



CONDUCT OF TEXTILE TRADE RELATIONS UNDER GATT/WTO

A chronological account of discrimination and protectionism against developing country exports

1948 General Agreement on Tariffs and Trade (GATT) enters into force. Among its basic principles, it prohibits the use of quantitative restrictions on imports or exports (Article XI). It also requires that any trade measures must not discriminate between supplying countries (Articles I and XIII).

1950s Disruptions in production and trade caused by the Second World War begin to ease. By mid-1950s, cotton textile products imports into the US rise rapidly, turning its textile trade surplus into a small deficit. Imports of cotton cloth from Japan cross the pre-war peak of 137 million yards to reach 140 million yards in 1955.

US agricultural policy of price support to cotton, supplemented by a highly restrictive quota on its import, is a contributory factor. The quota on cotton and the double price system, forced US textile industry to pay higher prices domestically than the world price for cotton. Technological changes, including the substitution of man-made fibres for cotton, add to competitive pressure on the industry.

1955 Alarmed, the US industry starts demanding protection against rising imports and employs various tactics. It opposes the Administration's trade bill, which, among other things, would extend tariff-cutting authority to the President. On the other side of the Atlantic, however, due to severe balance-of-payments difficulties, European countries have been maintaining import restrictions on the entire range of imports, pursuant to Article XII of GATT, which shields their textile industries also.

In the same year, Japan becomes a GATT member with strong backing by the United States, and in spite of vigorous opposition from European countries. Japan has a major interest in export of textiles and clothing which accounts for some 1/3rd of its total exports. Many European countries invoke Article XXXV of GATT, and thus withhold the application of GATT rights and obligations between them and Japan.

Following advice from US Secretary of State to exercise restraint in its exports, Japan announces its intention to restrict its 1956 exports to the US to 150 million square yards of cotton cloth and 2.5 million dozen of cotton blouses. The US textile industry rejects the voluntary export restraint by Japan as inadequate, but the US avoids action that might undermine its international commitments.

1956 US Senate narrowly defeats a textile industry-supported amendment to a pending foreign aid bill that would have mandated cotton textile import quotas based on the average of preceding three years' imports. As a concession to textile industry, however, Senate Finance Committee recommends that the President should give immediate consideration to the impact of imports of textile and textile products on such industry.

Eisenhower administration holds discussions with Japan, which accepts a five-year plan for control of its textile exports to the US setting the 1957 quota at 235 million square yards. The programme does not provide for any guaranteed growth; puts sub-quotas on a number of products; provides for consultations to set additional quotas as might be needed; and authorises transfers between groups and categories within certain limits.

The foundations for departure from GATT rules are thus laid.

1957/59 The "voluntary" agreement by Japan results in a sharp fall in its exports to the US. However, in response to strong domestic demand in the US, the gap left by Japan is rapidly filled by other countries. The Administration seeks a voluntary export restraint by Hong Kong in 1959 but does not succeed.

Many European countries negotiate restraining agreements with Japan, Hong Kong, India, Pakistan, etc. Several continental Europeans enter into a marketing arrangement to deal with imports of grey fabrics from Asia: the arrangement prohibits re-export of imported grey fabric to each others' market.

1960/61 Persistent industry pressure in the US finds its reflection in the US Presidential election campaign, when candidates Kennedy and Nixon make pledges to seek solutions to its problems.

Pursuant to his campaign pledge, President Kennedy announces a seven-point programme of assistance to textile industry. It includes a direction to the Department of State to convene an early conference of principal textile exporting and importing countries to seek an international understanding to provide a basis for trade that will avoid undue disruption of established industries.

US accordingly requests the GATT Council to convene a Working Party with a view to arriving at a multilateral solution to situations of market disruption in import markets.

The decision that resulted from the deliberations of the Working Party results in the conclusion of a Short-term Arrangement Regarding International Trade in Cotton Textiles (STA) to cover the period 1 October 1961 to 30 September 1962. It provides that (i) countries already restricting cotton textile imports

would increase the access; (ii) to avoid market disruption in non-restricting countries, the *low cost countries* would agree to control exports; and (iii) an importing country may unilaterally impose restrictions if the exporting country does not. STA also provides for the establishment of a Cotton Textiles Committee charged with the task of negotiating a long-term arrangement.

