The Multifiber Arrangement: Is There a Future Post Uruguay Round?

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THE MULTIFIBER ARRANGEMENT: IS THERE
A FUTURE POST URUGUAY ROUND?*

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I. Introduction
The Multifiber Arrangement (MFA) was adopted as a temporary trade
measure in 1974. Since then it has gone through four refinements, with
the latest extension in July 1986. Today it remains a significant exception
to GATT principles.

The latest extension of the MFA, while preceding the current GATT
Uruguay Round, remains a key element of those negotiations. The Unit-
ed States, which persuaded the GATT community to launch this round,
is seeking, among other things, to extend the GATT umbrella to such
novel areas as services, investment practices, and intellectual property
rights. The ability of the United States to achieve these goals rests on the
response of a majority of less developed countries (LDCs) whose trade
would be most affected. These developing countries recognize their unique
position in the negotiations and have become vocal in their demands
to terminate the MFA and return textile and apparel trade to the basic
framework of the GATT. The GATT Draft Declaration of the Uruguay
Round thus stipulates that the issue of liberalizing textile and apparel trade
be addressed during the current round. It appears that a commitment to
phase out the MFA might be an important factor in improving the pros-
spects for worldwide trade liberalization.1

Yet it is important to keep in mind that successive MFAs represent a
framework under which trade of textile and apparel products is both reg-
ulated and distorted. The distortion assures that the LDCs cannot provide
a fully unified position in the negotiations. Many smaller exporters in Latin
America and Eastern Europe, lacking any competitive edge over Asian
producers, view the MFA as providing them a guaranteed market share
that would be difficult to achieve in a competitive market. In contrast, the
major producers in Asia, having acquired over time the major share of the
controlled market, have an incentive to maximize unit values and quota
rents. The other Asian producers, such as the People's Republic of China,
India, and Pakistan, are affected adversely by the MFA but are incapable
of fostering a common position among the developing countries. Achiev-
ing liberalization of world trade in textiles and apparel in this environment
of conflicting rent seekers is inconceivable at first blush.

This paper begins with a short outline of the roots of the MFA and alter-
native forms of country management of textile trade. A discussion of al-
ternatives to the current MFA must take into account the various indus-

*The author is grateful to Steve Parker for comments, and to the conference discussant,
William A. Reinsch, for his helpful remarks.
trial country regulations of textile trade both under and outside of the MFA.

II. The International Control of Textile and Apparel Trade

Trade in textiles and apparel has been subjected to a series of international arrangements. The first was the Short-Term Arrangement Regarding International Trade in Cotton Textiles (STA), initiated in 1961. This was followed by the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA), in 1962, and by the MFA in 1974, designed to be in effect until 1991.2

The MFA is by far the most threatening of these arrangements because it has been accepted as a normal trade instrument. All arrangements authorize contracting importing countries to limit textile imports through unilateral restraints or permit negotiation of bilateral restraint agreements. In effect, these agreements sanction country-by-country discriminatory trade restraints, contrary to the GATT's unconditional MFN principle. Furthermore, all of these agreements grant semipermanent rather than temporary quotas, also in violation of GATT safeguard mechanisms, for which they always have substituted.

Pre-MFA Period

In 1961 the United States convened a conference of exporters and importers of textiles and apparel in order to devise a mechanism by which LDC exports of textiles and apparel could increase under a set of mutually acceptable controls. The STA was the outcome of this conference. The STA outlined three goals: 1) to increase significantly LDC access to markets that were then restricted; 2) to maintain orderly access to markets that were relatively open; and 3) to secure a measure of restraint on the part of exporting countries in order to avoid disruption. This agreement was to last for a year beginning in October 1961, while a Provisional Cotton Textile Committee was established to work out the text of an LTA. The initial LTA came into force in October 1962 for a period of five years. It was then extended twice through 1973.

