the case of non-renewal would be even more protectionist unilateral and bilateral measures with no MFA disciplines at all.[69]

As in the 1950s and 1960s, the American position on renewal of the MFA was still based on the need to guard against export diversion and the possibility of an expanding trade war if attempts by the DCs to control textile imports from the LDCs were not coordinated through a regime. The US also continued to have geo-political and financial interests in the economic strength of many exporters: a hegemon diminished but not dead.

However, of the major importers, the US had suffered the worst penetration during the early 1980s due to a strong dollar and stronger aggregate demand after the 1982 recession. The Reagan administration was still trying to mollify Congress and the US textile industry. In his veto message on the protectionist 1985 textile trade bill Reagan said that he was

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[69] Ibid., pp. 216-17

> directing the Office of the United States Trade Representative to most aggressively renegotiate the MFA on terms no less favourable than the present.[70]

Thus its position on renewal was quite tough. US demands included (1) the expansion of the scope of the MFA to include all natural fibres; (2) the (virtual) freezing of quota levels for large suppliers; (3) more liberal access for smaller suppliers; and, (4) reductions in required flexibility (swing, temporal shifting).

The EC was more ambivalent. Tough restrictions undertaken in the late 1970s and early 1980s had given European industries significant protection. A higher US dollar starting in 1983 only added to a favourable balance. By mid-1985, the Commission was talking generously and confidently of liberalization of the MFA and eventual integration into GATT. While they were willing to offer the big suppliers only 1% growth in imports per year, they were offering as much as four to seven percent to smaller suppliers. But, by the second quarter of 1986 the dollar underwent a correction and exports shifted back to the EC. European industries were soon under pressure again and the EC's generosity faded like a mirage.[71]

The MFA was renewed starting on July 31, 1986, and was to last until July 1991. The scope was extended to include

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[70] Ibid., p. 218

[71] Ibid., p. 218

ramie, silk blends and linen, stopping just short of declaring competence in all fabrics in the face of Chinese objections. The substantive changes under MFA IV were contain in a series of "Conclusions" of the GATT Textile Committee in the protocol of extension. There was a new, tougher anti-surge mechanism under paragraph 11 of the conclusions. Under paragraph 9, quota growth rates of less than 6% were permissable, as well as quota roll-backs in a continuation of the spirit of reasonable departures, if not the letter. However, it also supported more generous quotas to small suppliers. Under paragraph 13 there was a call against any restrictions on new entrants and the least developed suppliers. Particular liberalization was to be shown to poor cotton suppliers.[72]

Overall, MFA IV was criticized by LDCs, especially China and India, as being too protective. Meanwhile the US industry complained it did not protect them enough.

2.4 New Developments: Beyond the MFA

A meeting of trade ministers from the countries which are Contracting Parties to the General Agreement on Tariffs and Trade took place in Punta del Este, Uruguay, in September 1986. The main document to emerge from the meeting was the Ministerial Declaration on the Uruguay Round, which started

[72] "Protocol Extending the Arrangement Regarding International Trade in Textiles," L/6030, BISD, 33rd Supp., 1987, pp. 7-14

this eighth round of GATT negotiations and set out its broad objectives. With regard to textiles and apparel the ministers agreed that

> Negotiations in the area of textiles and clothing shall aim to formulate modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines, thereby also contributing to the objective of further liberalization of trade.[73]

Integration of the MFA with the rest of GATT (or at least its promise) has been the price for LDC participation in the Uruguay Round of Multilateral Trade Negotiations (MTN). The United States and others need Third World cooperation in the MTN to resolve such issues of first world interest as trade related aspects of intellectual property rights (TRIPS), investment measures (TRIMS) and trade in services.

Yet there are limits as to how much the United States and other DCs can offer LDCs on textiles without arousing objections from industry and domestic political forces. Protectionist actions in Congress continued in 1987 with the Textiles and Apparel Trade Bill. This bill was much more conciliatory towards what the traffic would bear internationally than was the 1985 bill. The 1987 bill called for a global quota to be implemented piecemeal through the coordinated implementation of all the United States' bilateral

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[73] From the Ministerial Declaration on the Uruguay Round in "Appendix 1" of Sidney Golt, The GATT Negotiations 1986-90: Origins, Issues and Prospects (London: British-North American Committee, 1988) p. 68

restraint agreements. The quota would have an overall growth rate of 1% per year. It had provisions for quota cuts to be compensated with tariff concession on less sensitive textile items in a rather empty genuflection to Article XIX of GATT;[74] few textile and clothing items were classified as "less sensitive", and those that were had low tariffs on them at the start.

The bill also included all countries under the global quota, including Canada and the EC. This was a radical departure from the way the US and the rest of the DCs had handled the textile field. Previously, with few exceptions, DCs restrained the textile imports of LDCs, not other DCs. Upon learning of the bill's content, the EC immediately threatened retaliation, expressing concern not only over controls on their exports, but the diversion effect which would occur if the US seriously increased protection without coordination with the EC and other importers.[75] The October 1987 stock market crash and the threat of presidential veto killed the bill before it was passed through Congress.

Through the Uruguay Round, negotiations for the integration of textiles into the MFA have been tediously slow. In December 1989, the US textile negotiator, Robert Shepard, put forward the first substantial plan from the US for MFA

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[74] The safeguards provisions, which requires compensation to the exporting country when safeguard tariffs are raised.

[75] Aggarwal, Liberal Protectionism, 1985, pp. 125-26

integration. The plan called for further articulation and toughening of GATT rules, especially regarding safeguards, in preparation for integration. The main method of import control during the phase out was to be global quotas operated by the importing countries. Under the plan, each country would subsume their unilateral and bilateral restraints under a global quota as each one expired. The global quota would be lifted over time until it essentially disappeared, save for what few actions might be available under a strengthened safeguard process (Article XIX). The US anticipated a ten year phase-out.

The Americans became rather isolated with their global quota approach, as not even the EC expressed much support for it. The EC, other developed importers and almost all LDCs wanted the phase-out to be based on the MFA without the introduction of any radical import control mechanism, especially not one with as much potential for protectionism as a global quota.[76]

Meanwhile word came from the Trade Negotiations Committee (TNC), the supervising committee for the Round, that all negotiating groups should have draft agreements ready for the end of July 1990 so that they could be reviewed in preparation for amendments and revisions in the September through November

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[76] Keith Broadbridge, Hong Kong delegate to the textiles group was quoted as stating that "all countries except two are prepared to use the current MFA as a basis for phasing textiles back into GATT." This was an obvious reference to Canada and the US. Textile Asia, May 1990.

meetings. The trade ministers could then ratify final texts at the December ministerial in Brussels.[77] In the textiles group they were still arguing over the working plan outlining how to proceed on the substantial issues.

Despite all this, in an interim report to the TNC in April, the textiles group chair, Arthur Dunkel, Director-General of GATT,[78] anticipated a final draft from the group by 13 July. He outlined three main areas of focus: modalities for the phase-out of the MFA; modalities for the phase-out of other textile restrictions not consistent with GATT; and, the issue of a safeguard mechanism for textiles during the transition back to GATT. He also noted that while the uproar over a global quota approach had been a delaying stumbling block, group members were committed to the integration of textiles into the rules of GATT.[79]

At this time, yet another in a ten year line of textile trade bills appeared in the US Congress. As protectionist as any before it, the bill had the support of the peak textile association, the American Textile Manufacturers Institute (ATMI), but failed to get support from the American Apparel Manufacturers Association, which preferred to await the outcome of the Uruguay Round in December. Originally

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[77] GATT-Focus, April 1990

[78] Note how GATT never seems to trust the chairing of textile negotiations to anyone less than the Director-General. Truly the mark of a difficult field.

[79] Textile Asia, May 1990

sponsored by 200 members in the House and a majority of senators, the bill passed in July 1990, but President Bush vetoed it, sighting the damaging effect the bill would have on the Uruguay Round and international trade generally.[80]

The outcome of negotiations over textiles seemed to reach an impasse when many exporting countries failed to agree with the final proposed draft agreement with which the group was to go into final negotiation in the fall. India threatened to walk away from the Uruguay Round altogether. Textiles were added to agriculture and the issue of a dispute settling mechanism as issues which could kill the Round.[81] In the end, agriculture was mostly blamed for the breakdown of the Uruguay Round in December 1990, but textiles and other issues were not resolved either.

It is not clear what will happen in the area of textiles or with GATT as a whole. Negotiations on the substantive issues of the Uruguay Round continue in Geneva. The G-7 leaders remain committed to the completion of the Uruguay Round. Meanwhile, experts and scholars now see more and more that fundamental reform of GATT process, structure and "constitution" is required for it to do the job the international trade system requires of it.[82]

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[80] Globe and Mail, 18 July 1990.

[81] Ibid.

[82] See John H. Jackson, Restructuring the GATT System (New York: Council on Foreign Relations Press, 1990) pp. 20-35

Chapter III

'Legal', Economic and Political Implications of the MFA

There are several implications regarding the MFA which add to its analysis and yield some insight into the subject areas from which these implications originate. Key 'legal' concepts within the MFA serve as a convenient starting point for the analysis of political and economic interactions under the MFA. They will be construed in this thesis as indicators of political and economic relationships concerning the MFA.

Economic issues pervasively surround the MFA. Economic factors appear as both cause and effect of MFA features. Overall, the existence and development of the Arrangement has been rooted in the changing political and economic conditions and characteristics of developed, net textile importing countries and the less developed, net exporting countries. Difficulties regarding clothing and textiles trade, and, therefore, the development of the MFA, has been especially rooted in the economic and political disparities between DCs and LDCs.

3.1 The Central 'Legal' Concepts of the MFA

In a manner similar to the GATT, the MFA can be considered as part of international trade law. Similarly, it contains proscriptions and prescriptions for states' actions.

As with all international law, there is no sovereign, no final arbiter to decide disputes as in domestic law. Ultimately it is the consent of states to abide by international laws which provides the enforcement mechanism, even though complex and often compelling factors may extract such consent.[1] Consequently, international trade law is essentially a series of agreements between states which are sometimes not honoured in an international system which is still characterized by a great degree of anarchy. This is why the word 'legal' must be qualified in connection with the MFA, even though the meaning and definitions of the MFA can still be subjected to legal analysis. Such analysis can be useful in determining the political and economic implications of the MFA.

3.1.1 Principles and Norms of the MFA versus the GATT

Finlayson and Zacher identify two principles which the GATT pursues: sovereignty and interdependence.[2] In section 1.3, it was argued that the principle of sovereignty could be equated with protectionism and that interdependence could be equated with liberalization. It may be further argued that protectionism is associated with the preservation of industries within the states practising it, while

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[1] This is the stuff of regime theory. See the discussions of regime theory in sub-sections 1.2.1 and section 4.1.

[2] Finlayson and Zacher, "The GATT and the Regulation of Trade Barriers," 1981. p. 276.

liberalization is associated with industrial and structural economic adjustment.

The balance among these principles is different between the MFA and the GATT, but both regimes have elements of both of them. The norms and rules of GATT tend to up hold the principles of liberalization and - mostly by implication - adjustment, while the effective norms and rules of the MFA support protectionism and industrial preservation. The MFA may be more protectionist than the GATT, but the fact that it exists at all indicates that first world textile importers need a regime to coordinate their application of protection. This suggests that the principle of interdependence is still important under the MFA. It is also true that in the process of renewal through protocols or extensions, the MFA has evolved in the general direction of greater protectionism and sovereignty.

The MFA, as the current manifestation of the textile trade regime, is a part of the international trade meta-regime, which includes the GATT. While it is clearly a more protectionist part of trade, one must recognize that the overall character of the meta-regime has always been that of managed, rather than free, trade. Certainly a cursory examination of the GATT, with its safeguard clauses and anti-dumping codes, would indicate that, even at its most idealistic, it is not intended to provide for free trade, but to ward-off the worst instances of protectionism and strike a balance between providing the benefits of freer international trade and avoiding the costs of massive displacement in domestic economies. Clearly, the MFA in its original inception did not derogate from this in general terms.

The MFA and GATT share many individual norms, but often with different emphases. In Article 6 the MFA makes provision for allowing liberal market access to developing countries and new entrants to the market. This suggests a strong norm in support of economic development. The GATT has also developed a strong development norm, particularly after with the introduction of the General System of Preferences (GSP) in the 1970s.