Nineteen countries accept the STA. The basics of a formalized arrangement to discriminate against imports from *particular sources* (a departure from GATT principle of non-discrimination) is thus established.

1962 The Long-term Arrangement Regarding International Trade in Textiles (LTA) is signed for a period of five years, beginning from 1 October 1962. It provides for quantitative restraint actions against particular products from particular sources on the basis of market disruption or threat thereof. The restraint action could be unilateral or by bilateral agreement.

Under the LTA, extensive use is made of bilaterally agreed restraints, as well as unilateral safeguard actions.

1967/70 LTA is extended twice, in 1967 and 1970.

1971 In the 1960s man-made fibre (MMF) products gain in importance. Between 1962-68, imports of these products in the US increase ten-fold. This is accompanied by a strong showing of wool products. Since both STA and LTA had dealt with only cotton textile products, this development generates pressure for expanding the coverage to include wool and man-made fibre products. In addition, tariff cuts in the Kennedy Round exacerbate industry pressure for mandatory quotas on products of all fibres.

US makes repeated attempts to pressure Japan into agreeing to restrain its exports of MMF and wool products. Japan finally succumbs in late 1971. Soon thereafter, Hong Kong, Korea, Taiwan also agrees. Malaysia had already done so in 1970. Control of these products from major suppliers is thus accomplished.

The European Community also witnesses increased levels of imports including as a result of diversion of trade induced by US restraints.

1973 US launches campaign to secure an agreement covering MMF and wool products as well. It eventually leads to the conclusion of Multi-fibre Arrangement (MFA) to go into effect from 1 January 1974. Modelled on the LTA, it expands the product coverage. Developing countries view it as more promising for protecting their interests because its basic objectives are to be Ato achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products[≡]. The minimum growth rate for quotas is agreed at 6% (against 5% under the LTA). There is

to be supervision of MFA implementation by a Textiles Surveillance Body. As far as the importing countries are concerned, the key provisions are Articles 3 and 4: the latter providing for the possibility of bilateral agreements on mutually acceptable terms to eliminate real risks of market disruption.

There is a gentlemen's agreement among developed countries not to restrict mutual trade.

1974 The US uses the MFA to conclude comprehensive bilateral agreements and, thus, effectively places the imports of virtually all products from **developing countries** under control. Where there are no specific limits, consultation calls could be issued leading to the establishment of restraints.

Nordic countries, Canada, Australia, New Zealand, Austria also negotiate a series of agreements.

EC however is slow to devise its common textile policy. It negotiates agreements limited to only those products in which it saw that market disruption had occurred.

During the first years of the MFA, imports into the Community increase substantially. Its situation is accentuated by the oil crisis of 1973.

1977 Satisfied with its bilaterals, US prefers a simple extension of the MFA. EC however adopts a very restrictive stance. Under pressure from its industry, it attempts to gain support for several amendments. Failing in its efforts, it announces that its decision to accept renewal of MFA was conditional on conclusion of satisfactory bilaterals with all low-cost suppliers. Consequently, before the forthcoming expiry of the MFA, it succeeds in negotiating bilateral agreements with all major suppliers, which contain extremely restrictive provisions and substantially deviate from even the MFA disciplines.

In MFA extension negotiations, developing countries are forced to accept the harsh reality. On EC's insistence, the protocol of MFA extension contains a provision that within the framework of the MFA, any such consultations and negotiations should be conducted in a spirit of equity and flexibility with a view to reaching a mutually acceptable solution... which does include the possibility of jointly agreed *reasonable departures* from particular elements in particular cases. A major dilution of even the MFA.