The key feature of the LTA and its predecessor was the so-called "market disruption" provision. Under the GATT safeguard clause (Article XIX), emergency protective action such as the imposition of quantitative restrictions or an increase in tariff rates is permitted when imports enter "in such increased quantities as to cause or threaten serious injury to domestic producers." "Market disruption" differs from "serious injury" in being attributable explicitly to the threat to an industry from low-priced imports from particular sources. Furthermore, under the LTA, relief was permanent, whereas under Article XIX it is supposed to be temporary. The need for compensation and nondiscrimination (Article I) also were avoided in the LTA.

Notwithstanding the LTA, LDCs succeeded in expanding exports of man-made apparel. In response, the United States attempted to widen its
scope. In 1971, the United States reached bilateral agreements with its principal suppliers—Japan, Hong Kong, Taiwan, and Korea—to control the flow of wool and man-made textile and apparel products. These restrictions were not justified under the LTA, and the United States subsequently focused on amending it to cover textile and apparel products of all three fibers: cotton, wool, and man-made.

The Multifiber Arrangement

A comprehensive agreement to cover all fibers was reached on December 20, 1973, the Arrangement Regarding International Trade in Textiles, or more commonly the Multifiber Arrangement (MFA). It became the “statement of principle and policy” regarding international textile trade. The heart of the MFA is contained in Articles 3 and 4 which outline permissible restrictions. Article 3 covers situations of actual market disruption and permits the imposition of unilateral import restrictions. Article 4 covers situations involving a “real risk” of market disruption and therefore is the primary instrument sanctioning bilateral agreements.

The initial MFA was considered a temporary measure but was later extended three times. Its basic objective is spelled out clearly in Article 1:

A principal aim in the implementation of this Arrangement shall be to further the economic and social development of developing countries and secure a substantial increase in their export earnings from textile workers and to provide scope for a greater share for them in world trade in these products.

Article 1 further encourages the industrialized countries to shift resources out of noncompetitive segments of their textile and apparel industries. It states:

Actions taken under this Arrangement shall not interrupt or discourage the autonomous industrial adjustment processes of participating countries. Furthermore, action taken . . . should be accompanied by the pursuit of appropriate economic and social policies, in a manner consistent with national laws and systems, 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 and provide increased trade to their markets for textile products from developing countries.

Despite the clarity of this language, the importing countries interpreted the major objective of the MFA as a device to limit the growth of imports. The protection afforded the domestic industry furthermore was interpreted as a commitment to guarantee it a share of the domestic market. Only
a guarantee of this nature would justify the dollar cost of "restructuring" the domestic textile and apparel industries. In fact, the United States, the EC, and the other industrialized countries have pursued policies promoting and encouraging investment in textiles and apparel. Large segments of the textile and apparel industries are now far more capital intensive than was considered possible.

Articles 3 and 4 and Annex B of the MFA prescribe that annual import growth not be lower than 6 percent. Lower growth rates are allowed but must be implemented only under "exceptional circumstances." Under flexibility provisions in Annex B, exporting countries are allowed to transfer unused quotas among categories and between the previous or subsequent year and the current year.

At the expiration of the first MFA (December 1977), the EC's member states, which had not negotiated comprehensive bilateral agreements during this period, were not satisfied and demanded major modifications. To satisfy EC concerns, the extension Protocol renewing the MFA contained an amendment that allowed "jointly agreed reasonable departures" from the 6 percent growth rate in quotas and from the agreement's "flexibility provisions." This allowed growth not only at less than 6 percent, but also at zero or negative rates in those products considered sensitive by importing countries.

Under MFA II, the EC negotiated a series of five-year bilateral agreements that used this clause to establish "global" quotas for a number of products it considered to be "sensitive." The United States never formally invoked the reasonable departures clause. But it did respond to industry pressure that threatened to hinder Tokyo Round negotiations by reducing some of the flexibility in existing agreements and by targeting major exporters. In fact, the United States forced Hong Kong, Taiwan, and Korea to reopen their bilateral agreements and to amend them to reduce the flexibility provisions.3

MFA III eliminated the reasonable departures clause of the earlier Protocol. Yet it also impeded flexibility provisions of Annex B and reaffirmed the right of industrial countries to negotiate bilateral agreements with lower than 6 percent annual import growth rates.