Obviously, the MFA has an extremely strong safeguard norm, since one of the main reasons for the development of a textile regime was that the safeguard provisions of GATT did not provide enough protection for DCs' industries. However, since the early 1970s, the safeguard norm in GATT has strengthened considerably, often due to actions and pressures by individual countries and at the expense of other key GATT interdependence norms.[3]

The non-discrimination norm of GATT was violated by the MFA at its inception. Though Aggarwal makes the point that within the MFA there was a requirement to avoid discriminatory measures - i.e. countries should ensure that all their

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[3] See Ibid. Also see discussion of GATT norms in Chapter I.

bilateral agreements are the same in terms of quota levels, etc. - the fact remains that importing countries have not sought restraints with all their suppliers.[4] Some small suppliers have not been restrained at all, while the larger ones have been. Also, the DCs have generally not established restraints against each other under the MFA.

The MFA has a strong multilateralism norm, given that one of the central objectives was to stop protectionist actions by individual states and introduce a multilateral, collectively determined discipline. The effectiveness of the TSB has reinforced this, especially under the original MFA from 1973 through 1977. The liberalisation norm of the original MFA was also quite pronounced. One of the main purposes of the MFA was to limit the protectionist measures of importing countries.

Yet many observers see the MFA as a great derogation from the GATT and the 'normal' functioning of the international trade system. They point to the derogation from the 'most-favoured-nation' (non-discrimination) norm embodied in the structure of bilateral agreements under the MFA. While the MFA pays lip-service to support for development, restrictions against Third World exports seriously retard development in many LDCs. The MFA has often been seen as simply "a means of legitimizing ad hoc bilateral agreements," often

[4] Aggarwal, Liberal Protectionism, 1985, p. 134

"retrospectively".[5] Others have argued that exporting countries effectively waive their rights regarding textile trade under the GATT in exchange for a guarantee of some level of access.[6] Still others state that while both the GATT and the MFA allow importers safeguard measures, not only is the GATT requirement of "injury" more narrow than the MFA's "market disruption", but Article XIX of GATT requires some sort of compensation to the exporting country in the event of reduced access. There is no such requirement under the MFA. The declared GATT prohibition on non-tariff restrictions, quotas in particular, is also clearly violated by the MFA.[7]

While some norms of the MFA, such as that pertaining to discrimination between suppliers, were derogations from GATT from the start, the degree of deviation from GATT which is embodied by other MFA norms has changed over time. The key change in the MFA relative to GATT has been in the safeguards norm. Changes here have affected the entire nature of the MFA relative to GATT, making it more protectionist than the GATT.

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[5] Woolcock, "Textiles and Clothing," in Turner and McMullen, 1982, p. 33

[6] Diana Tussie, The Less Developed Countries and the World Trading System: A Challenge to the GATT (New York: St. Martin's Press, 1987) p. 64.

[7] Choi et al., The Multi-Fibre Arrangement in Theory and Practice, 1985, p. 13

3.1.2 Safeguard Criteria: "Injury" versus "Market Disruption"

The key concept of the MFA has, through four generations of the agreement, been that of "market disruption". The definition of market disruption is especially important for the issue of safeguards, determining when restraint under the MFA is allowable. The concept of market disruption was first developed during the lead-up to the Short-Term Arrangement on Cotton Textiles in the GATT Contracting Parties' Decision of 19 November 1960. Under this formulation a situation of market disruption would obtain if some combination of the four main elements outlined in the definition were to occur in a country due to import pressure: 1) increased imports, 2) sub-market pricing of imports, 3) damage to domestic suppliers, and 4) need not be the result of governmental intervention (e.g, subsidies).[8] The definition was quite flexible. It recognized that factors other than the four enumerated could be indicative of market disruption and that such factors could be acceptable for the establishment of such a case. Under the STA and the LTA, which used the same definition, unilateral actions or bilateral agreements restraining imports could only be justified in cases of market disruption.

For the Multi-Fibre Arrangement a new definition of market disruption was created which was much tighter than the

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[8] Quoted on pp. 43-44 in section 2.2.

previous one.[9] The establishment of a situation of market disruption was based on "the existence of serious damage to domestic producers [in the importing country] or actual threat thereof." Damage could not be attributed to such factors as "technological changes or changes in consumer preference". Only two factors were outlined as causes of damage acceptable for a finding of market disruption, and they had to exist in combination. The first was "a sharp and substantial increase or imminent increase of imports of particular products from particular sources"; the second obtained when "these products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the market of the importing country."

The indicators used for the determination of market disruption were several: turnover, market share, profits, import volumes, utilization of capacity, employment. Most of these indicators would have to point to market disruption for such a determination since, according to the MFA, "[n]o one or several of these factors can necessarily give decisive guidance." Also, Annex A stipulated that "[i]n considering questions of 'market disruption' account shall be taken of the interests of the exporting country, especially in regard to its stage of development, the importance of the textile sector

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[9] See Annex A from Arrangement Regarding International Trade in Textiles (the MFA) in appendix. The following quotations are taken from Annex A unless otherwise noted.

to the economy...".[10]

Based on the above, it would seem that the definition of market disruption in the MFA - the required condition for the acceptable implementation of any import restraints under the arrangement - is quite stringent and conservative. It even calls for development considerations to be taken regarding exporting countries.

The most striking aspect of the criterion comes in the first three lines; the use of the word "damage" here is very close to the use of "injury" in (safeguard) Article XIX and elsewhere in GATT. GATT Article XIX states that

> If, as a result [] of the effect of the obligations incurred by a contracting party under this Agreement, [] any product is being imported into the territory of [a] contracting party in such increased quantities and under such conditions as to <u>cause or threaten serious injury</u> [emphasis added] to domestic producers [], the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend in whole or in part or to withdraw or

[10] It should be noted that findings of market disruption would normally be agreed upon between exporters and importers. They would then normally move to negotiate appropriate bilateral agreements to deal with the situation using VERs. Such agreements would be reviewed by the TSB. If an exporter and importer could not agree on a finding of market disruption, the importing country could impose unilateral quotas under Article 3 of the MFA subject to TSB review. Thus, even when a finding of disruption is made, the actions taken are still subject to some negotiation between the exporter, the importer and the TSB. See discussion in sub-section 2.3.1, "Multi-Fibre Arrangement I".

modify the concession.[11]

The Article goes on to outline "most-favoured-nation" and reciprocity requirements such that, when tariffs are raised on threatening imports, all exporters are equally affected and there is some sort of compensation for them. Originally the compensation would be afforded by exporters raising tariffs on a commensurate flow of goods from the country employing safeguards. Later, concern that this might lead to increased protectionism in the system encouraged the practice of having countries invoking safeguards offer money or further concessions on trade in other goods as compensation to their trading partners.[12]

While Article XIX associates "injury" with greatly increased penetration by imports, it is not defined in detail (as is the MFA's market disruption) either in Article XIX or anywhere else in GATT. This leaves the meaning of injury open to interpretation. Such interpretation by the contracting parties may tend to be protectionist or liberal in different cases. While the interpretation of market disruption over the

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[11] General Agreement on Tariffs and Trade, <u>Text of the General Agreement</u>, (Geneva, July 1986) p. 36

[12] Jackson, <u>The World Trading System</u>, 1989, p. 168. When Canada imposed quotas under Article XIX of GATT on all textile and clothing imports, including those from the US, it paid compensation to US producers which lost access to the Canadian market. See Stone, <u>Canada, the GATT and the International Trade System</u>, 1984, p. 109

course of the MFA may be said to have been relatively protectionist, greater detail in the definition has led to more stable interpretation and implementation over time.[13]

The main determinant of the level and kind of restraints which are acceptable, and the conditions under which they are acceptable, is the market disruption definition in the MFA, just as the injury definition is the main determinant in GATT. It is on the basis of these two tests that their allowances for protectionism (safeguards) should be compared. In addition to its tight definition regarding situations of market disruption and its attention to development considerations for exporters which would be affected if restraints are established, the requirement in the MFA's market disruption definition for the "existence of serious damage to domestic producers or actual threat thereof" is very close to the requirement of serious injury or its threat under Article XIX of GATT. Therefore, in this regard, the main tests allowing restraints for safeguard purposes under the MFA and GATT are similar. Differences between the two definitions lie in the fact that market disruption under the original MFA has had more detailed restraints on its use than injury has had in GATT. Under MFA I, the limitation on restraints in

[13] Compare the myriad of tariff, non-tariff and other trade distorting actions (subsidies, industrial standards barriers, countervails) under GATT to the standardized bilateral agreements and unilateral quotas under the MFA. This is partly due to the much broader and more heterogeneous purview of GATT.

textile and apparel trade was quite substantial.[14]

In addition, the GATT has itself changed with regard to safeguards. Safeguard provisions in Article XIX and elsewhere have allowed contracting parties to control injury causing imports which were neither being dumped at predatory prices nor were unrealistically cheap due to subsidies, but were instead extremely competitive due to simple comparative advantage. Thus, many of the same kinds of derogations from the norms GATT identified in the MFA occur within the rules, procedures and operation of GATT itself. Today compensation for safeguard actions under Article XIX is often not offered. Contracting parties have interpreted the freedom to "suspend the obligation in whole or in part or to withdraw or modify the concession" for "such a product" in the case of imports causing injury to mean more than simply withdrawing or modifying the tariff concessions. In practice it has been applied to any of the obligations of GATT, including the prohibition against the use of quantitative restrictions under Article XI. Quotas have been imposed in the name of Article XIX safeguards. Such actions are supposed to be temporary. But, past experience indicates that the US and others are willing to extend safeguard actions for long periods. For example, under recent US implementing legislation (the 1988 Trade Act) such measures may last for eight years.[15]

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[14] See sub-section 2.3.1, "Multi-Fibre Arrangement I".

[15] Jackson, The World Trading System, 1989, pp. 166-68.

The use of quantitative restrictions under Article XIX has meant a weakening of the non-discrimination norm of GATT as well. Since quotas and VERs are usually implemented bilaterally, they tend to discriminate between the trading partners of the country instituting them, undermining the "most-favoured-nation" doctrine.[16]

In its original inception, the MFA was not a serious derogation from the GATT, but rather a movement toward freer trade in textiles and control and containment of protectionism in that field. Eventually, the MFA did take a giant step away from the disciplines of GATT. This occurred at the 1977 renewal of the MFA. MFA II introduced the "reasonable departures" clause and seriously undermined the regime.

3.1.3 Further Derogation from GATT in the MFA

The renewal of the MFA in 1977 to MFA II weakened the regime considerably and ultimately changed its nature. The main change came in a clause of the extension protocol allowing "reasonable departures from particular elements [of the MFA] in particular cases" when negotiating bilateral arrangements, as long as both parties agreed.[17] This allowed deviations from the rules of the MFA which many importing

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[16] Ibid., pp. 170-73.

[17] See sub-paragraph 5.3, "Conclusions of the Textiles Committee Adopted on 14 December 1977," GATT document, Com.Tex/W/47, from "Protocol Extending the Arrangement Regarding International Trade in Textiles," L/4616, BISD, 24th Supp., 1978, p. 6-7

countries were seeking. It was justified on the grounds that an exporting country not wanting certain elements in a bilateral agreement to which it was to be a party could simply refuse to agree until those elements were changed. However, in practice, large importers were able to force exporters into agreements which were much more restrictive than those outlined in MFA rules by threatening them with unilateral restrictions outside of the MFA and GATT.[18]

In addition, the way the MFA was administered after the first renewal was much harsher than under MFA I. The TSB administered MFA II such as to allow much more protectionism, even though there had been no major change in the way the TSB was to operate in the 1977 extension protocol.[19] In 1981,

[18] The best example of this were the threats of the EC not to sign MFA II and to impose their own unilateral quotas if the major supplying countries to the EC would not agree to the bilaterals the EC wanted. The threat included, in such an event, the implementation of more protectionist unilateral quotas by the EC, ostensibly under Article XIX (re: safeguards) of GATT. (See sub-section 2.3.3) This pressured the exporting countries into bilateral agreements which were more restrictive than what they wanted and what was required by the MFA. For instance, growth in imports for goods in lines considered by the EC to be "sensitive" or "less sensitive" to import penetration was limited to an average of 1% and 4.5% respectively in the bilaterals under MFA II. This was well below the 6% growth requirement for bilateral restrains set in the original MFA, but allowed under "reasonable departures" in the MFA II protocol. Dolan, "European Restructuring and Import Policies for a Textile Industry in Crisis", 1983, p. 609.