1980 Unhappy experience of the "reasonable departures" clause spurs developing countries to conceive of ways to co-ordinate and co-operate. A meeting is held in Bogota, Colombia, in November 1980 which affirms their will to act in unity. It emphasises that disciplines of the original MFA must be restored and the provision of reasonable departures abolished. It also stresses that

liberalization in the sector should take place by a gradual return to free trade in conformity with normal GATT rules and practices.

And a Programme of Co-operation among Developing Countries, Exporters of Textiles and Clothing is established.

- 1981** MFA is due for second renewal. At workshops in April 1981 in Jakarta, June 1981 in Hong Kong, and November 1981 in New Delhi, developing countries, exporters of textiles and clothing, co-ordinate their position. In MFA negotiations, joint developing country approach makes it possible to get rid of the Reasonable departures clause and achieve a somewhat better balance of rights and obligations, which strengthens the hope for a gradual return to normal rules of the GATT. The Programme of Co-operation is employed to assist developing countries in preventing dilution of these gains during negotiation of bilateral agreements.
- 1982** Developing countries, exporters of textiles and clothing, approach the 1982 GATT Ministerial on a co-ordinated basis. They emphasise the need for liberalization of trade in the sector and of its return to full application of GATT in the shortest possible time. Their common approach is largely reflected in the Ministerial declaration, which asks for a study on textiles.
- 1984** Following further workshops, developing countries convene and present their own study on AMFA in Theory and Practice, in parallel with the GATT study on Textiles and Clothing in the World Economy. They decide that their approach in the Working Party for the fulfilment of the 1982 Ministerial Declaration will be based on the fundamental principles of non-discrimination, avoidance of quantitative restrictions, and more favourable treatment for developing countries.
- They also decide to formalise the programme of co-operation in the form of an institution, managed exclusively by developing countries, where they can share their experiences and co-ordinate their positions under a collective framework, with the principal objective of achieving elimination of discrimination and protectionism against their exports. Effective co-ordination in textiles is also seen as providing encouragement for developing country efforts to secure an international system more responsive to their needs.
- 1985** ITCB is formally established. Its April 1985 meeting in Mexico reviews the situation under the MFA and notes its highly restrictive use. Members support full application of GATT provisions to the textile sector with a movement towards liberalization. At the Textiles Committee meeting, developing countries point to the circumstances leading to the addition of more restrictive provisions in the MFA in 1977 and 1981. They question the justification for continuation of protection to textile industries and of discriminatory rules against developing countries.

At its meeting in Seoul in September 1985, ITCB Council urges the importing countries to honour their commitment to maintain and strengthen the multilateral trading system and to pursue liberalisation of trade in the sector including the application of GATT rules. They reject the contention that removal of discriminatory system be conditional on reciprocal concessions by developing countries, and reiterate serious concern over the Textiles and Apparel Enforcement Act in the US Congress which is designed to provide for a global textile quota for developing countries with very low growth rates.

In December 1985, the bill is vetoed by President Reagan. But he directs the Administration to most aggressively re-negotiate the MFA on terms no less favourable than present.

1986 MFA is due for renewal in July. Separately, preparations are in hand in the GATT for the launching of what later became the Uruguay Round of comprehensive multilateral trade negotiations.

ITCB Council meeting in Beijing agrees on a common position on main elements for MFA re-negotiation. In the context of the new Round, it emphasises that current MFA restraints be phased out over an agreed time frame.

At MFA talks, the US adopts a very restrictive stance and demands extension of product coverage to include vegetable fibre and silk-blend products.

MFA is renewed a third time for a further five years, with some improvements, most significant being the elimination of provision for cutbacks in quotas. However, the new Protocol expands the product coverage as demanded by US.

In September 1986, Uruguay Round is launched. ITCB countries succeed in putting textiles on the agenda for negotiations.

1987/89 Importing countries continue to stall progress in textile negotiations in the Round. At its mid-term review in Montreal, textiles remains un-resolved, alongside three other areas. The issue is settled in Geneva in April 1989 with agreement that modalities of negotiations should cover the phase out of MFA restrictions, and that the process of integration should commence following the conclusion of the Round and should be progressive in character.