Although the United States had been successful in negotiating an MFA that would permit highly restrictive agreements, its textile and apparel industry continued to demand highly protectionist unilateral action on the fringes of the MFA. In large part because of U.S. pressure, the latest agreement (MFA IV) expands the product coverage of the MFA to include silk, linen, ramie, and jute, and further expands the right of importing countries to restrict imports. With the inclusion of silk and vegetable fibers, the developed countries have eliminated temporarily the possibility of having trade delivered into non-MFA fibers. MFA IV also allows importing countries to extend a 12-month quota imposed under Article 3 for an additional 12-month period. In contrast to the original MFA, the importing country no longer has to reach an agreement with the exporting country.
before extending the original quota. One of the most difficult elements facing both developed and developing country trade negotiators is the fact that textile and apparel producers in both constituencies have become accustomed to a very elaborate system of controls with the associated windfall profits.

To appreciate the rigidly vested interests generated by this system of cartelization, especially in industrialized countries, it may be helpful to describe specific textile control programs there.

III. Country-Specific Import Control Programs

The MFA as set out in the original agreement is straightforward in principle. Its restrictiveness in practice arises from implementation by individual countries.

The United States has negotiated very comprehensive bilateral agreements under the authority of Article 4. These agreements restrain textile and apparel imports under a variety of quota instruments, classified by degree of restrictiveness. They include: specific limits; designated consultation levels; minimum consultation levels; agreed limits; restraint limits; export type restraints applicable only to Hong Kong, Taiwan, and South Korea; consultation provisions; and other miscellaneous limits. Over time, the U.S. bilateral agreements have involved more specific limits and fewer consultation provisions.4

In order to supervise existing agreements and to propose additional restraints, the Committee for the Implementation of Textile Agreements (CITA) was established on March 3, 1972. Members come from the Commerce, State, Labor, and Treasury Departments and include the Chief Textile Negotiator of the Office of the U.S. Trade Representative. Functionally, the Commerce Department’s Office of Textiles and Apparel (OTEXA) takes the lead responsibility and its Deputy Assistant Secretary of Textiles and Apparel chairs the committee. OTEXA provides all staff work for the Committee, monitors all agreements and provides the statistical data upon which CITA actions are taken. It clearly has a major incentive and ability to preserve the interest of its constituency—the domestic U.S. textile and apparel producers.

When the Commerce Department believes that imports of a particular commodity are disrupting or threaten to disrupt the domestic market, it recommends that CITA issue a call for consultations to determine market disruption, defined as serious damage to domestic producers, or an actual threat of such damage. Despite numerous data problems in determining market disruption, guidelines existing between 1972 and 1983 provided a rigorous proof of injury. In this environment, calls usually were not made without serious investigations.

On December 16, 1983, the Reagan administration, in an attempt to appease industry demands, announced a new trigger mechanism for imposing restraints on nonquota products. Under this new mechanism, the government presumed that market disruption had occurred when the
following two-step test was met: 1) when global imports of a specific category of goods grew by 30 percent, or when the ratio of imports to domestic production was greater than 1.5 (20 percent); and 2) when imports from a specific supplier country equaled 1 percent of total U.S. production in that category. These new guidelines authorized the U.S. government to call for consultations mechanically, in the absence of a discretionary finding of market disruption or the real risk thereof.  

Under this trigger mechanism, there has been a large increase in the use of calls as a mechanism for bringing nonrestricted imports under quota control. In 1983, CITA made 112 calls, resulting in 107 new quotas. In 1984, CITA made 109 calls, resulting in 97 new quotas. In 1985, CITA made 129 calls, resulting in 100 new quotas. In 1986, CITA made 116 calls, resulting in 52 new quotas by January 1987. In the first quarter of 1987, over 22 calls were made, all resulting in new restraint limits. This trend is in marked contrast to the frequency of earlier calls.