[19] In the negotiations leading to the 1977 renewal, the EC did want to see the TSB become more of a political, negotiating body, where accommodations on textile issues could be worked-out, and less of an adjudicating body which would enforce MFA rules. While this position failed to be incorporated into the renewal, it is possible that the EC got

when the "reasonable departures" clause was replaced with other language still allowing importers leeway for restraint, many developed states moved even further towards protectionism. This included the United States' use of a "presumption of market disruption or a threat thereof" which would trigger restraints automatically when imports reached certain levels, whether or not the imports were causing market disruption or injury to domestic textile or apparel industries.[20]

3.2 **A "Six Percent" Solution?**

While the MFA and associated documents boldly speak of six percent growth rates[21] and exceptions to it, it is often forgotten just what is increasing by six percent (or less), over what period of time and by what measure. Whether the unit measuring trade flows is physical or economic, nominal or real has tremendous implications for what a six percent increase means. Just as critical are the time frames involved

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a quid pro quo on TSB functioning for MFA II. See the discussion in sub-section 2.3.2, "Multi-Fibre Arrangement II" and the end of that sub-section which refers to "reasonable departures" and TSB administration of MFA II.

[20] See sub-section 2.3.3, "Multi-Fibre Arrangement III", for discussion of protectionist moves by DCs under MFA III. See 2.3.4, "Multi-Fibre Arrangement IV" regarding changes and further weakening under MFA IV.

[21] MFA Text, Annex B, pp. 21-22.

and whether quotas are applied across imports from all countries (a global quota) or applied to the imports of each exporter separately (possibly excluding some exporters). Restraints under the MFA are physically measured quotas,[22] and this fact has important consequences for analysis of the MFA.

As illustrated in the previous sections, quotas and VERs under the MFA were instituted bilaterally. Countries negotiated export restraints or imposed quotas on exports on a country-by-country basis. The MFA did not permit the use of global quotas, and generally they were not used. This meant that an importing country wishing to limit all imports in a particular good to a certain level and have annual growth limited to a certain rate would have to coordinate all its quotas and VERs with each supplier such that the desired overall level and growth rate was achieved. This was an onerous task indeed, even for large sophisticated importers such as the US or the EC. In many instances it was nearly a matter of chance as to what the actual levels and growth rates of imports would be once the bilateral agreements were concluded under each MFA renewal. Sometimes they wound up being higher; more often they were lower than the six percent outlined in the MFA.

The picture becomes even more complex when considering just how quotas were administered. Article 5 of the MFA

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[22] This is inherently different from tariff restraints, which are economically based and would lead to an entirely different analysis from what is to follow.

stipulates that all restrictions be set out using "such factors as established tariff classification and quantitative units based on normal commercial practices and import transactions".[23] This meant that most quotas under the MFA were based on physical measurements of the goods, as had been under the STA and LTA. Under the STA, quotas were set in such measures as pounds of cotton yarn, square yards of corduroy or dozens of gloves and mittens.[24] The same was done under the MFA. Each bilateral agreement dealt with restraints in as many as one hundred or more categories, and most major importers were party to twenty or more agreements at any given time.

The main reason for restrictions on textile imports is to protect domestic industries from the economic effects of competition. But restrictions based on physical measures of imports are not very good at accomplishing this, mostly because there are always some categories and exporting countries which are not covered. The record of apparel imports into the US demonstrates the issue. From 1972 to 1974 the physical volume of clothing imported into the US - measured in square yard equivalents (SYE) - actually declined from 2.23 billion SYE to 1.94 billion SYE, most likely due to the effects of the tough bilateral agreements the US signed

[23] MFA Text., Article 5, p. 13

[24] See Appendix B of the Short-Term Arrangement on Cotton Textiles, in "Appendix A" of Aggarwal, Liberal Protectionism, 1985, pp. 212-14.

with its major suppliers just before the MFA. By the end of MFA I, in 1977, imports had only increased to 2.47 billion SYE. From 1972-73 to 1981-82 the average annual rate of growth in the physical volume of apparel imports was only 4.7%, well below the six percent required by the MFA. After 1982 the physical volume of imports began to rise rapidly: 15.3% (in 1983), 20.9% (1984), 8.6% (1985), and 13.2% (1986). By 1986 the rapid growth over the previous four years had raised the cumulative average growth rate of the physical volume of apparel imports to 7.1% annually since 1972, 1.1% above the MFA requirement.[25]

However, in terms of the economic value of apparel imports into the US during the same period, the record looks quite different. From 1972-73 to 1981-82 the growth of real imports - based on the value of imports for each year, deflated by the price index for domestic industry product shipments - was an average of 9.7% percent annually. From 1983 to 1985 the US recovery and a high dollar pushed the real value of imports up by 16.5% in 1983, 37.4% in 1984 and 10.4% in 1985. By this measure, the average annual increase in real economic terms from 1972 through 1985 was well above the six percent standard of the MFA, as well as actual increases in physical import volumes.[26]

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[25] Cline, <u>The Future of World Trade in Textiles and Apparel</u>, 1987, p. 41.

[26] <u>Ibid</u>., p. 37.

Europe experienced a similar phenomenon from 1977 to 1980. Despite tough European restrictions under "reasonable departures" in MFA II, using the data in table 2.7, it is apparent that OECD-Europe received an average annual increase of 25.6% in the value of textile imports and a 27.5% average annual increase in the value of clothing imports. During this period imports were to be held at an average rate of increase of less than 6% (based on physical measures).

The reasons for the disparity between growth rates in physically measured quotas versus growth in the real value of imports are several. The first, and perhaps most important, is that exporters faced with new or increasingly restrictive quotas tend to move toward higher-value exports in order to maximize earnings from the trade volumes still available to them. Swing provisions in the MFA allowed unfilled space in categories of cheap goods to be transferred to higher-value categories. Thus, while the annual increase in the physical volumes of imports was often limited by restrictions under the MFA to less than the nominal six percent, the real value of imports into the US and other importing countries often increased well above the six percent rate.

Second, each importing country faced imports in categories not covered in the bilateral agreements with some exporters. Many smaller exporting countries were not covered at all. These provided two main areas of import growth which out-striped MFA parameters.

Third, most exporting countries do not use all of their quotas in every year. For instance, in 1982, Mexico only used 33.9% of its quota under its export restraint agreement with the US and Hong Kong only used 52.6% of its quota with the EC.[27] With so much slack between actual imports and the quota levels, there is plenty of room for economic factors to affect import levels within the set quota, creating import surges or ebbs relatively unrelated to annual increases in the physically measured quota.

It is difficult to judge which is the "best measure" of imports or which will give the best insight into their effects on domestic industries. It would seem, however, that in judging the economic impact of imports, the economic measure should be used. This is especially true if it is a price-corrected measure, which the above value measures are. Also, the real value measure of imports is used in other measures regarding the impacts of imports, including trade balance and market penetration (see table 3.1). What ever the physical volume of imports are, it is their real value in comparison to the total value of a domestic market which affects domestic producers.

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[27] Ibid., p. 160, table 6.2.

TABLE 3.1
TRADE BALANCE, IMPORT PENETRATION, AND NET IMPORT PENETRATION: 1970-1980

	Textiles			Apparel		
	x-m	m/c	(x-m)/c	x-m	m/c	(x-m)/c
United States						
1970	n.a.	4.5%	-2.0%	n.a.	6.4%	-5.3%
1980	1.08	4.4%	2.1%	-5.72	16.7%	-14.0%
F.R.G.						
1973	n.a.	27.2%	3.0%	n.a.	32.1%	-35.0%
1980	-0.56	34.7%	-2.8%	-5.46	53.7%	-20.6%
France						
1980	-0.69	26.0%	-4.4%	-0.33	28.3%	-3.5%
Italy						
1973	n.a.	15.2%	10.4%	n.a.	12.5%	73.0%
1980	1.50	18.3%	10.5%	3.83	23.5%	112.6%
United Kingdom						
1970	n.a.	14.1%	7.1%	n.a.	13.5%	-1.2%
1980	-0.44	32.9%	-2.4%	-0.98	38.6%	-14.1%
Japan						
1970	n.a.	4.0%	14.9%	n.a.	4.4%	18.5%
1980	3.45	7.4%	10.1%	-1.03	10.7%	-7.2%

m = imports
x = exports
c = apparent consumption
x-m = trade balance (in billions of dollars)
m/c = import penetration (percentage)
(x-m)/c = net import penetration (percentage)

Source: Cline, The Future of World Trade in Textiles and Apparel, 1987, pp. 120 (table 5.4) and p. 124 (table 5.5).

The implication for the evaluation of the MFA is of interest. The protectionism of the MFA should not be evaluated solely on how close the physical volume increases set in the bilateral agreements or the actual physical volumes of imports[28] have been to the nominal six percent rate.

[28] Includes imports in unrestrained categories or from smaller, unrestrained exporters, and deviations from agreed restraints in the actual trade transactions.

consideration must be given to the real value of import increases under the MFA. Pressure from first world textile industries on first world governments for import protection has been based on the real economic impact imports have had: the value of imports in relation to the value of the domestic market (import penetration), reductions in domestic output, reductions in workers employed. This is not to say that physical measurements are meaningless or that the MFA is not restrictive. It is only to suggest that the impact of restraint must be looked at with a certain amount of circumspection and depth.

The meaning of six percent annual growth or any of the other physically based parameters in the MFA is further circumscribed in that trade restraints are only one factor which determine trade flows. In his econometric model of US textile and apparel trade, William Cline estimated that real US imports of apparel should have increased by 115.8% from 1980 to 1986. In fact the overall increase for apparel was 122.9%, indicating the soundness of the model. The model identifies four main factors in the determination of the import increase. Their relative importance is expressed as percentages of the 115.8% total increase predicted by the model: exchange rate, 22%; real foreign price, 27%; US income, 27.5%; secular supply shift, 22.1%. In contrast, increases in protection had a mere -5% effect on the overall increase in apparel from 1980 to 1986.[29] Thus, economic effects such as the high value of the US dollar, the general increase in US aggregate demand over the six years, declines in foreign prices, and a structural shift of US owned manufacturing to LDCs for outward processing overwhelmed the effects of increased protection for the US market within the MFA or outside it.

The MFA does not make economic forces irrelevant in textile and apparel trade. Two main factors must be kept in mind when analyzing the MFA or any trade regime. First, the relationship between quota based (as opposed to tariff based), physically measured (as opposed to economically measured) restraints and their real economic effects, such as the value of trade flows or import penetration, is complex and indirect. Second, macroeconomic factors, such as relative currency values and domestic demand, have large effects on import volumes; trade restraints tend to have a secondary, if not

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[29] Cline, The Future of World Trade in Textiles and Apparel, 1987, pp. 74-75. Remember that Cline is looking at all imports in his model, even those from of DCs, while the US only has restraint agreements with LDCs. Thus, macroeconomic effects are unimpeded with respect to imports from other DCs. Even with respect to the Third world, not all import categories and not all exporting countries (especially not the smallest) are subject to restraints.

In addition, most exporting countries do not use all of their quotas in every year. For instance, in 1982, Mexico only used 33.9% of its quota under its export restraint agreement with the US and Hong Kong only used 52.6% of its quota with the EC. With so much slack between actual imports and the quota levels, there is plenty of room for economic factors to effect import levels within the set quota, reducing the economic impact of the quota.

marginal, effect on trade flows. Thus, prescribed restraints must be viewed with a certain amount of circumspection when analyzing what their ultimate impacts will be.

3.3 The MFA and the Developed Countries

While the competitiveness and viability of the textile and clothing industries in the industrialized countries has declined precipitously in the post-war era and continue to do so, these sectors are still extremely economically and, perhaps more importantly, politically important. It is this importance which has been the driving force behind protectionism in the textile field.

The clothing and textile sectors alone still account for between 3% and 12% of total industrial output for the major OECD countries. The two sectors still account for up to 15% of the DCs' total industrial employment.[30] Looking at tables 2.5 and 2.6, in the US there were 1.9 million workers in clothing and textiles in 1983, more than any other manufacturing sector. This gives the industry a lot of power. Research by William Cline has shown a statistical relationship between the level of protection different US industries receive and sectoral employment size, on the one hand, and

[30] Woolcock, "Textiles and Clothing," in Turner and McMullen, 1982, p. 27.

levels of import penetration on the other.[31] In the US the two industries are geographically widespread, but they are also concentrated in politically pivotal states, such as New York, Pennsylvania, and New Jersey for apparel, and North and South Carolina and Georgia for textiles.[32]

It should be noted also that the apparel and textile sector entails at least two industries: clothing manufacturing and textile manufacturing. They are closely related, but they are not the same thing. For example, only about 50% of textile production in Europe is used for clothing. The rest is used in carpets, other household goods, and industrial uses.[33] And while the extreme labour intensity of much clothing production often precludes operation in industrialized countries without protection and/or subsidy, many advanced, higher value-added activities regarding textiles, such as man-made fibre production, can still be undertaken in first world countries under market conditions. Thus the interests and political actions of various segments of the textile and apparel industries can often be quite different. This was demonstrated by the refusal of the American Apparel Manufacturers Association to support the

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[31] See William Cline, Exports of Manufactures from Developing Countries (Washington: Brookings Institution, 1984). Cited in Cline, The Future of World Trade in Textiles and Apparel, 1987, p. 41.