1990 US and Canada table proposals to substitute existing quotas by global quotas, from where the process of elimination of restrictions should follow. ITCB opposes, ironing out its own detailed draft framework for integration, and tables it as a formal proposal in the Round. It is endorsed by all developing countries. Further negotiations are largely based on this framework.

- 1991** In December 1991, Director General GATT in his capacity as chairman of Uruguay Round Trade Negotiations Committee (TNC), presents a Draft Final Act containing all agreements negotiated in the Round, including the Agreement on Textiles and Clothing (ATC). Though based on ITCB framework proposal, the economic content of the Agreement is significantly diluted. He announces that any change should require consensus among all participants.
- 1993** Uruguay Round concludes with the adoption of all its results: only minor changes are agreed to the text of the ATC. The Agreement on Textiles is hailed as a major achievement of the Round due to its plan to eliminate quantitative restrictions against developing countries= exports and, thereby, to contribute to increase their export earnings.
- 1995** ATC goes into effect from 1 January 1995. (Between 1991 and 1994, MFA extension protocol negotiated in 1986 is extended as a bridging device, successively, up to 31 December 1994). Its first stage implementation does not include any restrained products. On the other hand, the US takes extensive recourse to transitional safeguard actions. These developments give rise to widespread concerns about implementation of the ATC.
- 1996** US implements major changes in its rules of origin for textile and clothing products, adding to worries about adverse impact on market access, including under the ATC.
- Reflecting ITCB concerns, WTO=s first Ministerial Conference at Singapore becomes seized of the issue of ATC implementation. It confirms the commitment to its full and faithful implementation so as to ensure effective transition to GATT by way of integration which is progressive in character. Two textile disputes go through the panel process. The importing countries' restraint measures are found to be inconsistent with ATC obligations.
- 1997** First three years of ATC implementation are completed. ITCB takes lead in bringing to light the meagre results in liberalisation. Consequently, at its first major review, WTO Council concludes that very few quota restrictions had been eliminated, leaving a large number of restrictions to be eliminated during the remainder of the transition period. It notes (i) the extensive use of anti-dumping measures particularly on products under quota restrictions, (ii) changes in customs and administrative formalities, and (iii) changes in rules of origin, as new barriers.
- 1998** ITCB focus bears fruit. Recourse to new safeguard actions decelerates. TMB supervision improves. Second stage integration process under the ATC goes into effect. Growth on growth provisions of the Agreement, providing for increases in quota growth rates, are implemented. However, restraining countries liberalise few quota restrictions.

A series of EU investigations into alleged dumping of cotton fabrics are withdrawn following protests from exporting countries and EU importers and fabric processors alike. These and other similar investigations however cause major disruption in trade and raise new apprehensions.

Second WTO Ministerial is held in Geneva. Implementation of Uruguay Round agreements, including the ATC, emerges as the single most important concern for developing countries. ITCB Ministers point to enormous costs of quota restrictions and stress that developing countries are prevented from taking full advantage of their comparative advantage.

Geneva Ministerial agrees that at the third session, Ministers shall further pursue evaluation of implementation of individual agreements and the realization of their objectives.

1999 Third WTO Ministerial is set for Seattle in December. In the preparatory process implementation issues remain critical to success of the Conference. ITCB presents a critical evaluation of implementation and tables suggestions for qualitative improvements. Its ideas are widely acknowledged within and outside WTO. EU signals willingness to accept advancing ATC quota growth rates by two years. However Seattle Ministerial ends in failure, without reaching conclusion on any subject.

2000 Following the Seattle debacle, WTO focuses on re-building confidence. Substantive improvements in ATC implementation meets stiff resistance by restraining countries, whose industries attempt to link quota liberalisation with increased market access in developing countries. ITCB Council meeting in Guatemala rejects the condition as unjustified, not the least because quota restrictions were never GATT-consistent and developing countries had already offered significant concession in the Uruguay Round to secure an end to them.

Among other developments, under pressure from the EU, US is forced to revert to pre-1996 origin rules, but only partially. EU anti-dumping measure on bed-linen imports from India is declared invalid by a WTO dispute panel.