GENERAL AGREEMENT ON TARIFFS AND TRADE

WORKING PARTY ON TEXTILES AND CLOTHING

Meeting of 17-18 September 1984

Statement by the representative of Pakistan on behalf of developing countries, exporters of textiles and clothing

The developing countries, exporters of textiles and clothing, wish to welcome the resumption, after the summer break, of the deliberations in this Working Party. We take this opportunity to express the hope that these deliberations would now take place in an accelerated manner and in honest pursuance of the GATT Ministerial decision which had called for stand-still and roll-back of protectionist measures.

We are however, constrained to point out that regrettably the trading environment for textiles and clothing has further deteriorated.

As the recently released GATT Secretariat Report on International Trade 1983-84 has pointed out, trade policy has deteriorated to a point at which protection becomes easily available to almost any industry. The result is absence of and uncertainty for investments in expansion of export capacity. The pending anti-dumping and countervailing duty cases add significantly to uncertainty in trade and investment.

This deterioration in the trading environment for textiles and clothing calls into question the credibility of the process in which we are engaged in this Working Party. One has to strain one's credibility to believe that governments who are unable to resist protectionist pressures would seriously engage themselves in a process of trade liberalization. Roll-back would be inconceivable in a situation where even stand-still in protectionist measures has become impossible.

The developing countries, exporters of textiles and clothing, had met at Karachi from 21 July to 25 July 1984 to review the situation in international trade in textiles and clothing including the operation of the MFA and to develop appropriate approaches for implementation of the GATT Ministerial decision for the implementation of which this Working Party had been set up. The conclusions of the Karachi meeting would be an important contribution to the deliberations in this Working Party. We therefore, wish to present these.

The Karachi meeting noted that while taking the 1982 GATT decision on textiles and clothing, the Ministers had also undertaken to resist protectionist pressures in the formulation and implementation of national trade policy, to make determined efforts to avoid measures which would limit or distort international trade and to pursue measures aimed at liberalizing trade in textiles and clothing.
The multilateral textile régime had consistently expanded in product and country coverage and intensified in the restrictive and discriminatory aspects. The balance between the interests of exporting and importing countries which had been struck in the MFA had become completely distorted in favour of the latter group. The multilateral disciplines painstakingly negotiated in the MFA and its current Protocol of Extension had been largely ignored by the importing countries which had applied new concepts in their textile trade policies that completely deviated from the original purpose of the MFA. The new rules of origin introduced by USA and initiations of countervailing duty action against the entire range of textiles and clothing products are clear indications that additional safeguard measures are being applied.

The proliferation and intensification of restrictions as well as the spread of domestic support policies had impeded the functioning of the autonomous adjustment process. The MFA is being used to justify measures which frustrated its own objective of providing a temporary breathing space for the necessary structural adjustment to adapt to the progressive liberalization of trade. During the last few months, particularly on account of measures taken by one major importing country which was expected to play a major rôle in international transmission of recovery and one capable of major efforts at trade liberalization in view of buoyancy of its economy, the textile trading régimes have been put on a protectionist course.

The commitment embodied in the relevant decision of the GATT Ministerial Meeting of 1982 represented an expression of political will to eliminate the régime of restriction and discrimination against the textile and clothing exports of developing countries. The commitment to pursue concrete action in this respect was a major test of credibility for the GATT system in general.

Most importantly the meeting concluded that the correct approach to the fulfilment of the mandate of the GATT Ministerial declaration in the area of textiles and clothing should only be determined by the fundamental principles of the multilateral trading system including:

(a) Non-discrimination, i.e., unconditional Most-Favoured-Nations (MFN) treatment.
(b) Comparative advantage;
(c) prohibition of quantitative restrictions, including voluntary export restrictions; and
(d) differential and more favourable treatment in favour of developing countries.

This would necessarily involve the elimination of concepts alien to GATT such as "market disruption" and selectivity.
The participants recalled the commitment of paragraph 7 (viii) of the GATT Ministerial declaration, under which, during the interim period before the attainment of its objectives, parties to the MFA would strictly adhere to its rules.

Only adherence to these principles by all contracting parties could be viewed as a contribution to the restoration of credibility to the GATT system.