[32] Ibid., pp. 6-7.

[33] Woolcock, "Clothing and Textiles," in Turner and McMullen, 1982, p. 28.

protectionist 1990 textile trade bill in the US, which the American Textile Manufacturers Association supported.[34]

Paragraph 4 of Article 1 of the MFA states that

> ...actions taken under this Arrangement should be accompanied by the pursuit of appropriate economic and social policies [], required by changes in the pattern of trade in textiles and in the comparative advantage of participating countries, which policies would encourage businesses which are less competitive internationally to move progressively into more viable lines of production or into other sectors of the economy...[35]

Thus, one of the main objectives of the MFA is to provide temporary protection against low-cost imports to the textile industries of the first world while the adjustment suggested in paragraph 4 takes place. However, governments and the industries seem to have preferred protectionism and preservation much more than adjustment over the last forty years. Naturally no industry or interest group wants to adjust itself out of existence, which - under the current state of comparative advantage in clothing and textiles - is nearly what would be required in the industrialized countries under free trade. Because of their size and importance, the industries in most countries have been able to get their

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[34] The disposition of the textile versus the apparel manufacturers on the issue does seem counter intuitive, though. See p. 97, sub-section 2.4 "New Developments: Beyond the MFA".

[35] <u>MFA Text</u>, p. 7

governments to introduce policies for their preservation.

It is the demand for protection against imports, tempered by a wish to avoid its internal economic and the external trade relations costs, which drives the industrialized countries' policies in textiles and the content of the MFA. This section seeks to answer two related questions, important for the understanding of the MFA. The first is regarding the economic costs protectionism imposes on the DCs. The second is why protection is often selected despite the costs and what factors cause some DCs to choose more of an adjustment strategy instead.

3.3.1 The Economic Costs of Protection for Developed Countries

The adjustment required by freer trade in textiles would entail substantial adjustment costs. It has been estimated that in 1977 the elimination of all quotas and tariffs which the US had at the time would have increased clothing imports by $2.9 billion, putting as many as 89,293 jobs at risk in the clothing sector, with the risk of a further indirect loss of 26,505 jobs in the textile sector.[36]

Still, in pure economic terms the long run costs of protection are much higher than those of liberalized trade. Wolf et al. give details of another study which estimated a

[36] Martin Wolf et. al., Costs of Protecting Jobs in Textiles and Clothing (London: Trade Policy Research Centre, 1984) p. 124.

total cost of $10,800 in the late 1970s for every permanently displaced worker which would result from the elimination of all quotas and tariffs on US clothing imports. This would have resulted in a total cost of $1.26 billion. They estimated the cost of protection for the clothing sector alone to the US economy as a whole to have been $406 million per year. Thus, under these assumptions, the liberalization of clothing trade would produce a net benefit in less than four years.[37]

William Cline has completed an even more detailed study of the US for the year 1986. Through the use of an econometric model, various costs and other effects of US protectionism in clothing and textiles were estimated. The model estimated that tariff and quota protection increased the import prices of apparel by 53% and textiles by 28% in 1986. The total cost of protection for consumers of clothing and textiles was $17.6 billion for apparel and $2.8 billion for textiles. All protectionist measures in 1986 were estimated to have preserved 214,200 direct jobs in apparel and 20,700 in textiles for a total of 235,000. This cost the average US household $238 more than would have been the case under liberalized trade. The consumer cost per direct job saved was $82,000 in apparel and $135,000 in textiles.[38] The net

[37] Ibid.

[38] Cline, The Future of World Trade in Textiles and Apparel, 1987, pp. 188-193.
If effects on indirectly related jobs are included, the

welfare loss to the US economy as a whole was smaller as increased consumer costs were off set somewhat by the benefits US clothing and textile workers receive from employment and industry firms receive from earnings. Cline estimated the net national cost for the US in 1986 - due to the inefficiencies and misallocation of resources caused by protectionism - at $7.3 billion in apparel and $811 million in textiles. The main benefit derived from protection, that of employment, was much less than the net national cost. Calculated on the basis of the average duration of unemployment and average wage, the annualized costs of transitional unemployment resulting from liberalization equalled only about 3% to 4% of the net welfare costs of protection to the US economy as a whole.[39] Cline also concludes that of the approximately $8 billion net cost to the US economy caused by protectionism in clothing and textiles, almost half arises from the transfer of income to

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cost per job is $46,000 in clothing and $52,000 in textiles. However, firms and industries only indirectly related to clothing and textiles would already be involved in or already be part of sectors outside clothing and textiles and could more easily shift their activities into other products. Jobs at such firms would not be as seriously effected by liberalization in clothing and textiles. Thus, such protection is really focused on preserving directly related jobs and the per-job-costs of protection really be calculated based on these jobs only.

[39] While this estimate seems and likely is a bit low (certainly excludes social costs), it must be remembered that at an average wage of $6.80 per hour in textiles and $5.59 per hour in apparel, and with the average US manufacturing wage at $9.65 and the average US retail wage at $6.03 (1985 figures), displaced workers would have income loses due to transitional unemployment compensated once acquiring employment in other sectors. Ibid., p. 103

the exporting countries in the form of quota rents.[40]

The costs of protectionism in this sector are not distributed evenly through American society. Cline shows that protectionism in textiles and apparel, often justified on the grounds that it protects low-income workers, actually has a regressive impact on income-distribution. In 1986, protectionism in clothing and textiles reduced the relative income or buying power of the poorest 20% of households by 3.6%. Those in the next three quintiles had their incomes reduced by about 1%. Those in the top 20% had their incomes increased by one-third of a percent on average, probably due in part to many people in this group accruing returns on equity in textile and apparel firms. Employment gains by textile and apparel workers, most of whom would be in the second and third quintiles, are overwhelmed by the increased costs of textiles and apparel faced by all members of these income groups.[41]

There is no doubt, however, that while the US economy as a whole would benefit from free trade in textiles, the

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[40] Ibid.

Quota rents are a premium received by suppliers for their goods over and above their cost of production with a reasonable profit due to the higher prices they receive in the US market for the imports which are allowed in. US domestic prices, and therefore import prices, are higher than they would be under free trade because, with quotas, part of the supply - foreign supply - is being constricted.

Later it will be shown that the extent of benefits accrued by suppliers due to quota rents is questioned by some.

[41] Ibid., pp. 201-06

economic and social costs imposed on the US industry and its workers would be great. Given the benefits to the economy as a whole, the US government would be morally bound and economically capable of undertaking industrial adjustment and worker retraining to deal with the effects of liberalized trade on the sector. While the above analysis was limited to the US in 1986, it is reasonable expect that many similar findings would obtain for other industrialized net textile importers in the 1970s and 1980s.

3.3.2 The Role of Domestic Political Structure

First world governments are under pressure from the textiles sector to protect against import competition. Yet, economic analysis indicates that there are net domestic economic costs associated with protectionism, in addition to international political and economic costs such as retaliation. It would be simple to conclude that governments just "give in" to the demands of the textile industry because of its importance in terms of employment and other economic and political factors. But, the record shows that different governments have reacted to the problems in textiles in different ways. The political structure of a country is a major factor in determining whether it will institute more protectionist or more adjustment-oriented policies and what specific methods a country will use in pursuing combinations of both.

Not all industries in advanced economies desire protection. Generally there are two main types of industries in this regard: nationally based, usually more traditional and static industries, and transnationally oriented industries, which usually use advanced technologies or knowledge and are dynamic. The former tend to demand protection; the later rely on free trade.[42] In the more traditional, nationally based industries, such as textiles and apparel, the interests of industry and labour tend to converge. This provides the political impetus for protectionist policies.[43] It is the very responsiveness of governments to the wishes of such interest groups, and their myopia regarding the true costs of protection, which have been key causes of protectionism generally.

Given the powerful, reinforcing interests of industry and labour in textiles, the political costs of exposing this sector to international competition have been too high for most first world governments. Free international competition in textiles would mean large inflows of low-cost imports - often from LDCs - which would overwhelm first world

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[42] Susan Strange, "The Management of Surplus Capacity: Or How Does Theory Stand Up to Protectionism 1970s Style?", International Organization, 33, 3 (Summer 1979) p. 328.

[43] Gerald K. Helleiner, "Transnational Enterprises," and "The New Industrial Protectionism and the Developing Countries," Trade and Development no. 1 (Spring 1979), cited in Rianne Mahon and Lynn Krieger Mytelka, "Industry, the State, and the New Protectionism: Textiles in Canada and France," International Organization 37, 4 (Autumn 1983), pp.554-55.

industries, causing unemployment and bankruptcies. Even with adjustment programs the impact would be serious. The first instinct of textile workers and firms is to request import protection from their governments. The uncertainty and possible personal costs associated even with good adjustment measures to move firms into other sectors and retrain workers for other jobs means that industrial adjustment usually runs a distant second to protectionism as industry's and labour's preferred means of dealing with import competition. The power and importance of textile industry and labour, due mostly to the vast numbers employed, has often allowed them to insist on protection in many countries.

The key political structure determinant of what industrial policies are followed relates to the strength of the state relative to the rest of society and the nature of the linkages between them. This statist approach argues that a strong state will be able to identify the overall costs of protectionism to society and resist sectoral demands for it.[44]

Other arguments have been based on a more traditional, pluralistic, interest group-competing paradigm, which assumes that the state is more of a neutral entity to be manipulated by which ever groups are most powerful and effective in

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[44] Stephen D. Krasner, "United States Commercial Policy: Unravelling the Paradox of External Strength and Internal Weakness," in Peter Katzenstein, Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States (Madison: University of Wisconsin Press, 1977) pp. 57-61.

getting it to serve their interests.[45] Thus, it is argued that the ability of import-competing (textile industry) groups to push for protection will determine government action. It is also noted that protectionist groups will have to overcome the efforts of pro-liberalization groups, such as consumers or trade dependent industries fearful of retaliation in other trade sectors.[46]

The American state is seen as weak. Thus, it should be expected that the US textile industries' demands for protection would be accommodated by the US government, and indeed this has been the case, since the early 1980s especially. But, throughout the post-war history of US textile trade policy, the executive branch, especially, has sought to limit the levels of protection in textiles in the interests of global trade and even western security, as tenuous as the latter linkage might seem.[47] Often, liberalization policies triumphed. That the "weak" American state could assert itself over the powerful textile sector's demands is problematic. Traditional statist and pluralist paradigms have difficulty explaining evolving trade policies

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[45] See Paul A. Pross, Group Politics and Public Policy (Toronto: Oxford University Press, 1986) pp. 227-234 for discussion of pluralism.

[46] Aggarwal, "The Unravelling of the Multi-Fibre Arrangement, 1981", 1983, p. 625 takes both the statist and the pluralist approach.

[47] See discussion of how the US saw the textile trade issue nested in the overall trade system and security issues, p. 32 in section 2.1 and elsewhere in Chapter II.

in the US and elsewhere.

Peter Katzenstein has created a paradigm which sheds some additional light by combining statist and pluralist analyses. Under his formulation, the entire domestic political structure determines various policies. Coalitions form to determine policy on different issues. The dominant coalitions which form for each issue-area may be quite different in their memberships. But generally, the coalitions which form include sectors of government, industry and labour which are directly involved in the issue at hand,[48] as well as the most powerful or peak segments of labour, industry and especially government.[49] The participation of the peak segments of government, industry and, to some extent, labour in all major issue-areas makes it is possible to speak of a "ruling coalition".[50]

The ruling coalition uses a "policy network" to affect society. The nature of the network effects what kinds of coalitions will form in specific issue-areas and what policies

[48] What Pross would call policy communities. See Paul A. Pross, Group Politics and Public Policy, 1986, pp. 97-107

[49] Examples of sector specific actors versus peak actors in the Canadian context might be the former National Energy Board versus the Department of Finance (government) or the Oil Producers Association of Canada versus the Canadian Chamber of Commerce. Peak labour organizations, and labour generally, would have a greater role in such coalitions in the more collaborative and corporatist environment of Europe than in Britain and North America.

[50] Peter Katzenstein, "Conclusion: Domestic Structures and Strategies of Foreign Economic Policy," in Katzenstein, Between Power and Plenty, 1977, pp. 297-308.

will be followed. The policy network is affected by three factors. The first are the patterns of public and private organizations linking the state and society. This is determined by the nature of these links, whether they can be used by groups to influence or control the state and whether they are broadly accessible. The more accessible, the more susceptible the state is to pressures from groups at different levels: legislature, bureaucracy, cabinet. A further determinant is whether the state can use them to control certain groups.

