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*Will all developing countries benefit equally from
textiles and clothing liberalization?*

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Excellencies, Distinguished Participants, Ladies and Gentlemen,

It is with some trepidation that I have consented to speak on the question of whether all developing countries will benefit *equally* from textiles and clothing liberalization. To me, this seems to be an oxymoron. We all know that in trade liberalization, hardly is there a situation where all countries benefit equally because trade is based on comparative advantage. I thought I should recast the question by asking whether developing countries will benefit from textiles and clothing liberalization.

My initial thought on the question brings to mind differing comparative advantages of developing countries across continents, their factor endowments, their strengths and weaknesses in the textiles and clothing sector, their domestic policies and a host of other factors that spell variations in competitiveness. But I found myself asking that the answer is outrightly obvious, whether in the textiles and clothing sector or in any other sector of international trade undergoing liberalization. So it seems the question of equal benefits from textiles and trade liberalization is disingenuous from the vantage view of liberal economic theory of international trade. But we all know where the textiles and clothing sector is coming from in the context of international trade relations and this is where I propose to anchor my thoughts on the question of benefits.

I believe that the international trading community is committed to lift at last the remaining vestiges of quota restrictions as stipulated in the Agreement on Textiles and Clothing (ATC). I thought I should emphasize this. The credibility of the multilateral trading system is at stake and I have no doubt that all will respect the terms of the ATC Agreement in line with commitments under the single undertaking compact of the Uruguay Round. This I believe is our common starting point at this meeting. Anything that deviates us from this would be simply counterproductive.

For too long, the derogation represented by the Multifibre Arrangement and its predecessor arrangements from the basic principle of the multilateral trading system constituted a reverse form of special and more favourable treatment for developed countries to impose discriminatory restrictions in a sector of crucial interest to developing countries. It provided them and their textiles industry more than 30 years of protection in a major sector of developing countries' manufactured exports. It is only right that this longstanding deviation from the basic rules be finally laid to rest with the lifting of quota restrictions in

2005 under the ATC Agreement. This action would symbolize in one stroke, a credible response to the developments needs and aspirations of developing countries.

For all this time, their participation in international trade in textiles and clothing had been blunted by an anomalous instrument alongside the General Agreement on Tariffs and Trade that championed the cause of an open trading system. The textiles and clothing sector was one sector that offered good prospects for diversification away from traditional commodity exports, for entry into the area of manufactures, for absorption of large pools of manpower, for crossing the big divide between the rural and urban sectors, for generating foreign exchange, etc.

If we take into account the socio-economic aspects of this sector employing women to carry out completion and finishing operations, the role of small and medium-scale enterprises, the role of the informal sector, the link to poverty alleviation and reduction especially in the rural areas is undeniable. In short, the question of benefits in trade cannot be divorced from the larger issue that there is an encompassing development dimension to the integration of textiles and clothing into the normal rules of the trading system.

With the conclusion of the Uruguay Round, large welfare gains were predicted to emanate from the textiles and clothing sector in initial estimates of the benefits of liberalization. Several modeling scenarios estimated gains ranging from as low as 12 percent to as high as 64 percent of total welfare gains. I recall that for developed countries, large welfare gains were estimated, such as US\$14.4 billion for the United States. For the EU, had full liberalization taken place in 1997, their economies would have gained over ECU 25 billion per year.

It bears recalling also that the Agreement on Textiles and Clothing forms part of the entire package agreed in the Uruguay Round. Developing countries have paid for the ATC Agreement in exchange for acceptance of other agreements in the package. This is why developing countries accepted the package in anticipation of the gains in this sector. There was a compact and that compact deserves to be respected. Anything contrary to this is fraught with unimaginable implications for the trading system.

Against this historical context, it is not surprising that the future of the textiles and clothing sector after 2005 attracts mixed reactions and intentions from different quarters and stakeholders. After all, the textiles and clothing sector had been a longstanding example of managed trade, spawning vested interests in both exporting and importing countries. It had never been subjected to normal trade rules when more developing countries began to participate in international trade. It is time to permit normal trade rules to govern trade relations in this sector of dynamic potential for developing countries.

