Quotas, safeguards and conflicting interests in global textiles & clothing trade

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QUOTAS, SAFEGUARDS AND CONFLICTING INTERESTS IN GLOBAL TEXTILES & CLOTHING TRADE

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T&C Trade - Why is it important?

Even though the overall share in world manufactured exports for T&C appears small at 1.7% & 2.5% respectively, the importance of this sector cannot be discounted due to various factors.

- Combined T&C Exports in 2007 was US $ 583 Billion.
- Critical role in the developing and least developed countries. Provides livelihood to millions in the poorest countries of the world.
- Engine of growth for developed countries in the past.
- Heavy dependence in terms of export earning, poverty alleviation, provision of employment (especially to women).
- One of the most controversial and regulated sectors of world trade along with Agriculture.

Percentage Share of Manufactures in World Exports (2007)
Source: WTO International Trade Statistics 2008

- Clothing: 2.5%
- Textiles: 1.7%
- Automotive: 8.7%
- Office & Telecom Equipment: 11.1%
- Chemicals: 10.9%
- Iron & Steel: 3.5%
## World Exports of Textiles and Clothing by Region 2000-08 (Percentage Change)

### Source: WTO, *International Trade Statistics 2009*

![Bar chart showing percentage change in world exports of textiles and clothing by region from 2000 to 2008.](chart.png)

### Table: World Exports by Region (Percentage Change)

<table>
<thead>
<tr>
<th>Region</th>
<th>Textiles</th>
<th>Clothing</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>1</td>
<td>-7</td>
</tr>
<tr>
<td>South and Central America</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Europe</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Africa</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Middle East</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Asia</td>
<td>8</td>
<td>10</td>
</tr>
</tbody>
</table>
Overview

PART I: Theoretical rationales, Regulation of T&C trade through quotas

PART II: Transition to quota free trade, conflicting interests and issues in T&C trade in post-expiry environment

PART III: Use of trade remedies, Future directions in T&C sector
CLASSICAL RATIONALE

Use of trade regulation to maintain a favourable balance of trade in order to maximise national wealth

Exporting industrial output while maintaining restrictions on imports

THEORY OF ABSOLUTE ADVANTAGE, THEORY OF COMPARATIVE ADVANTAGE, FACTOR PROPORTIONS THEOREM

THEORY OF MONOPOLISTIC COMPETITION, COMPETITIVE ADVANTAGE THEORY

FLYING GEESE MODEL, PRODUCT CYCLE THEORY

STOLPER-SAMUELSON THEOREM, PUBLIC CHOICE THEORY
Why Regulate T&C?

- Political reasons
- Economics
- Security and self sufficiency
- Public policy

- British colonial restraints on calico, muslin, Indian cloth
- Post-World War II/GATT era restraints: VERs, bilateral restraints, QUOTAS, Tariffs, Non-tariff barriers etc
- Multilateral trade restraints: STA, LTA, MFA I-IV, ATC
What are Quotas in T&C Trade?

- In simple terms, Quotas are deliberately fixed share of imports by the importing country.
- In T&C trade, Quotas were used by the developed countries (US, EU) to restrict imports from developing country.
- Quotas and the Regulatory regimes that implemented them i.e. STA, LTA, MFA & ATC were deemed to be temporary measure to improve declining competitiveness of the T&C industry in developed countries.
- This temporary protection lasted more than 40 years!
- Quotas were lifted in 1 January 2005. This major event presented both opportunities and challenges to countries reliant on T&C sector.
How did Quotas and post WW II regimes violate GATT norms?

- Violates MFN and NT principles
- Violated the prohibition on using quotas
- Violates standards set for safeguard actions
- Undermines predictability of global trade
- Distortion of trade
- Restrained one country, encouraging other countries to fill the import vacuum (see Figure II)
Effects of VERs and Quotas

(Figure II) US Imports of Cotton Manufactures (1957-1961) from Major Suppliers (Data in Million US $)


Start of the VERs on Japan. Did not deter imports.

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan</th>
<th>H.Kong</th>
<th>Other Asian</th>
<th>Egypt</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>65.7</td>
<td>5.8</td>
<td>13</td>
<td>0.5</td>
<td>0.3</td>
</tr>
<tr>
<td>1958</td>
<td>71.7</td>
<td>17.4</td>
<td>14.3</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>1959</td>
<td>76.9</td>
<td>45.8</td>
<td>24</td>
<td>0.3</td>
<td>1.6</td>
</tr>
<tr>
<td>1960</td>
<td>73.4</td>
<td>63.5</td>
<td>34</td>
<td>5.9</td>
<td>7.2</td>
</tr>
<tr>
<td>1961</td>
<td>69.7</td>
<td>47</td>
<td>25</td>
<td>1</td>
<td>3.2</td>
</tr>
</tbody>
</table>
### Effect of Quotas