Stephen Krasner also argues that the nature of channels to and from government decision-makers is important in determining policy.[51] Advice to the President of the United States through the International Trade Commission might allow an interest group much dexterity in influencing public policy but not much political leverage to ensure implementation. Lobbying Congress for a trade bill might allow them the leverage to get what they want, but the resulting legislative measures might be clumsy rather than to the point. The US government might face a similar Scylla and Charibdes in trying to influence different societal groups: non-committal consultation or legislation/regulation. Under a more collaborative, corporatist model - such as those found in Europe - societal groups and the state would have a broader

[51] Krasner, "United States Commercial Policy," in Katzenstein, 1977, p. 65.

range of methods and links by which to affect each other, allowing greater dexterity in policy formation. Under such a model, state-societal linkages are considered to be more centralized.

The second factor are the patterns of private representation. The main determinant is whether the organizations representing groups in society are arranged hierarchically, such that peak organizations comprehensively represent large segments of society, can effectively advocate their interests, and agree to undertakings on their behalf. This is also referred to as concentration. The third factor is based on whether there is a shared ideology linking the state and the different segments of society.[52]

While it might be suspected that interventionist, neomercantilist states, such as those in Europe, would be prime candidates for the use of protectionism, Katzenstien argues that the societal-state structure of liberal states will lead them to be more protectionist. The structure of liberal countries, such as the US, limits the range and sophistication of viable policy options. Under such conditions, protectionism is often one of the few, simple measures such a state can turn to in dealing with stress on their industries from import competition. More "interventionist" state-society structures in other countries,

[52] Katzenstein, "Conclusion," in Katzenstien, 1977, pp. 297-308.

such as those in Europe and Japan, allow more sophisticated measures which often include industrial adjustment along with some, at least nominally short-term, protection.[53]

Based on this reasoning, Katzenstein argues that with many diffuse state-societal linkages in the US,[54] along with weak concentration in the organization of interest groups, and comparative ideological hostility between business, labour and government have led to limited, ad hoc protectionist policies. This certainly fits the history of US textile trade policy over the last forty years, explaining the apparent ability of the executive branch to often maintain a liberal policy, even in textiles, mixed with strong bouts of protectionism, usually spearheaded by the Congress. In contrast, the strong concentration of groups in countries like Germany and Japan, a greater sense of state-societal partnership, and strong centralization of state-societal linkages should lead to short- or medium-term protection and policies of structural adjustment.[55]

Applied to the EC, Katzenstein's model suggests a mixture of results. With input from the member states, sub-state groups and pan-European groups through various organs, including the Commission, the Council of Ministers and the

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[53] Ibid., pp. 306-08.

[54] The executive branch, Congress and the federalist structure of government in the US all provide access points for special interests.

[55] Katzenstein, "Conclusion," in Katzenstien, 1977, p.333

European Parliament, European state(EC)-societal linkages appear multiple and diffuse, allowing EC policy to be influenced by numerous interest groups.[56] On the other hand, the EC has highly concentrated societal organization, with powerful peak sectoral organizations such as Comtextil, the pan-European textile organization. Also prevalent is general ideological agreement regarding the state, business, and labour partnership. This all suggests the possibility of effective, government (Commission) led adjustment policies, pursuant of the overall, long-term benefit of the EC.[57]

Most of the literature seems to look to the state as the defender of liberalized trade and industrial adjustment. There seems to be an assumption that most societal groups will advocate protection. This is certainly true of many of the more traditional, national industries: automobile manufacturers, textiles, and steel. There are, of course, industries which are more internationally oriented and trade dependent: electronics/software, financial institutions,

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[56] However, it could be argued that the more accessible organs, the European Parliament and the Council of Ministers, lack power in the formation of EC policy when compared to the Commission. The more this is true, the more the EC may be seen as having a "government" isolated from parochial interests within its society.

[57] The EC does share many of its members' ability to undertake sophisticated, long-viewed policies. The very history of its development is a testament to this approach. However, the Community, and some of its member governments, have been known to have large policy areas dictated by small, interested segments of the population, as the tenacious French farmer repeatedly reminds us.

petroleum, even agriculture.[58] But, these latter industries' calls for trade liberalization are often muted in comparison to traditional industries' calls for protection.

Another group which is hurt by protectionism in all fields are consumers. But while their collective welfare losses are often great - $20 billion for protection in textiles and apparel in the US for 1986 alone - the impacts of the costs are extremely diffuse. The cost to the average US household imposed by protection in textiles and apparel in 1986 was a relatively moderate $238.[59] This extra cost is not visible to consumers either. Thus, pressure from consumer groups against protectionism in textiles and elsewhere is rarely forthcoming.

With opposition to protectionism in static, domestic oriented industries, such as textiles, being so muted from those whom should be expected to object most strongly, it is often left to the state to pursue the overall economic interests of the society and economy over which it presides and limit protectionism. Katzenstein contends that each country's internal political structure will largely dictate how successful the state will be.

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[58] Cline describes how a protectionist US bill, the Textile and Apparel Trade Enforcement Act of 1985, was opposed by congressmen from agricultural states because they feared possible retaliation from US trading partners could spill into agriculture. Cline, The Future of World Trade in Textiles and Apparel, 1987, p. 209.

[59] Ibid., pp. 188-193.

3.4 The MFA and the Developing Countries

If the apparel and textile industries are still important to the developed countries, than they are vital for many developing and newly industrializing countries (NICs). The textile industry provides between 25% and 50% of industrial value added in the leading NIC exporters and up to 50% of industrial employment. Between 30% and 40% of the Asian NICs' manufactured exports are textile and clothing products.[60] This section will review some data which suggests just how high the cost of protectionism is to the LDCs.

If LDCs are to achieve better incomes and standards of living they must industrialize and begin producing manufactured and other high value-added goods for their domestic markets and export. The labour-intensive, capital and technology non-intensive nature of textiles, and especially clothing production, gives LDCs' economies a chance to entre into higher value-added economic activities: i.e., manufacturing, using their comparative advantage in labour. Earnings from textiles and the export of other higher value-added, labour-intensive goods can then be used for the importation of more capital goods, technology and expertise for further development. The key to this strategy is the

[60] Woolcock, "Clothing and Textiles," in Turner and McMullen, 1982, p. 28.

availability of open, lucrative first world markets. These markets are doubly important, representing not only basic demand for LDC production, but earnings in hard western currencies.

But, as has been shown above, industrialized countries still value the employment and economic activity which textiles and other traditional industries provide within their boarders. DCs often take protectionist measures to preserve their traditional industries and the jobs they entail, trying to hold off changes in the international division of labour.

It is difficult to determine just how large the costs of DCs' protectionism in apparel and textiles is for the LDCs. Many argue that the costs of lost or restricted markets are balanced by the quota rents which accrue to the textile exporting countries under MFA restrictions.[61] But the evidence suggests that even those exporting countries which enjoy the greatest benefit from quota rents (i.e, the Far Eastern NICs: Hong Kong, Taiwan, South Korea, etc.) suffer a net loss under these restraints from what they would enjoy under free trade in textiles and apparel. Even more deplorable is that some of the least developed exporters suffer the greatest losses in terms of proportion of GNP under current restrictions.

Various studies have tried to estimate the costs of first

[61] Keesing and Wolf, Textile Quotas Against Developing Countries, 1980, pp. 125-28. See discussion of quota rent and its general definition on circa footnote 40 above.

world protectionism in textiles to Third World suppliers. There seems little doubt that restrictions within and outside the MFA reduce LDCs' exports from what they would be under free trade. An UNCTAD study in 1986 estimated that if all DCs eliminated all tariffs and quotas on textile and apparel imports, world wide exports by LDCs would increase by 135% in clothing and 78% in textiles.[62]

For some specific countries the estimates are even more startling. Under an assumption of free trade, an econometric model developed by Trela and Whally in 1988 predicted that textile and apparel exports would increase by 212% for Korea, 173% for Hong Kong, 269% for Bangladesh, and 326% for China.[63]

Studies have shown that the major exporting countries do accrue gains from quota rents. One estimate by Hamilton shows that 14% of Hong Kong's earnings from exports to the EC, for instance, were a premium from quota rents, from 1980 to 1984. The study also shows that 28% of Hong Kong's earnings from exports to the US during the same period were economic rents due to quotas.[64] However, it has also been shown that, for

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[62] Cited in Irene Trela and John Whalley, "The MFA: What is Involved," 1989, a paper presented to the workshop on International Textile Trade, the MFA and the Uruguay Round, held at Stockholm, June, 1989, reprinted in <u>Textile Asia</u>, December 1989.

[63] <u>Ibid</u>. The increase is so high for China because it does not have MFN status and a move to free trade would mean not only the elimination of MFA and other quotas, but a massive reduction in the level of tariffs it faces, down to levels enjoyed by members of GATT.

[64] Hamilton, 1988, cited in <u>Ibid</u>.

the LDC exporters to the United States as a group, the value of textile and apparel exports foregone due to restrictions exceeds the transfer of utility to them due to quota rents by a factor of nine. The losses of Third World textile exporters to the EC out-strip any utility gained through quota rents by a factor of seven.[65]

Other studies have shown large net welfare losses for LDC textile exporters due to first world protectionism. Martin and Suphachalasai demonstrated a net welfare loss due to MFA and other restrictions in eleven exporting countries which they studied.[66] Trela and Whally have used models to estimate the net welfare effects of removing bilateral MFA quotas and tariffs in all industrialized importers. They predicted welfare gains not only for Third World exporters, but for the industrialized countries as well. Based on data for 1986, they predicted net gains under free trade of $1.64 billion for China, $1.56 billion for Korea, $0.884 billion for Taiwan, and $0.290 billion for Bangladesh. The potential net gain for all LDCs included in the analysis (34 in all) was estimated at $7.755 billion for 1986 alone. The net welfare increases for developed economies were even larger: $3.478 billion for the US and $3.487 billion for the EC. The global net welfare

[65] Balassa and Michalopoulos, 1985, cited in Ibid.

[66] Will Martin and Suphat Suphachalasai, "The MFA: Who Gains, Who Loses," 1989, a paper presented to the Australian Economic Congress of the Australian National University in 1989, reprinted in Textile Asia, November 1989.

increase under a switch to free trade in textiles was estimated at $15.032 billion.[67]

It is reasonable to expect that these statistics, corrected for inflation, would approximately obtain through most of the 1980s and even into the 1990s. The estimates suggest the negative impact of textile protectionism, especially for the developing and industrializing exporters. While the value of the net welfare increases under free trade for countries like the US seem larger than the benefits to many exporters, this must be considered in light of relative national incomes, as well as a more subjective appreciation of these countries' needs for export earnings. For a country like the US, with a GDP of $4.215 trillion in 1986, a $3.478 billion increase in national welfare hardly seems significant (a 0.08% increase in GDP). For a country such as Korea, however, with a GDP in 1986 of $173.2 billion, its $1.56 billion increase would mean nearly a full percentage point increase in GDP (0.9%).[68] Also, such a large transfusion of wealth and hard currency would be of particularly critical benefit to developing countries such as Bangladesh. Its $290 million net welfare increase would have translated into a 1.8% increase in GDP for 1986, based on Trela's and Whalley's

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[67] Trela and Whalley, "The MFA: What is Involved," in Textile Asia, December 1989.

[68] GDP data from World Bank, World Development Report, 1988 (New York: Oxford University Press, 1988) table.3 pp. 208-209.

estimates.

Thus, protectionism under the MFA has a negative impact on both the industrialized and developing nations in terms of global inefficiency and a further negative effect on the LDCs in that wealth in the form of export earnings is prevented from being transferred to them from the DCs. These economic effects have important implication for the international relations theory analysis of the MFA.

Chapter IV

Theoretical Revisions and Implications: The Multi-Fibre Arrangement as a Complex Phenomenon

Chapter I discussed at some length the various theoretical concepts used by previous authors as an analytical framework for the Multi-Fibre Arrangement, including various concepts under the rubric of regime theory. This chapter argues that regime theory and its related concepts have been both too simplistic and applied too simply to the MFA. While it is apparent and generally accepted that the MFA is the latest incarnation of the textile trade regime, this chapter will seek to determine precisely which elements of the MFA are regime-like and whether any of its functions more closely resemble another theoretical construct. This will yield a clearer understanding of the MFA and the construct(s) which explain it.