The EC has used the same format for all bilateral agreements negotiated under Article 4 since 1977. These bilateral agreements are comprehensive, applying to the whole range of MFA products, which are divided into 114 categories and grouped according to their perceived sensitivity. The original five groups were reduced to three in 1983 and each was subdivided into textiles and apparel items. While the product coverage is comprehensive, restraints vary by category and by exporting country, depending on the supplier’s importance.

The quotas at the EC level are further subdivided by member state. There is a provision for transfer of unutilized quotas from one member state to another on request. In addition, unrestrained categories at the EC level may be restricted by one or more member states, if imports for those particular member states are causing problems.

Categories are further subject to what is known as the “basket exit procedure.” Should exports from a given country reach a specified percentage of the total imports of the EC in the previous year, the EC can call for consultation with a view to arriving at an agreed quota level. In the absence of agreement, a quota may be imposed unilaterally. Under MFA II the EC initiated 200 such calls.

Among the smaller industrialized countries the focus has been much more specific. Austria consistently has followed a highly selective system covering a few products from each Asian source, mostly apparel.

Canada, too, initially instituted selective bilateral agreements. However, following a substantial rise in apparel imports in the mid-1970s, Canada invoked Article XIX of the GATT and introduced global quotas for virtually the entire range of products beginning in 1976. After negotiating more restrictive and comprehensive bilateral agreements, Canada rejoined the MFA in 1978.

Finland also instituted a selective restraint system concentrating on a few apparel items. Further, it has utilized the MFA provision that allows
importers with small markets to grant low growth rates for quotas in order to sustain a "minimum viable level of production."

In MFA II, Sweden switched from selective restraints to a comprehensive system with quotas on some categories and the rest grouped under a common limit. Sweden also has made frequent use of the minimum viable production provision, made repeated cutbacks when possible, and minimized flexibility.

Not all of the developed countries restrict their textile and apparel imports through the MFA. For example, Japan and Switzerland, although members of the MFA, have not imposed any quantitative limitations under it. They have relied on discretionary rules. Others, such as Australia, New Zealand, and Norway, have instituted their own global quota systems and are not MFA members.

Since 1974–5 the Australian government has used a tariff–quota system to protect its textiles and apparel industries. This system involves a two-tier tariff structure where there is a base tariff applicable to imports up to a certain amount and a "specific" duty on quantities above the cutoff limits. Given the height of the specific rates, base quota levels rarely have been exceeded by a significant margin. Both the base tariff and the specific duties apply uniformly to imports from all sources. Cutoff limits are specified in terms of volume but can grow by a quota expansion factor averaging about 2 percent per year and a market growth factor based on domestic market conditions.

Between 1974 and 1977, quotas were allocated among domestic importers solely on the basis of historical import performance. Currently, the Australian government offers a proportion of the total quota for sale by tender. Bidders indicate the ad valorem premium over base tariff rates that they are prepared to pay for a quota allocation. As with the base quota, which still is allocated according to historical performance, the tender quota is valid for one year but the allocation is determined seven months in advance.

The import control program in New Zealand, as in Australia, is based on non-MFA global quotas. Quotas are expressed in value terms as a percentage of their value in the preceding license year. Prior to 1980, quotas were allocated among domestic importers, almost entirely on the basis of historical import performance. This system subsequently was amended to allow 10 percent of the annual quotas to be auctioned by tender in order to increase competition in the importing sector and to allow a better assessment of the implicit protection rates associated with the quantitative restrictions.