We would also like to take this opportunity to formally state a few comments on the GATT Secretariat Study on Textiles and Clothing. This is being done not with a view to open debate on the Study but to lay down a correct perspective for our deliberations. We have more than once pointed out that the principal focus of the GATT Ministerial decision was the quantitative restrictions under the Multifibre Arrangement. Therefore, examination of tariff and non-tariff measures in developing countries would be outside the scope of the exercise. Since the import régimes of developing countries are fully justified under GATT provisions, their examination is at best redundant and at worst contradictory to the Ministerial declaration concerning the possibility of bringing about the full application of GATT provisions to these sectors. This would also apply to the treatment of reciprocity in the Study.

Having said this, we would proceed to make a series of other comments. The vital rôle that the textiles and clothing industries play in the process of industrialization was not given adequate attention. The following points might have been treated more in depth: (a) the relationship between developing country exports of textiles and clothing and their imports of textile machinery and other capital goods and (b) the importance of export earnings in servicing external debt.

The Study points to the declining shares of developed countries but does not bring out the equally important fact that in absolute terms developed countries still dominate world textile and clothing production, trade, distribution, and investment.

Because demand is a key determinant of production and trade, it should have been treated more in depth. Such a treatment could have benefited from a closer examination of (a) movements in consumer prices and their relation to consumer expenditure; this would have thrown more light on the price raising effect of the restrictions on the level of consumption (b) consumption at a more disaggregated product level; this could reveal significantly greater year-to-year fluctuations than the aggregate data suggest. Such fluctuations in consumption as well as in stocks, go some way in explaining the relatively low rates of quota utilization in certain countries for certain years (c) trends in textile and clothing consumption in developing countries.
The section on textiles and clothing trade would have been more useful if greater efforts were made to indicate trade flows in real terms. Except for one chart that refers to world trade, all data are presented in current US dollars. Movements in US dollars are known to be very poor indicators of trade movements in real terms in a period of high inflation and sharp fluctuation in exchange rates.

Another serious shortcoming of treatment of trade flows lies in not showing the MFA suppliers separately from the group of developing countries, as previous GATT documents had done. One cannot examine the impact of the MFA on trade flows, if the discriminated suppliers are not identified as such. The task is further blurred by including such countries which enjoy special treatment in their major markets. The oversight distorts both growth rates and shares. The developing countries attach the greatest significance to the question of the impact of the restraints, which could not be adequately treated without examining their impact specifically on:

(a) Prices (i.e. export/import prices, producer prices, retail margins, consumer prices), since the impact on consumption, production, employment, trade and investment is effected through price changes;

(b) value-added, employment, investment decision, and export earnings in MFA developing countries.

(c) Pattern of trade flows, analysed in real terms for the textiles and clothing sectors separately, at a disaggregated level.

A key issue in this context would be the relative impact of imports, measured in real terms, on trends in production and employment in developed MFA member countries, as compared to the effect of other factors such as changes in taste and technology and gains in productivity.

The difficulties of quantifying the impact are exaggerated. These arguments are certainly valid, but on some specific points some estimates of orders of magnitude can be made and have been made by credible sources. The quantitative estimates which are attempted refer to the estimated value of quota premia accruing to several developing suppliers and put quite disproportionate and misleading emphasis. No reference is made to the plethora of estimates of consumer welfare loss found in the economic literature. For instance, the World Bank President this summer indicated that the MFA restrictions have raised the cost of clothing to American consumers by 2 to 4 billion Dollars. Losses of export earnings to the developing countries' suppliers as a result of these restrictions in the US alone have been estimated in the order of 200 to 400 million US dollars a year.
The developing countries believe that the possible consequences of continuing the present system under the MFA could be expected to function in the future. Would the spirit and the letter of the Arrangement be respected? This can only be gauged in the light of past experience, which the Study does, to a certain extent. In this context, the issues of the applicability of the concept of "market disruption" and structural adjustment are paramount.

While the Study does discuss the meaningfulness, or lack thereof, of the concept of "market disruption" it does not deal with the practical problems involved in applying the criteria in Annex A. As for structural adjustment, the GATT study acknowledges the importance of the issue. The last paragraph of the overview and summary chapter concludes: "The fundamental issue is structural adjustment, that is, the way in which economies respond to the pressures for changes in the patterns of production and trade that are inherent in the process of economic growth". We feel that this area could be further explored.

The developing countries, exporters of textiles and clothing, had commissioned a study of the Multifibre Arrangement. The Study shall be shortly submitted to the Working Party. We wish to present at this stage its main conclusions.

Initially envisaged as temporary, restrictions on textiles and clothing not only continued but have been extended in product coverage and became increasingly discriminatory against developing countries. Now a major derogation from GATT principles, the MFA has implications for trade policy that go beyond the confines of textiles and clothing.