4.1 Regime Theory Revisited

The theoretical approach most often used when analyzing the MFA is regime theory.[1] The MFA fits Krasner's general

[1] While many authors refer to the MFA as a regime, it is Aggarwal who really focuses on a regime analysis of the MFA. Aggarwal, Liberal Protectionism, 1985 and "The Unravelling of the Multi-Fibre Arrangement, 1981," 1983. Most of the discussion of regimes as related to the MFA is offered as a critique of and alternative to his theoretical framework.

definition of a regime.[2] It strikes a balance between the principles of protectionism and liberalization, preservation and adjustment, sovereignty and interdependence, just as the GATT does, even if the balance leans more towards the first of each of the aforementioned pairs. It shares a half dozen or so identifiable norms with GATT, albeit, again, with a more protectionist bent. The prevailing rules of the MFA have been adhered to fairly well. Decision-making procedures under the MFA have continued to be collective, especially for the industrialized countries. Procedures and mechanisms under the MFA have made costs associated with the negotiation of measures to manage trade and protectionism, and their administration, lower for both DCs and LDCs by providing better information and organization. The MFA is prima facie a regime, at least in part.

4.1.1 Suggestions from the THS

One of the more widely accepted theories regarding regime development and change is the Theory of Hegemonic Stability.[3] But the THS does not seem to explain the history of the MFA well.[4] The history of the international textile regimes, from the STA forward, seems to broadly correspond to what the THS

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[2] See discussion in sub-section 1.2.1.

[3] See discussion in sub-section 1.2.2.

[4] This paper makes no claims regarding the ability of the THS to explain the development of regimes generally.

would predict: as US hegemony declined through the 1960s, 1970s and 1980s, the textile regime it constructed in pursuit of its interest as a hegemon also declined, allowing more protectionism. But a closer look at the history of the MFA shows that its development has deviated significantly from the general predictions of the THS. For example, the MFA was first established, in its strongest, most liberal form - the strongest, most liberal incarnation of the textile regime - in 1973-74. Yet at this time, it would seem that US hegemony was at its steepest rate of decline, especially economically, with the abrogation of the gold standard in 1971 and the oil crisis in full swing by late 1973.

Throughout this period, internal economic and political developments - which saw first world textile industries lose more and more comparative advantage to the LDCs, and greater pressure from the textile industries in all the industrialized countries for protection from Third World imports - provided a steadily increasing impetus toward a weakened MFA. Thus it would seem that internal economic and political changes in all the advanced industrial countries contributed more directly to the weakening of the MFA over the long term than the relative decline of the hegemon.

It is true that US capabilities in textiles, due to the share of world exports it was taking at the time, were important for the establishment of the MFA in 1973. Before the signing of the MFA, the US concluded several restraint agreements with the largest far-eastern suppliers in 1971. These VER agreements themselves were possible in large part because of the seriousness with which suppliers took US threats to restrict them unilaterally from its massive domestic market. And, because the US took such a large share of world imports, these restraints on suppliers' access to its markets created a diversion towards Europe. This gave the US added leverage in getting EC agreement on the MFA, as the Europeans also sought a way to control tit-for-tat diversions of exports between themselves and the US.

But one of the hallmarks of a hegemon, according to the THS, is the ability of the hegemon to use inducements in a variety of fields where it has dominant capabilities to achieve goals in a specific field. There were times when the US used its influence in other fields to affect issues in the textiles field. The use of the Okinawa issue by the US as a side payment to Japan in 1971 is a perfect example of how hegemons can operate due to their domination of capabilities in so many fields of international relations.[5]

There are limits to the influencing of issues in one field with inducements in another, however. The US, for instance, would never threaten Japan or Europe with exclusion from its nuclear umbrella or US withdrawal from NATO to

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[5] The US also used inducements in the textile and general trade field by threatening a 10% surcharge on all Japanese textile imports and general trade restrictions under its "Trading with the Enemy" legislation. See p. 51, footnote 24.

achieve objectives in textiles or trade generally. This would undermine an overarching goal of US foreign policy, as well as one of the long term objectives the US had in wanting to maintain various economic regimes in the first place: the maintenance of western strength through economic stability.

The US has even been reticent to use threats or inducements in other areas of trade to achieve textile goals. In 1976, the US gave in to EC insistence on the inclusion of their protectionist demands under "reasonable departures" in MFA II. It no longer had the capability in textiles to force the issue with the EC and was not willing or able to use leverage in other fields to achieve its ends.

That the US brought in a territorial issue with the Japanese in 1969-1971 over concluding a VER agreement is only an indication of how desperate the Americans were to get an agreement which would reduce pressure on their textile industries and hopefully lead to a regime which could manage textile trade internationally. Generally, the US did not use capabilities in other areas to influence textiles, as might be expected of a hegemon, but relied on its capabilities in textiles alone and the cooperative will of textile exporting, and especially other importing, countries.

By 1977, the EC was taking the lion's share of world textile imports, which gave it the capability to insist on the protectionist changes it wanted for the MFA. This does not mean that the EC had assumed hegemony in the western economic system. It simply gained enough capability in a specific field to institute the changes it wanted in the corresponding regime.

Thus, the rise and decline of a hegemon gives little insight into the development of the textile regime, since the hegemon is usually reluctant to use its power in other fields to affect textiles and the state with the most power in the specific field tends to dominate, even if it is not the hegemon. In the case of the MFA, it would appear that US interest in protecting its textile and apparel industries and managing world trade combined with its capabilities as the largest importer to bring about the first incarnation of the textile regime under the STA/LTA, and later the MFA. Overall US power seemed to come into play only once, with Japan, and then in combination with inducements in the textile and overall trade fields. When capabilities in textiles shifted to the EC, the US was unable or unwilling to bring power to bear from other fields as would be expected of a hegemon in accordance with the THS. Over the broad concerns which a hegemon such as the US would face, textiles is likely less important than most issues. It is a lower echelon field, which is usually used to support goals in more important trade and international relations fields.[6] A hegemon, indeed any

[6] Examples would be US led liberalization of textiles to benefit key Far Eastern allies and client states, such as Taiwan and South Korea. Here textile policy supports broad US strategic goals. Limiting protectionism in textiles which could spread to the general trade system was another example

state, is not likely to use or take risks in higher order fields to effect policies on less important issues. Thus, it would seem that the question of which state-actor has the greatest share of power in the specific field is more important in explaining the development of the textile regime than whether the hegemon is in general decline.[7]

4.1.2 The Essence of a Regime

The MFA is the result of internal economic and political strains and pressures in all the major textile trading nations, particularly the importers, as well as all of their concerns regarding export diversion and rising protectionism internationally. While US power helped establish the MFA, it is more than just an instrument of US interests. Regimes do exist; and, the MFA embodies at least one example of them. Based on a critical understanding of regimes and the history of the MFA's development, this paper concludes that the MFA is, at least partly, a regime. The MFA embodies the essence of at least one other type of international structure as well, but this will be discussed later.

The issue of just what a regime is, and what makes it unique to other international structures remains. The main problem with Krasner's definition of a regime is that other

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of the US using textiles to support higher level and higher priority goals.

[7] The interests of the most powerful states is the other key factor in determining the nature of the regime.

international structures, such as alliances, have many of the same elements: principles, norms, rules and procedures. The most obvious example is NATO. Certainly the expectations of the alliance members "converge in a given area of international relations."

Regimes are unique structures, created by states to deal with a unique problem. There are various situations in international relations where the un-coordinated actions of a group of states will yield sub-optimal results for them as a group. A sub-optimal result for a group of actors - be they states, firms, or individuals - is defined as a situation which yields an amount of welfare or utility to the group which is less than Pareto optimal. Such situations are caused by inefficiencies due to a lack of coordination in the actors' actions.[8]

The Multi-Fibre Arrangement operates in part as a regime, seeking to facilitate cooperation and limit protectionism which causes inefficiency. While the US, the Europeans and other first world states have an interest in protecting against low-cost exports from LDCs, they also have a common interest in limiting the amounts of protection they implement. High levels of protectionism against the Third World could cause some of these countries to retaliate on trade issues and in trade sectors of interest to the first world. Such

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[8] See sub-section 1.2.1 for further theoretical discussion of regimes and pp. 9-10 for further discussion of Pareto optimality.

retaliation by the LDCs against the industrial countries may not have a critical impact on the latter, but the industrial countries have shown concern for ensuring Third World cooperation on various trade issues. Retaliation from Third World exporters can lead to the spread of protectionism from the textiles sector and the rise of trade irritants in other sectors. The preamble of the MFA reflects this concern. It recognized the

> tenancy for an unsatisfactory situation to exist in world trade in textile products and that this situation, if not satisfactorily dealt with, could work to the detriment of countries participating in trade in textile products, whether as importers or exporters, or both, adversely affecting prospects for international co-operation in the trade field, <u>and have unfortunate repercussions on trade relations generally</u>[.] [emphasis added][9]

Thus, at the beginning of the Uruguay Round the US and other DCs moved to incorporate the integration of textiles back into the GATT as part of the negotiating agenda: a <u>quid pro quo</u> for Third World cooperation in the Round generally, and on TRIPS, TRIMS, trade in services, and other first world concerns.[10] More than limiting the amount of protection, however, the DCs wanted to coordinate their attempts at limiting textile imports from the LDCs in order to avoid diverting exports toward each other with successive rounds of

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[9] <u>MFA Text</u>, p. 5

[10] See section 2.4, "New Developments: Beyond the MFA".

protection. Certainly the main reason the US sought to establish the MFA in early 1970s was to force the Europeans to limit their protection on textiles and take their fair share of Third World exports. When the Europeans initially refused to cooperate in the formation of a multi-fibre textiles regime, the US instituted tough bilateral restraints with the largest far-eastern suppliers as much to put pressure on the EC by creating a diversion of textile exports to Europe as to protect its own industries. When the EC finally agreed to the MFA in 1973, it was in the interests of controlling US protectionism and introducing some element of coordination between US and EC textile trade barriers.

The utility achieved under the MFA's functioning as a regime represents a benefit to all countries in the textiles and clothing field, exporters and importers, since it allows a somewhat greater interplay of comparative advantage and market forces than would occur with no restraints on first world protectionism.[11] But, the two main goals of the MFA as a regime are 1) the avoidance of the costs of unchecked protectionism spreading into other parts of the trade system - as opposed to protectionism in textiles itself - and 2) the avoidance of the costs of uncoordinated protectionist policies among the industrialized importers, resulting in successive diversions of textile exports. Given the record of the

[11] See discussion of the comparative advantage and H-O theory in section 1.1.

importing states during the pre-regime period for non-cotton fibres (before the MFA), and even that for cotton fibres (before the STA/LTA), neither of these goals and the utility they represent could be attained without the regime elements of the MFA. These two goals, pursued by the MFA, really function as the first two of its three guiding principles: a refinement from the simple deviations on GATT's main principles suggested above on the basis of previous literature.[12]

4.1.3 The MFA as a Non-Regime

The MFA also acts as something other than a regime. Closely related to its regime principle of coordinating first world protectionism in order to avoid recurring import diversions, the MFA has a third goal or principle. While the MFA limits first world protectionism, it, in fact, facilitates that protectionism. The MFA may restrain the DCs' barriers against low-cost textile imports, but it does this mainly to the extent that it is in the DCs' collective interests to do so.

This facilitation of first world protectionism implies a utility distribution effect between the LDCs and the DCs. Restrictions under the MFA prevent a transfer of wealth from the DCs to the LDCs which would manifest itself as increased

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[12] See comparison of MFA and GATT re: principles in sub-section 3.1.1.

employment and industrial development in Third World exporters and a reduction of employment and production in the textiles and clothing industries in industrialized countries under freer trade.

The economic benefit within the DCs is extremely focused. Only the textile and clothing industries and their employees benefit. Protectionism under the MFA constitutes a net welfare loss for the entire global economy, including the industrialized nations,[13] yet, the economic and political importance of the textile and apparel industries has ensured the maintenance of some level of protection.[14]

The question remains as to what international structure the MFA embodies in its pursuit of its third main goal or principle: the protection of first world textile and clothing industries against low-cost (Third World) imports. Three structures in particular come to mind: coalitions, alignments, and alliances.

A coalition may occur where two or more actors in a coalition situation have communicated and agreed to coordinate their actions.[15] A coalition situation is defined by four factors. First, there must be a decision to be made and more

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[13] See sub-section 3.3.1, "The Economic Costs of Protection for Developed Countries".

[14] See discussion in sub-section 3.3.2, "The Role of Domestic Political Structure".