After MFA I, Norway dropped out in favor of global quotas under GATT Article XIX. Like Australia, Norway was unable to conclude a satisfactorily bilateral agreement with Hong Kong and decided on the GATT-sanctioned process. Although Norway is said to be planning to rejoin the MFA, it has not yet done so.
IV. Phasing Out the MFA: Prospect and History

Myriad forces maintain the status quo represented by the MFA. Producers in developed countries fear pressures from producers in developing countries. Producers in developing countries, who receive economic rents from the security of predictable quotas, fear the uncertainty of the open market. Bureaucrats who operate the system, and negotiators, do not perceive an alternative solution because politically it seems the most practical tool for managing world trade in textiles and apparel.

A coalition of LDCs simply could reject any further renewals of the MFA. However, there is no single LDC opinion on this issue. For Asian countries that acquired large quotas as a result of past performance, rent-seeking behavior is reasonably profitable. For smaller, less efficient producers, the MFA provides a guaranteed market that could not be assured easily in a competitive framework. For a few new efficient suppliers who must acquire access in this cartelized market, a free-for-all trade policy might provide large benefits, but it also might result in a set of export-limiting agreements that would be far more ad hoc than the current MFA is.

Opportunities created by the Uruguay Round make a GATT-negotiated solution far more feasible than any cold turkey approach. In fact there is a modern recent history of GATT-sponsored deliberations concerning the phasing out of the MFA.

GATT efforts in the 1980s can be traced to a resolution passed by the U.S. Importers' and Retailers' Textile Advisory Committee in January 1982 urging the phasing out of the MFA. The resolution was based on the observations that the MFA was an exception to GATT rules and was designed to be temporary, and that one of its objectives was the progressive reduction of trade barriers and liberalization of world trade in textiles. In November 1982, the GATT "Ministerial Communiqué" directed the establishment of a Working Party to study and recommend the "phaseout or retention" of the MFA. But the United States initiated its new call process in 1983, and the GATT Working Party held its first meeting in February 1985 with no memorable outcomes.

Because the official GATT Working Party was unable to make any progress, a number of key exporting nations formed the International Textile and Clothing Bureau as a GATT-related unit operating as an LDC caucus. Yet this committee, too, was unable to make any headway.

On July 31, 1986, the GATT Secretariat issued a summary document entitled "Future Regime for Textiles and Clothing List Compiled by the Secretariat of Elements Suggested by Delegates for Discussion." While the document itself was neutral, it included a one-page section entitled "Suggestions Related to the Phase-out of the Existing Framework." The suggestions noted were:

1. A categorical commitment by importing countries to the restoration of GATT rules and principles to trade in textiles and clothing: an agreement to phase out the existing regime with a specified timetable to give
meaning to the wider exercise of trade liberalization in the proposed new round, and a target date for the phaseout of July 31, 1989.

2. A recommendation that the standstill and rollback to be included in the new round of multilateral trade negotiations apply to all sectors of trade in goods, including textiles and clothing.

3. Modalities and liberalization and phaseout systems to ensure: equity, nondiscrimination, and no insistence on reciprocity, comparative advantage, and other clearly liberal conditions for the developing countries.

Despite this single page of good intentions, the balance of the document continued to focus on specific quota-tightening elements.

Then the fourth MFA proved to be more restrictive than earlier ones in several important respects, especially with regard to the enlarged fiber coverage. Yet the redeeming factor that encouraged many of the LDCs to sign the Protocol of extension in 1986 was the assurance contained in the 1986 "Draft Ministerial Declaration of the Uruguay Round": "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 strengthening GATT rules and disciplines, thereby also contributing to the objective of further liberalization of trade."