- **Stifled growth of developing countries**
- **Encouraged quota hopping to countries with unused quotas**
- **Paradoxically encouraged diversification**
- **Benefits from diversification were short-lived**
- **Quota restraints were gradually expanded**
- **Initially aimed at restraining cotton textiles only**
- **Progressively expanded to cover other products**
- **MMF, Ramie, Silk, Flax, Vegetable fibres**
- **Series of sector-specific arrangements starting from VER’s, STA, LTA, MFA I-IV and finally ATC.**
- **Resulted in establishment of T&C industries in countries with no comparative advantage except unused quotas and labour resources**
## Observations from Use of Quotas & Trade Restraints

<table>
<thead>
<tr>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producers with comparative advantage always succeeds in capturing the largest market share</td>
</tr>
<tr>
<td>Trade restraints only delay the inevitable</td>
</tr>
<tr>
<td>Distortions induced from quotas resulted in artificiality</td>
</tr>
<tr>
<td>Encourages dependency on preferential trade which traps poor countries into low value added cycle</td>
</tr>
</tbody>
</table>
PART II

- Transition to quota free trade
- Conflicting interests
- Issues in T&C trade in post-expiry environment
ATC 1995-2005 (Transition from quotas to integration into GATT/WTO Framework)

- Enhanced product coverage
- Increase in quota growth rate
- Sector-specific safeguards (known as Transition Safeguards). Different from WTO Safeguards
- Establishment of TMB to supervise phase out

The main criticism!!!! BACKLOADED
China (and some other Asian producers) will dominate the global T&C market.

Countries with preferential access will cushion the impact of quota expiration.

Proximity is the key to success in post-quota T&C trade.

Countries dependent on quotas for T&C trade will suffer erosion in market share.

Increased use of SG, AD and tariff measures.

Pre-expiration predictions
MAJOR POLICY ISSUES THAT AFFECT GLOBAL T&C TRADE

- Outward Production Processing (OPP);
- Counterproductive Rules of Origin (ROO) as part of the Generalised System of Preferences (GSP) Schemes operated by Developed countries;
- NAMA Negotiations & Preference Erosion;
- Reduction of Tariffs;
- Non-Tariff Barriers;
- Regional FTAs;
- Safeguards and Anti-dumping;
- Role of large retailers.
CONFLICTING INTERESTS

- Restrictive Rules of Origin (ROO) maintained by developed countries;
- End of T&C quotas – loss of market share to countries with comparative advantage;
- Preferential trade & GSP Schemes;
- Calls for “fair” trade as opposed to “free” trade;
- Reduced protection through tariffs for sensitive sectors;
- Reducing/Eliminating non-tariff barriers (NTBs);
- Dispute Resolution – parallel or in consonance? (proposed EU dispute settlement system undermines the existing Dispute Settlement Body)

“...new animal – a NAMA minus – in a negotiation where we have always structured the thing so that there may be NAMA-plus”  
Pascal Lamy
So what happened?

- China will dominate
- Preferential access will cushion impact of quota expiration
- Proximity = success!
- Increased use of SG & AD measures

- China did!
- Countries with preferential access have experienced the most decline
- Proximity = success (not necessarily)
- SG used but ineffective, AD measure of choice
PART III

- Use of safeguards
- Use of Anti dumping
- Future directions
### Possible theoretical rationales behind safeguards

(Alan Sykes, Henrik Horn & Petros Mavroidis, Micheal Trebilcock and Robert Howse)

<table>
<thead>
<tr>
<th>Rationale</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safeguards as ‘compensation’</td>
<td>Trade and economic liberalisation brings uneven effects for different groups. Safeguards acts as a compensatory mechanism for such groups.</td>
</tr>
<tr>
<td>Safeguards as a measure to restore ‘efficiency’ to domestic industries</td>
<td>Domestic industries require additional investments and trade protection to restore competitiveness with foreign imports. Safeguards provide time for local industries to raise investments in order to improve their competitiveness.</td>
</tr>
<tr>
<td>Safeguards as a measure to reduce ‘adjustment’ costs</td>
<td>Plain implementation of safeguards leads to no gain rather increases the costs of protectionism. Therefore, safeguards have to be implemented in such a manner that they slow the decline in local industries.</td>
</tr>
<tr>
<td>Safeguards as a ‘political’ instrument</td>
<td>Trade concessions that affect local industries lead to political pressures on governments/politicians in office. Safeguards can be imposed on imports to relieve this pressure, thereby dissipating political pressure being exerted by local industry groups and trade unions.</td>
</tr>
</tbody>
</table>
Developing-to-Developing

- T&C dependent Developing country imposes safeguards to protect domestic sector from a similarly dependent exporter
- Such safeguard protection would be in addition to maintaining high tariffs