[15] Sven Groennings et al., eds., <u>The Study of Coalition Behavior: Theoretical Perspectives and Cases from Four Continents</u>, (New York: Holt, Rinehart and Winston, 1970) p. 7.

than two units attempting to maximize their share of the payoffs, which are assumed to be fixed. Second, no single alternative will give all actors their maximum payoff. Third, no actor has resources sufficient to control the decision by itself. Fourth, no member must be included in every winning coalition; in other words, no actor has a veto.[16]

This structure is analogous to the protectionist dynamic of the first world countries under the MFA. Among the several textile trading nations there are decisions to be made about the management of trade: should it be liberalized or become more protectionist. On this issue, no single alternative will maximize payoffs to all actors and the DCs form what could be called a coalition to affect the distribution of what appears to them to be a fixed amount of payoffs in the field of textile trade.[17]

But, it is probable in the case of textiles that there is

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[16] William A. Gamson, "A Theory of Coalition Formation," American Sociological Review, 26 (1961) p. 374.

[17] For this argument it is assumed that the textile industries are the determiners of the DCs interests. For them, textile trade is a 0-SUM game, with stable levels of employment and economic activity as their stake/payoff. They do not consider the overall net utility gains to industrialized economies implied by free trade in textiles and adjustment out of the sector.

However, as has been shown in sub-section 3.3.2, while the industries have great influence, they are not the sole determiners of textile trade policy in first world countries. Hence, the DCs also pursue policies which reflect their interests in limiting protectionism. These counter the protectionist interests led by the textile industries and yield support for the liberalization/ regime elements of the MFA.

one actor which has sufficient resources to control the decision unilaterally. Such an objection would be based on the record of the US throughout the post-war era, and even the EC after 1976. Both these powerful actors in the textiles would have to be included in an arrangement to set import restraints. Thus, contrary to the fourth condition for a coalition situation, certain countries had to be included in the group of protectionist importers for the MFA to work. The US and the EC had an effective veto power on the development of the MFA.

The pure notion of a coalition also lacks any implication of a definite structure, and certainly has no organization. The MFA has a regime-like structure in terms of definable principles, norms, rules and procedures. In addition it has organization: the GATT Textiles Committee and the TSB. The notion of coalitions is that of groups of actors in a system which form on a totally ad hoc basis to attain certain decisions or goals. Coalitions are short term and memberships may change radically as the issues change. By contrast, the DCs have been organizing their protectionism against LDCs' exports for nearly twenty years under the MFA, after doing the same for cotton alone for 12 years under the STA/LTA.

The second theoretical structure which may fit the protectionist aspect of the MFA is the concept of an alignment. An alignment is a "behavioral disposition of some states to employ a predisposed posture of a collaborative and cooperative nature with other states."[18] It manifests itself as a long term tendency of a group of states to agree and cooperate on a wide array of issues. Alignments are often ideologically or even culturally based.

The notion of an alignment is too broad for the analysis of the MFA. Firstly, while the US, the EC and other industrialized importers may share many ideological and cultural similarities and may cooperate on a broad range of issues, this is characteristic of the overall western trade regime and the overall western political-economic meta-regime, not just the MFA particularly. Also, the notion of an alignment lacks the identification of specific goals and covers too broad a range of issues for the MFA to be thought of as one.

The third concept is that of an alliance. An alliance has the structure and organisation which coalitions lack, and focuses on specific issues, unlike alignments. The concept of an alliance can also accommodate the notion of a specific dominant member (or members) which must take part for the alliance to function. Stephen Walt defines an alliance "as a formal or informal relationship of security cooperation between two or more sovereign states."[19] Alliances are often strongly associated with strategic and military issues, but

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[18] Michael Ward, Research Gaps in Alliance Dynamics (Denver, Colorado: University of Denver, 1982) pp. 7-8.

[19] Stephen Walt, The Origins of Alliances (Ithaca, New York: Cornell University Press, 1987) p. 1, fn 1

need not be. The essence of an alliance is not inherently connected to issues of security.

Robert Osgoode also identifies alliances with security issues. He defines an alliance as

> a formal agreement that pledges states to cooperate in using their military resources against a specific state or states and usually obligates one or more of the signatories to use force, or consider (unilaterally or in consultation with allies) the use of force, in specified circumstances.[20]

The emphasis here is on targets: the specific state or states against which action will be taken. The need for an external target is echoed by Christopher Bladen.[21] This is the main difference between a regime and an alliance. An alliance focuses upon targets outside its membership, while a regime seeks to solve problems stemming from the interactions of member states among themselves.

There are aspects of alliances which are regime-like. An alliance, particularly a long-term, highly institutionalized, modern one like NATO, often has all the elements Krasner defines regimes as having: principles, norms, rules and decision-making procedures. Alliances are often said to be

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[20] Robert E. Osgoode, "The Nature of Alliances," in Robert L. Pfaltzgraff, ed., Politics and the International System, 2nd ed. (Philadelphia: J.B. Lippincott Company, 1972) pp. 481-82.

[21] Christopher Bladen, "Alliance and Integration", in Julian Friedman et al. eds. Alliance in International Politics (Boston: Allyn and Bacon, 1970) p. 121

used by some members, usually the more powerful ones, as means of controlling other alliance members.[22] However, this has not been the main function of alliances historically. The key difference between an alliance, like NATO, and a regime, like GATT, is that while the GATT attempts to facilitate cooperation among its members in pursuit of trade liberalization and the net, global welfare increase associated with it, NATO facilitates cooperation among its members to foster greater security vis a vis certain external targets: the member nations of the Warsaw Pact.

Alliances, which are not regimes, are some times confused with collective security arrangements, which are. While alliances have external targets, collective security arrangements are concerned with aggression from one or more member states within the security regime which might threaten the security of one or more other member states. Under the principle of collective security, all states would pledge to defend any member state(s) which may be threatened by any other member state(s). If such an arrangement functions successfully, great benefit can be gained by all states in terms of greater security and, possibly, less need for individual military effort and expenditure to maintain security. This would be a global utility increase in security and a move toward Pareto optimality for the member states as

[22] Osgoode, "The Nature of Alliances," in Pfaltzgraff, 1972, p. 482.

a system, thus constituting a regime.[23]

As there can be security regimes, there can be trade and other non-security alliances. In economic terms, security is a good. It provides welfare or utility to people and states. Both are willing to pay - that is give up other goods: cars, housing, public works, even food - for security. Cooperation among states under a security regime creates a net global increase of the good known as security because of the efficiencies associated with each state being able to rely on its regime partners for its defence, rather than having to provide for its security on its own (i.e. "supply" its own security).[24]

The effect of an alliance is to transfer the security good away from the target state(s) to the alliance members. By forming an alliance, a group of states can, again, cooperate and increase their security, but, vis a vis another state or group of states. There is no global net increase in security under these conditions. The alliance threatens the

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[23] Ibid. There have been historical examples of this. The best known attempts in this century have been the United Nations and the League of Nations. Both have failed to effectively provide collective security. A somewhat more successful example from the 19th century might be the Concert of Europe.

[24] There is no corresponding decrease in the security of (a) target state(s). Hence there is a global security increase.

Such a regime, while having great benefits as described above, would require much trust among regime members, a good reason why there are few, if any, real examples of collective security regimes.

target states, theoretically reducing their security by the same amount as the security of the alliance members is increased. The target state or states will often react to such a turn of events by joining or forming a counter-balancing alliance, transferring some of the security good back from the original group of allied states.[25]

To the extent that the MFA facilitates the transfer of utility from the Third World, textile exporting countries to the first world, importing countries, or the prevention of utility transfer from the latter to former, it functions as an alliance of first world, industrialized states, with the Third World exporters as its targets. This is the MFA's third main principle: protection for first world textile and clothing industries against low-cost, Third World imports. It is the basis for its functioning as an alliance.

[25] This dynamic is similar to the transfer of security due to relative, unilateral changes in states' military capabilities due to arms build-ups, etc. See discussion in sub-section 1.2.1, "Regime Theory".

Chapter V

Conclusions and Summary: A Review of the Arguments and a Look Ahead

The preceding arguments lead to several conclusions. The following encapsulizes the core analysis of the thesis and enumerates the conclusions which follow. Finally, the contents of the thesis will be outlined, followed by a look ahead in textiles and the GATT system generally.

5.1 MFA as Regime and Alliance: Conclusions

The Multi-Fibre Arrangement is a regime which prevents the spread of protectionism in textile and apparel trade to the rest of the trade system and avoids reciprocal, accelerating diversions of LDC's exports between the industrialized countries, mostly to the benefit of the industrialized countries. To the extent it functions as a regime, it facilitates Pareto optimality for the system and the transfer of some wealth to the LDCs.

The MFA is also an alliance of industrialized countries which seeks to protect their textile and apparel industries from cheap Third World imports. To the extent it functions as an alliance, it moves the world (textile) economy away from Pareto optimality and prevents the transfer of wealth to Third World exporters.

The developed countries' main interests, even while undertaking industrial adjustment, is to protect their domestic markets and industries either by unilateral action (quotas, etc.) or bilateral agreements (VERs, etc.). However, this creates two main problems. First, protectionist measures by any industrialized importing country only leads to the diversion of exports to other DCs, as discussed in Chapter II. This puts pressure on those DCs' industries and eventually leads their governments to raise their own barriers in an effort to divert exports back to other importers. If left unchecked, this could potentially start an escalating, tit-for-tat protectionist dynamic. The history of textile and apparel trade shows that the beginning of such a dynamic has recurred several times, only to be held off by the development of a regime which controlled and coordinated first world protectionism: the MFA and its predecessors. This constitutes the MFA's first main principle: the avoidance of the costs of uncoordinated protectionist policies among the industrialized importers, resulting in successive diversions of exports from the LDCs to each others' shores.

Second, rounds of protectionist retaliation in the textile sector, whether among DCs over the diversion of exports or between DC importers and LDC suppliers, could spill over into other trade sectors of importance to industrialized countries. This relates to the MFA's second major principle: the avoidance of unchecked protectionism spreading into other parts of the trade system. The MFA allows the industrialized nations to significantly protect their industries with less risk of export diversion problems or the spread of protectionism to other sectors by limiting the kinds and levels of protection permissable. The liberal aspects of its norms, principles, rules, and procedures reflect this. It is in the sense of the first two principles that the MFA acts as a regime, but mostly for the industrial countries. It provides Pareto optimality (or avoids Pareto deficiency) for the DCs by helping them avoid the adverse effects of unbridled protectionism. On this count it attains the central requirement for a regime.

The avoidance of system wide protectionism is not simply a redistribution of utility between states, but a creation of global utility due to the avoidance of certain costs associated with unbridled, uncoordinated protectionism. To the extent that the MFA does limit protectionism by the DCs and liberalizes textile and apparel trade, theory predicts a global utility gain available to all textile trading nations, importers and exporters alike. Associated with this effect are principles and norms such as liberalization and development, which are a part of the MFA. But, this is a small effect in comparison with those resulting from the MFA's support for its three main principles.

While the MFA helps the DCs avoid the costs of excessive protectionism, it also reflects their interests in restraining

Third World imports. The principles, norms, rules, and procedures of the MFA reflect this interest as well. They provide the framework under which the DCs can restrain exports from Third World textile suppliers. Thus, the MFA possesses the essence of an alliance in that it prevents the transfer of utility from the industrialized world to Third World suppliers implied by free trade in textiles and apparel. This is a distribution effect, rather than a change in global utility. It constitutes the third main principle of the MFA, the basis for its alliance aspects: protection for first world textile and clothing industries against low-cost, Third World imports.

This third principle, in addition to being the main source of distributional effects to the detriment of the industrializing exporters, is also the source of the Pareto sub-optimal effects which have a negative impact on all textile trading nations. Trela and Whalley estimated this cost of the distributional effect to the LDCs at approximately $7.8 billion for 1986.[26]

The main effect of the MFA's support of its third principle, however, is the net global cost of a misallocation of resources implied by the protection of inefficient first world textile and clothing manufacturers operating low value-added, labour-intensive industries in advanced, high-wage economies, combined with the loss of efficient employment of

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[26] Trela and Whalley, "The MFA: What is Involved," in Textile Asia, December 1989.

more suitable production factors and combinations of production factors in LDCs: the Pareto sub-optimal effect. Trela and Whalley estimated this cost at $15 billion world wide for 1986.[27] This is a cost which is not very visible, but one which the world economy bears mostly because of the expedience of protectionism for first world governments in dealing with the economic concerns of their clothing and textile industries and workers.[28]

From this core analysis flow several conclusions. First, textile protectionism costs. It costs the LDCs disproportionately the most: almost $8 billion in 1986. But it cost the system as a whole, including the industrialized countries, due to misallocation of resources: $15 billion in 1986.

Second, protectionism in textiles is driven by the relatively narrow self-interest of what are still economically and politically important industries in the industrialized countries: the textile and apparel industries. Their demands

[27] Ibid.