Can this intention be operationalized? The Uruguay Round provides a practical opportunity. In the context of a general liberalization of trade, in which the developed countries wish to discuss agriculture and service trade, a liberalization of developed country restrictions in textile and apparel trade may be feasible. The political exchange for developed countries is to trade off the MFA for reduced LDC restrictions in services and agriculture. 6

V. Proposed Liberalization of Textile and Apparel Trade

Two options for liberalized textile and apparel trade currently seem to exist. First, a gradual elimination of the MFA could be structured within a larger Uruguay Round negotiation. Second, the restrictiveness of the MFA could be rolled back by returning to its initial Protocol. While the former solution is more radical, the latter solution appears to be safer politically. 7

In the first option, developing countries could begin by reducing restrictions in fully competitive textile and apparel products and in products for which domestic production has stabilized, regardless of import trends or levels. First, the United States and the EC might remove restrictions in yarns, fabrics, and miscellaneous manufacturing, with the apparel industry being the last sector to be phased out. Another early step would be to remove offshore assembly from quota restrictions, subject to minimum developed country content.

In the first option, developed countries might withdraw their restraints from the smallest supplier countries first, with restraints being eliminated for larger suppliers progressively over time. Practically, the growth rates
of exports might be deregulated for the smaller LDCs, while the larger producers could return to the 6 percent annual growth rate. This gradual phasing out of the MFA would conclude with the total dismantling of the MFA quota regime and the return of textile and apparel trade to the governance of the GATT.

In the context of these reforms, developing countries should support importing-country recourse to the GATT's provision for emergency protection, Article XIX, the safeguard clause. To many of the smaller LDCs, in fact, the advantage of importers exercising Article XIX protection would be that no single country could be blamed for market disruption. Restraints would have to be applied across all countries exporting that product. And the restraining country also might be obliged to provide compensation to the substantially affected countries.

Short of the first option, the developed countries still could make a clear commitment to liberalize trade within the confines of the MFA. In effect, the second option would return MFA IV to the principles of the original MFA Protocol in 1973. This position is elaborated best by the National Retail Merchants Association, which calls for: 1) limiting consultation calls to specific products from specific countries causing or actually threatening to cause market disruption; 2) basing findings of market disruption on recent, reliable data; 3) allowing the full utilization of flexibility; 4) restoring minimum growth rates in all restrained categories to 6 percent per year; and 5) eliminating group and aggregate limits that restrain products that are not causing or threatening to cause market disruption. 3

Nevertheless, the United States pushed for the most protectionist MFA to date. It also has pushed for the Uruguay Round. In this environment, it is obvious that if the newly industrialized countries (NICs) are to be brought fully into the GATT, as both the EC and the United States have demanded, then these developed countries will have to make major concessions on the MFA. Given the vested interests on the part of developed country and NIC textile and apparel producers, the path of least resistance appears to be a return to the original ideals of the MFA in 1973, with a fixed expiration date.
NOTES

1 The position of a number of developing countries is stated clearly in GATT (1985).

2 A history of the early agreements is provided in USITC (1978) and in Keesing and Wolf (1980). A discussion of MFA III and IV is provided in Pelzman (1987a,b,c). The tests of the STA, LTA, and MFA can be found in USITC (1978).


4 In the most recent bilateral, the United States has attempted to limit the flow of items by tariff line. In the extreme, the United States could have over 9000 quotas per country. For a longer discussion of this trend, see Pelzman (1987c).

5 A 1983 General Accounting Office (GAO) report evaluating the entire OTEXA call system found that the process was based on faulty and misrepresentative data. It noted that U.S. production and employment data are not compatible with the textile and apparel categories that are used in the trade monitoring system. Consequently, numerical statements of market disruption are not based on reliable measures.

6 While this appears reasonable, one should note that the U.S. House of Representatives, on September 16, 1987, passed the highly restrictive Textile and Apparel Trade Act of 1987. While the likelihood of this bill passing the Senate and getting presidential approval is very small, the bill imposes boundaries on the administration's flexibility in the Uruguay Round negotiations.

7 Tarrification as a solution seems out of the question. In the case of Australia and New Zealand, quotas were replaced by high tariffs in the range of 100 percent for apparel and 20 percent for textiles. No realistic structure of tariff protection could duplicate the quota restrictions under the MFA. The requisite tariffs would be incredibly high.

REFERENCES