Developed-to-Developing

- Restricting market access by Developed country that is not T&C dependent but is the primary target market of global T&C exports
- Safeguards could possibly be used due to domestic political factors, pressure from import-competing industry groups and lobbying by preference receiving countries

Possible application of Safeguards after quota expiration
Use of Anti dumping measures

- Measure of choice after quotas
- Overcomes weaknesses in Safeguards
- Longer duration
- Active use by developing countries
## Summary of Usage (Anti-Dumping Measures in T&C related products)

**Source:** Chad Bown (2009), 'Global Antidumping Database' [Version 5.0, July 2009], <www.brandeis.edu/~cbown/global_ad>

<table>
<thead>
<tr>
<th>Country</th>
<th>Applied AD Measures</th>
<th>Targeted in AD Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>22</td>
<td>1</td>
</tr>
<tr>
<td>Australia</td>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>Brazil</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Canada</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>China</td>
<td>18</td>
<td>107</td>
</tr>
<tr>
<td>Colombia</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>EU</td>
<td>83</td>
<td>2</td>
</tr>
<tr>
<td>India</td>
<td>53</td>
<td>31</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10</td>
<td>31</td>
</tr>
<tr>
<td>Japan</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Mexico</td>
<td>19</td>
<td>7</td>
</tr>
<tr>
<td>Pakistan</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Peru</td>
<td>41</td>
<td>1</td>
</tr>
<tr>
<td>Philippines</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>South Africa</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>South Korea</td>
<td>15</td>
<td>54</td>
</tr>
<tr>
<td>Taiwan</td>
<td>4</td>
<td>45</td>
</tr>
<tr>
<td>Thailand</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>Turkey</td>
<td>70</td>
<td>14</td>
</tr>
<tr>
<td>USA</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Venezuela</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>455</strong></td>
<td><strong>387</strong></td>
</tr>
</tbody>
</table>
Possible application of Anti dumping measures after quota expiration

Developing-to-Developing

Endogenous Trade Policy theory

Reactive and Pre-emptive use

Developed-to-Developing

Countries with economic leverage may retaliate or approach DSB

Lack of resources deter challenge in DSB
Pre-emptive & Reactive use of AD - Presumptions

- Restricted (at the moment) to T&C only
- May be extendable to other sectors through proper analysis
- Developing-to-Developing use only
- Classification into Reactive or Pre-emptive users dependent on the development status of the user
Pre-emptive & Reactive use of AD

PRE-EMPTIVE
- Involves combination of AD and tariffs
- Encourage import-consuming industries to use local inputs
  - Cotton base
  - Vertical integrated industries
  - High tariffs on clothing
  - Less development in other sectors
- AD used to pre-empt any effects on the heath of T&C sector
- Any other sector (e.g. Chemicals, Synthetic Fibre) is monitored for indirect effects on T&C sector
- Surrogate sectors (e.g. Industrial machinery) is also protected if linked with T&C
  - Pakistan, India, Indonesia, Turkey, Mexico

REACTIVE
- More numerous than Pre-emptive users
- Do not possess comparative advantage in T&C
- Quotas provided incubated environment
- Feel compelled to protect T&C industries
- AD measures is used as a ‘reaction’ to trade liberalisation
- AD measures prompted by local industries
- Use of AD measures varies according to politico-economic influence of industries
  - As economies transition from T&C to other sectors, Pre-emptive users become Reactive users
- Industrial diversification shifts protection to other sectors
- Protection by AD is held in reserve until influx of ‘unfair’ imports
  - Latin American countries, Malaysia, Thailand, South Korea
## Future directions

- No new trade restraints were imposed in 2009-2010
- Good indicator of future trade trends as countries adjust to a liberalised environment
- Use of labour standards (e.g. US against Guatemala)
- Role of large retailers (public choice theory, SST)
- Role of FTA’s in a liberalised trading environment
- OPP dependent on competitive advantage (full package service, DTS model)
- Regional cumulation and reform of ROO
- Reduction of tariffs will affect developing countries/LDCs
- NTB’s to continue as barriers to entry
Future directions

Various trade theories offer insights into the future direction

**PRODUCT CYCLE/FLYING GEESE MODEL** = Expansion of industries to other countries (China losing comparative advantage)

**THEORY OF MONOPOLISTIC COMPETITION** = Countries attempt to distinguish like products (e.g. Use of ethical quality mark, adherence to labour standards)

**COMPETITIVE ADVANTAGE THEORY** = Creation and sustenance of competitive advantage (e.g. India’s development of IT industry, advances in specialised textiles)

**COMPETITIVE ADVANTAGE THEORY** nexus with Product cycle, sustenance of advantage through use of AD measures to delay transfer of advantage to other nations.