[28] There are no studies which have attempted to estimate the benefit of the MFA's two main regime principles: avoiding reciprocal trade diversions between the DCs and the spread of protectionism from textiles to other fields. It would be difficult to do, the variables being numerous and the scenarios involving a breakdown of these aspects of the MFA's functioning being so speculative.

It must be noted that the costs noted above would be larger without the MFA's limitation of at least some protectionism in the field. Again, one would be forced into speculation in order to estimate how much higher the costs would be without any MFA disciplines at all.

for protection and governments' tendencies to provide that protection will not diminish in the foreseeable future. Ethically, it can be difficult to argue that textile industries, in which are some of the most vulnerable and least re-trainable workers in the industrialized world, are not worthy of some protection.

Third, international phenomena can have elements of more than one theoretical concept. Applying more than one concept to some can lead to greater understanding of the phenomenon and the concepts applied. The application of both regime and alliance analysis to the MFA is the case in point here.

Fourth, the distinctive element of an alliance in contrast to a regime is that it has external targets and has a utility redistribution effect. Fifth, the distinctive element of a regime in contrast to an alliance is that it is focused on reducing inefficiencies and problems in the relations between its members in pursuit of an increase in global utility and a move toward Pareto optimality.

5.2 **Summary and A Look Ahead**

In Chapter I, the theoretical literature most relevant to the analysis of the Multi-Fibre Arrangement - regime theory and economic theories of international trade - were examined. In the area of international trade, it was shown that, based on certain assumptions, the theory of comparative advantage predicts that the greatest overall attainment of welfare occurs under free trade. The Heckscher-Ohlin theory of international trade also predicts that a country will export goods which require factors which the country has in abundance and import goods that require resources which it lacks.

This is the basis for the different comparative advantages which different countries have in different goods. Over time, technological and other developments can change relative factor endowments within a country. For example, a less developed country can add some basic manufacturing technology to its natural advantage in labour and begin to produce various labour-intensive goods for export. Later, with increased export earnings and further infusions of capital equipment and technology, such a country may become a competitive exporter in more advanced, higher value-added sectors. These new Third World industries may then compete with corresponding sectors in the industrialized countries, which, after several decades of primacy, may now be in decline. This internal dynamic is known as the product cycle, and it is the basis of the threat to first world industries in many sectors, especially textiles and clothing.

The concept of regimes - perhaps the most common method of analysis and general reference to the MFA - was also introduced in Chapter I. Stephen Krasner's basic definition of regimes was used as a starting point for an investigation into relationships between regimes as concepts and other key concepts such as power, perception, cognition and Pareto optimality (deficiency). Linkages between regime and international trade theory were examined as well. The Theory of Hegemonic Stability was also examined. It was suggested that while hegemons are often helpful and occasionally necessary for the development of regimes with particular natures, regimes can develop on their own and can certainly be maintained even under hegemonic decline, though they may change. They are certainly more than just instruments of hegemons.

A regime theory-based typology, developed by Vinod Aggarwal in his writings on the textile trade regime, was also presented as a specific perspective for analysis of the MFA. Finally, the norms and concepts of the GATT were presented as a basis for contrast with those of the MFA.

Chapter II presented a summarized history and basic analysis of international textile trade and politics in the post-war era. Focus was given to the nearly twenty years of trade relations under four versions of the MFA.

Chapter III looked at the 'legal', economic and political implications of the MFA. Under 'legal' implications, it was shown that the MFA, at least in terms of a legal text, is not the great derogation from the GATT that many claim it to be. It can be analyzed according to the same norms as the GATT; it shares these norms. The GATT, even in terms of the text of the General Agreement and its various associated codes and understandings, represents the management of trade, not free trade. The same is true for the MFA. The difference between the two was shown to be more one of emphasis or degree than kind.

Many argue that one of the key differences between the MFA and the GATT has to do with their respective safeguard provisions and conditions under which they may be invoked. Under GATT, safeguards mainly may be invoked under Article XIX the key tests for which include situations of actual or imminent "injury" to industry in an importing country. The test for the invocation of protection under the MFA is a situation of "market disruption". Analysis of the provisions under both suggests that the tests are not radically dissimilar, particularly regarding the reference to the need for 'damage' to occur or be imminent under market disruption. MFA I did bring textile trade closer to GATT than it has ever been since the advent of a separate textile regime with the STA, imposing firm limitations on protectionism in textiles.

The introduction of the "reasonable departures" clause under MFA II in 1977 did however weaken the regime and, given the protectionist tendencies of the major importers, convert the MFA into a significantly protectionist derogation from the GATT. <u>De facto</u> maintenance of "reasonable departures" in terms of language in the protocols of extension and administration of restraints under succeeding renewals of the

MFA maintained and deepen the derogation from GATT.

The analysis of the effective impact of the arrangement on trade flows showed that, while the MFA nominally required a six percent increase in import volumes for all restrictions under its auspices, bilateral agreements and unilateral restraints often allowed for smaller increases, freezes, or even roll-backs. However, such rates of increase were based on physical measures, not real economic measures. The measures of value sometimes showed lower, but more often, higher rates of import growth than the physical measures, the physically based restraints set by bilateral agreements under the MFA, or the six percent nominal rate suggested by Annex B of the MFA. The argument was made that the economic measures are extremely important in assessing the real impact of the MFA. Consideration of the real economic measures of its impact must be included with nominal changes. Generally, the increases in the real value of imports from the LDCs were greater than nominal 6% growth in physical volume set by the MFA.

The impact and causes of the MFA in the developed countries were also analyzed in Chapter III. It was shown that the apparel and textile industries are still extremely important to the industrialized countries, employing comparatively large portions of their work forces. Thus, industry pressure on government for protection can be intense and often decisive. While these industries often prefer protection from low-cost imports to structural adjustment, such protection yields net costs to first world economies. For these and other reasons, governments often resist industry demands for higher barriers against imports and encourage adjustment within or out of the textiles and clothing sector.

The political structure of a country will often determine what type of policies will be followed in terms of protectionism versus adjustment. The most sophisticated theory has been developed by Peter Katzenstein. For example, Katzenstein argues that weak centralization of state-societal linkages in the US, along with weak concentration in the organization of interest groups, and comparative ideological hostility between business, labour and government have led to limited, ad hoc protectionist policies. In contrast, the strong concentration of groups in Japan, a greater sense of state-societal partnership, and strong centralization of state-societal linkages should lead to short- or medium-term protection and policies of structural adjustment in that country. Both predictions are borne out by recent history.

The impact of the MFA on the Third World, exporting nations is obvious. Literally billions of dollars worth of benefit would accrue to textile exporting LDCs under free trade according to work by Trela and Whalley presented in Chapter III. Benefit forgone in terms of missed opportunities for development imply immeasurable costs. Quota rents and assured market shares for the largest exporters do not fully compensate them for the costs of protection. The large exporters continue to be among the greatest losers under MFA protectionism.[29] Losses for some of the poorest exporters, such as Bangladesh, are disproportionately greater.[30]

Chapter IV represents the theoretical heart of the paper. Based on a reexamination of hegemonic stability and regime theory, and in light of the history of the development of textile regimes generally and the MFA specifically, several conclusions are drawn. It is reiterated that, while a hegemon often aids and occasionally is required for the formation of a regime, regimes can form and certainly be maintained without a hegemon.[31] Also, the Theory of Hegemonic Stability takes too much away from the essence of regimes, viewing them as mere instruments of hegemons. This paper rejects this view of regimes.

Chapter IV then lays the foundations for the main argument of this thesis: that the MFA is both an alliance and a regime. This argument is encapsulated in section 5.1 of this chapter, with the main conclusions to which it leads.

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[29] This especially true for Korea. See Trela and Whalley, "The MFA: What is Involved," in Textile Asia, December 1989.

[30] Ibid. See sub-section 3.4, "The MFA and the Developing Countries".

[31] See discussion in sub-section 1.2.2, "The Theory of Hegemonic Stability", regarding how changes in states' or state decision-makers' cognition or knowledge under a regime can serve to maintain that regime even in the face of international power shifts (i.e. the decline of a hegemon).

The question for textile trade, whether it is re-integrated into GATT or kept under a separate regime, is whether the governing arrangement most emphasises the regime or alliance principles traditionally associated with the MFA. These principles of the MFA will likely serve as a basis for any new transitional or permanent arrangement which replaces it because the interests of the key state-actors are not likely to change. They will still want to maintain some protection for their industries (alliance principle), yet, control reciprocal diversions of Third World exports among themselves and see that protectionism does not spread to other sectors (regime principles).

The DCs' desire to limit diversions of exports between them will likely remain the same. But their willingness to cooperate in textiles, and trade generally, seems to be diminishing. In terms of textiles, the proposed 1987 US Textiles and Apparel Trade Bill was to place Canada, Europe and other first world countries under a global US textiles quota for the first time, breaking with the tradition of first world cooperation in the field and the targeting of LDCs only. In other sectors of trade, especially agriculture, US-EC relations have been at their lowest ebb. If the GATT and the general trading system becomes more protectionist, the need to isolate textiles will diminish. And, reintegration of textiles into GATT may not mean freer trade in that field if the GATT becomes more protectionist or is further weakened.

Impetus for protectionism will likely continue as first world governments' interests in giving their textile industries some protection will likely go undiminished.

Thus, out of the three main principles of the MFA, it is the protectionist alliance principle which will likely continue as the strongest. Of the two regime principles, the avoidance of trade diversions should remain fairly important to the DCs, encouraging cooperation in textile trade policy among them. But the key principle of avoiding increased protectionism which might spread to other trade fields will likely decline in importance as trade relations worsen and many of those fields become more protectionist themselves. Thus, there will likely be more cooperative protectionism among the DCs against the LDCs in textiles. Protectionism in textiles will likely get worse before it gets better.

It is difficult to see the future of international clothing and textile trade. The issue is currently tied up with the breakdown of the Uruguay Round. However, if a solution to the main problem of agricultural subsidies can be reached, it is difficult to imagine the industrialized nations being able to back away from some sort of plan to dismantle the MFA and bring textiles into GATT. The issue has already been part of the Uruguay Round's negotiating mandate since its beginning. Also, good progress on issues dear to the DCs which require cooperation from the LDCs would disappear rapidly without some sort of inclusion of textiles. First world reliance on Third World cooperation for the settling of issues important to the former should give some impetus for liberalization as textiles are brought into the GATT. But, the factors mentioned above prevail. The future level of liberalization or protectionism in textiles, even once brought into GATT, is still difficult to predict.

It also seems that the US and other industrialized countries have come to realize that protectionism in all the "grey areas" and exceptions to the basic GATT rules are no longer staying in their little pens and away from the main body of trade relations, as they once did. Protectionism, subsidy and countervailing trade wars are leaking out of agriculture and textiles and other sectors and causing difficulties in the staple fields of trade in industrial and manufactured goods.

Finally, many are beginning to realize that the current stalemate in the Uruguay Round is merely a symptom of deep seated problems with the organization and procedures of the GATT: its 'constitution'.[32] Ultimately, it is this structural reform which will be necessary for a satisfactory solution to any and all trade issues under the GATT, including textiles and apparel.

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[32] See Jackson, Restructuring the GATT System, 1990.

APPENDIX

ANNEX A*

I. The determination of a situation of "market disruption", as referred to in this Arrangement, shall be based on the existence of serious damage to domestic producers or actual threat thereof. Such damage must demonstrably be caused by the factors set out in paragraph II below and not by factors such as technological changes or changes in consumer preference which are instrumental in switches to like and/or directly competitive products made by the same industry, or similar factors. The existence of damage shall be determined on the basis of an examination of the appropriate factors having a bearing on the evolution of the state of the industry in question such as : turnover, market share, profits, export performance, employment, volume of disruptive and other imports, production, utilization of capacity, productivity and investments. No one or several of these factors can necessarily give decisive guidance.

II. The factors causing market disruption referred to in paragraph I above which generally appear in combination are as follows :

(i) a sharp and substantial increase or imminent increase of imports of particular products from particular sources. Such an imminent increase shall be measurable one and shall not be determined to exist on the basis of allegation, conjecture or mere possibility arising, for example, from the existence of production capacity in the exporting countries;

(ii) these products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the market of the importing country. Such prices shall be compared both with the price for the domestic product at comparable stage of commercial transaction, and with the prices which normally prevail for such products sold in the ordinary course of trade and under open market conditions by other exporting countries in the importing country.

III. In considering questions of "market disruption" account shall be taken of the interests of the exporting country, especially in regard to its stage of development, the importance of the textile sector to the economy, the employment situation, overall balance of trade in textiles, trade balance with the importing country concerned and overall balance of payments.

* From Arrangement Regarding International Trade in Textiles, Geneva: General Agreement on Tariffs and Trade, 1974, p. 20.

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