Addressing the issue of benefits, I say yes. Developing countries would benefit from textiles and clothing liberalization by way of opportunities being available to them on an equal basis in a quota-free world, underpinned by the principles and disciplines of the multilateral trading system. Recent IMF and the World Bank staff study have pointed out income, trade and employment losses for developing countries arising from combined quotas and tariffs on industrial country imports. I see these simulations as showing possible income gains of about US\$24 billion per year for developing countries, export revenue gains of US\$40 billion and generation of about 27 million jobs in developing countries.

But translating opportunities into actual trade performance is altogether a different matter, a matter for the traders and economic operators to act on, a matter that would

appropriate require domestic policies and measures; production, technological and marketing strategies to maintain or improve the competitive edge of developing countries.

Moreover, if the notion of equal benefits were developed as a standard for engaging in multilateral trade liberalization, then that would unravel the liberal trade philosophy of the trading system and reinforce mercantilist pressures. However, I do recall several sectoral agreements in the Uruguay Round, including that on information technology products, where a few major players stood to benefit most from them. Was the notion of equal benefits ever posed in this regard? No. And it is the same spirit that should inform liberalization in this sector as well.

What I am saying in the context of textiles and clothing trade is that the post-ATC regime offers opportunities of export markets being free of quota restrictions. The name of the game is therefore competitiveness and so, it is incumbent on various national stakeholders to prepare themselves to exploit the vast opportunities offered by the lifting of quota restrictions beginning 2005. Many developing countries have competitive edge in yarns and textiles; others among them in made-ups; and others in apparel and so forth. So there is something in the lifting of restrictions for every participant. But fast changing phenomena are taking place in the textiles and clothing business, new ways of doing business, new technologies, new and better fabrics. Specialization in niche products and in diverse export markets is probably the wave of the future.

I said earlier that the lifting of quotas constituted in one stroke a credible response to development because numerous analyses of the ATC Agreement point to backloading of liberalization. Liberalization delayed is liberalization denied. Numerous national studies of the ATC Agreement and its impact on the textiles and clothing sector of developing countries are replete with frustrated commentaries of unfulfilled expectations.

The intervening period leading to 2005 was an excellent opportunity for adjustments by importing countries. But that is water under the bridge, a missed opportunity. Had liberalization taken place truly at the early stages of the transition period, lifting the bulk of quotas on the so-called sensitive products such as apparel at the final stage would be a matter of course, a matter that could not be subject of suspected reluctance to lift quotas at the hour of reckoning. If ever, importing countries have themselves to blame for accumulating problems when the time comes.

Additionally, the intervening period has seen the proliferation of contingent protective measures against textiles products, a disquieting development that if not reversed could undermine the efficacy of lifting quotas under the terms of the ATC Agreement. These trends, we hope, do not presage the proliferation of contingent protective measures in the textiles and clothing sector in the post-ATC era. If so, this would tend to nullify the benefits of removal of quotas.

In this context, developing countries have a strong case in pressing for special and differential treatment in respect of improving rules and disciplines on contingent protective measures. Developed countries should be extremely circumspect in using such measures on imports from developing countries. And in the context of the Doha negotiations, developed countries' tariffs in this sector should be addressed appropriately so as to permit increased trade for the developing countries in the spirit of trade liberalization.

The intervening period leading to 2005 also saw the emergence of regional trade arrangements and unilateral preferential schemes on international trade in this sector. These

preferential regional arrangements or programs provide for no quota restraints and/or duty-free treatment on imports of textiles and clothing from subsets of developing countries, which I shall refer to in short as the preferred suppliers. What is the challenge for them in the post-ATC era?

For the United States, there is the Caribbean Basin Initiative, the Andean Trade Preferences Act and the African Growth and Opportunity Act, not to mention the NAFTA. And of course for the European Union, there is, among others, the Euro-Mediterranean Association Agreements, preferential arrangements such as the ACP-EU Trade Agreement and Everything But Arms Initiative. There is also the further enlargement of the EU to cover many Central European countries. Let me quickly cite a few numbers that suggest increases in exports of the preferred suppliers.

- Textiles and clothing exports of preferred suppliers between 1995 and 2001 to the United States grew significantly between 1995 and 2001 (CBI by 69 percent, ATPA by 40 percent and the AGOA countries by 131 per cent).
- Market shares were significant for the CBI countries (about 12 percent). Market shares for the ATPA and the AGOA were however less than 1 percent.
- And exports of Mexico grew by 132% during the same period, its market share in the US increasing from 5 percent to 13 percent.
- Textiles and clothing exports from the EBA countries and countries acceding to the EU also grew significantly during the same period (83 percent and 20 percent respectively).
- In 2001, the EBA countries' market share in the EU was about 5 percent, while that of the EU acceding countries was about 27 percent.