The key concepts of the Arrangement were examined for their soundness from the point of economic theory and workability. The concept of "market disruption", the justification for safeguard action in the MFA, was found to be wholly inadequate on both counts. The notion of "low-cost suppliers", an integral part of the concept of "market disruption" although not mentioned explicitly in the text of the arrangement, contradicts the theory of comparative advantage and international specialization that underlies GATT principles. "Minimum viable production" is similarly found to lack economic meaningfulness and practicability.

The categorization systems for restraint does not reflect the structure of the textiles and clothing industries in the importing countries. There is strong evidence that when a correspondence is established between product lines and the categories for which selective safeguard action was invoked, the decline in production where it occurs was not caused by imports from developing countries. Thus, in what is the central finding of the Study, an analysis of correlation of
consumption, trade, and domestic production data at the restraint category level offers strong evidence that the safeguard action has been misapplied, that the restraints have been imposed on imports from developing countries members of the MFA when no causal link between these imports and "market disruption" existed.

MFA restrictions are but one among manifold factors --- demographical, technological, of economy-wide and sector-specific policies --- which determine movements in prices: demand, production, employment, investment and trade. Thus the expansion of trade in and of itself does not necessarily suggest that trade barriers have been reduced. In fact, when demand is strong, the volume of trade can expand despite an intensification of restrictions.

The relative importance of these sectors to production, employment, and export earnings in developing countries, is considerably greater than in the developed countries. However, world production, trade, investment, and distribution in these sectors are still clearly dominated by the developed countries.

The MFA was intended to provide a "breathing space" in which the textile and clothing industries in the developed countries were to adjust to shift in international competitiveness. A decline in production and employment would not necessarily mean that this objective had been respected.

The detailed investigations carried out by the OECD, ILO, and GATT (in the Working Group on Structural Adjustment) strongly suggest that (i) positive adjustment measures have been introduced in a handful of developed countries and only to a limited extent; (ii) negative adjustment measures --- those which, apart from trade restrictions, interrupt or discourage the autonomous industrial adjustment process --- tended to spread and intensify.

On balance the structural adjustment policies of most developed countries have tended to impede or check the autonomous process of structural change, thereby reinforcing the effects of import restrictions. Furthermore, the proliferation of negative adjustment policies has created more problems than they solved, by locking important resources of labour and capital in lines of production where they are less efficiently utilized.

Quantitative analyses of the sectoral impact carried out suggest that the MFA restrictions have resulted in hundreds of millions of dollars in forgone earnings on the part of developing countries, with corresponding losses in jobs and production. The economy-wide consequences, particularly in the long-term, derive mainly from preventing the developing countries from fully exploiting their comparative advantage and economies of scale. The consequences are especially severe for the developing countries whose nascent textile and clothing industries represent the first step on the path towards industrialization.
There appears to be ample evidence, from analysing long term trends as well as from contrasting the experiences of Sweden and Switzerland, that developed countries' difficulties derive from other causes than increasing imports from developing countries: among the factors analysed, the most important ones are (i) the slow growth of overall demand as well as the lagging behind of consumer expenditure on clothing in those countries where consumer prices have not declined relative to other consumer goods; (ii) as textiles and clothing production has generally remained less skill and capital-intensive compared with the manufacturing average, the level and behaviour of wages continue to determine the profitability of these sectors, as well as their comparative advantage, to a greater extent than that of other manufacturing sectors. Therefore, if differences in wage costs, due inter alia to rigidities in the labour market, are not allowed to reflect differences in productivity between industries, profits will be squeezed and production and employment will decline, especially if demand is slow or stagnant. This will obviously affect competitiveness vis-à-vis more efficient foreign producers. The essential point is that the rise in imports from developing countries is not the cause of the difficulties faced by the textiles and clothing industries of the developed countries, but rather a symptom of declining profitability in certain lines of production; (iii) in other lines of production, especially in textiles, some developed countries have not only remained competitive, but appear to have expanded their share in domestic and foreign markets. This seems to apply particularly to lines of production in which technology plays an important rôle. Non-woven textiles, the most rapidly expanding branch of the textiles industry in developed countries, is a case in point.

Since this statement fully sets out the view and the position of the developing countries, exporters of textiles and clothing, we would request that it may be circulated as a formal GATT document and its contents be fully reflected in the report of this Working Party.