Further examination of the figures like value and volumes would be necessary to obtain a complete picture of the efficacy of the agreements and schemes. But what would the numbers tell us?

Reports indicate substantial intra-trade of textiles and clothing taking place between the US and the EU on the one hand with their respective preferred country suppliers, an indication of close production chains. This has been attributed largely to preferential rules of origin designed to encourage the use of US or EU inputs. In other words, the beneficial incidence of these arrangements is on textiles producers of the importing countries, a development that has permitted them to regain competitive edge in the textiles sector, which is generally capital and technology intensive. In the light of the lifting of quotas under the ATC, it seems unlikely that the close investment and trade loops under these agreements or schemes would be disturbed unduly, let alone displaced.

In any case, analyses of some of these agreements or schemes highlight certain weaknesses, such as certain non-trade conditionalities, eligibility criteria and stringent rules of origin that detract from their efficacy. It seems that preferred suppliers face conditions circumscribing utilization of benefits. In contrast, trade in the post-ATC world would be more predictable and stable for economic operators.

So the question arises regarding treatment of non-preferred developing country suppliers. Often referred to is the notion of “discriminatory trade liberalization” or

“discriminatory free trade” aimed at demonstrated inclinations for preferential trade arrangements and programmes, allowing duty-free and quota-free imports from subsets of countries while maintaining barriers to imports from other sources. It might or might not be relevant to note again that the intervening period leading up to 2005 saw the parallel institution of preferential treatment of a subset of developing countries.

Simulations of the effects of dismantling of quotas and of tariff liberalization suggest increases in world market shares of developing countries as a whole. Shares of certain developing countries from Asia increase a few percentage points, while that of other developing countries or regions free from quota restraints decline. Differential effects of quota dismantling do essentially reflect variations in production and trade structures of developing countries within and across regions.

It is evident that non-preferred suppliers stand to be placed on parity with preferred suppliers in so far as the lifting of quota restrictions are concerned. Price competitiveness would make a lot of difference in the post-ATC world, although non-price competitive factors, such as quality, quick responses to changing consumer tastes, fashions, development of new fabrics etc. should not be discounted. Developing countries with developed or integrated production structures encompassing fabrics and apparel are probably poised to capture the market opportunities of a quota-free trade regime in textiles and clothing. That said, preferred suppliers would continue however to enjoy the cushion of duty-free treatment in certain arrangements.

Observers have noted the impact of regional trade agreements diminishing the shares of major non-preferred suppliers. Lifting of quotas would restore parity of treatment of non-preferred suppliers but preferred suppliers would continue to enjoy duty-free treatment, an advantage not available to non-members of those regional trade agreements. Conversely said, non-preferred suppliers would continue to be discriminated against by way of tariff treatment.

It occurred to me that lifting of quotas under the ATC agreement provides an opportunity for export market diversification.

I have emphasized market opportunities because this is only an aspect of the notion of benefits. Translating opportunities into say market shares requires supportive domestic policies ranging from wage policies, overcoming infrastructure bottlenecks, export promotion activities, improving productivity, retraining, improving value chain linkages, etc. I emphasize a broad-front approach by national policy makers to reap the opportunities offered by the dismantling of quotas in this sector.

Comments have been made about the investment displacement effect of lifting of quotas away from poor developing countries. I am uncertain whether lifting of quotas is a sufficient factor for this to take place. Perhaps there are other more important factors affecting investment and production decisions. I look forward to discussions in this regard in another session by those in the business of making production and locational decisions.

Having briefly shared with you my thoughts on the question, let me echo the conventional wisdom that the post-ATC regime would not permit discriminatory quota restrictions as a matter of rule. This is basic. What then could be done in favour of say the less competitive developing countries whose capabilities to respond to new market opportunities are limited?

My initial thought on this matter points to the need for positive measures to assist less competitive developing countries adjust to the rigors of the post-ATC regime. Action to improve supply side capacities would be an example in this regard.

For many developing countries, exports of textiles and clothing range from 20 to 60 percent of their exports of manufactured products. It goes without saying therefore that the lifting of quotas would finally unleash their potentials for greater growth and development.