The Multifibre Arrangement IV — Prospects for the textiles and clothing negotiations

Jim Fitzpatrick

The next major trade agreement between developing and industrialised countries due for negotiation is the Multifibre Arrangement which covers trade in textiles and clothing. In this article Jim Fitzpatrick of Jim Fitzpatrick and Associates, Economic Consultants, examines the background to the MFA, the issues that will arise in the renegotiation talks, and the Irish position on the MFA.

For many Third World countries the future of the Multifibre Textile Arrangement (MFA) is a more important development issue than aid and other development co-operation arrangements. Textiles and clothing are the main industrial exports of the Third World and so are the central trade issue in north-south relations. They are also the only manufactured exports subject to comprehensive quantitative regulation and are the only products of any kind officially exempt from GATT (General Agreement on Tariffs and Trade) principles of free trade and non-discrimination.

The MFA is an international agreement which regulates the annual level of textile and clothing exports to western industrialised countries by "low-cost", mainly Third World, countries. Ireland, through its membership of the European Community (EC), is a party to the Multifibre Arrangement.

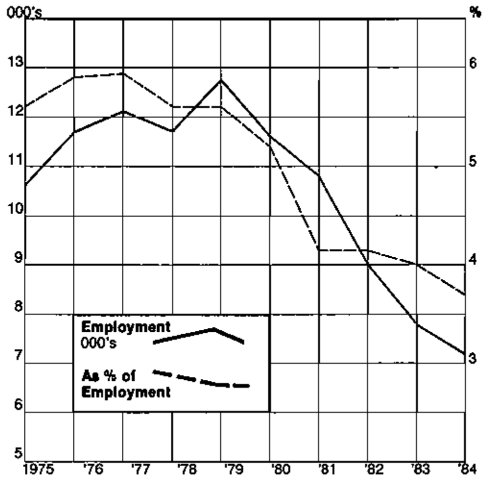
The Arrangement, negotiated under the auspices of the General Agreement on Tariffs and Trade (GATT), first came into operation in 1974 and was subsequently renewed in 1978 and 1982. The current MFA expires in July 1986 and renegotiation talks are due to begin in Geneva in July 1985.

Textiles and Clothing in Ireland

Textiles and clothing are relatively important sectors of industry in Ireland. In September 1984 the two sectors together employed over 24,000 people, or 12.5 per cent of all employment in manufacturing industry in Ireland. In 1983, textiles and clothing accounted for 8 per cent of Ireland's merchandise imports and 6 per cent of merchandise exports. Employment in the textiles and clothing industries as a whole has been declining. In the years 1975 to 1985, nearly 9,000 jobs disappeared, a decline of over a quarter on the employment level in 1975. Today's 12.5 per cent share in employment in manufacturing compares with a 17 per cent share in 1975.

This decline in employment is part of a longer-term downward trend from a 1960s employment peak of over 40,000. Relative to employment in all manufacturing, the decline in the importance in textiles and clothing has gone on even longer. From the mid 1930s to the mid 1950s, textiles and clothing accounted for over a quarter of all jobs in manufacturing industry in Ireland, but this share has declined steadily since then.

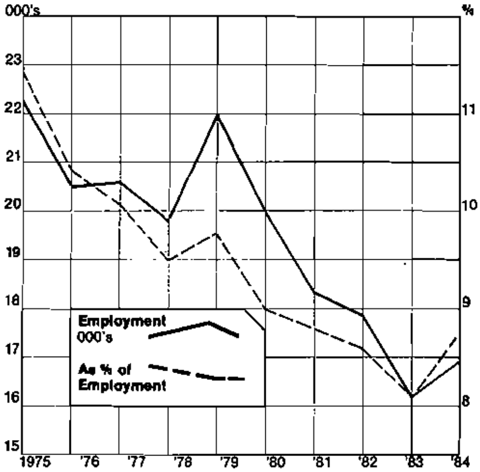
Figure 1. Employment in The Textile Industry in Ireland, 1975-84[1]



SOURCE: Central Statistics Office.
[1]Employment in September each year

In discussing trends in textiles and clothing it is important to distinguish between the two industries since they have displayed contrasting trends. Assisted by the arrival of large IDA-sponsored foreign owned textile manufacturers in the 1960s and 1970s, firms such as Asahi, Burlington, Wellman and Snia, employment in the textiles industry in Ireland actually rose during most of the past 20 years, and indeed for much of the pre- and post-war period. A downward trend has set in only since 1979, and the industry has suffered severely from the recession (Figure 1). Clothing, in contrast, has been declining in employment terms since the 1960s, and in importance since as far back as the 1930s. Therefore, the long-term decline in textiles and clothing combined reflects a decline in the latter rather than in the former. The performance of clothing during the recent recession is also the reverse of that of textiles. The decline in employment in clothing, both absolutely and relatively, has bottomed out. In 1983 and 1984, the industry has increased its employment level for the first time in decades, while its percentage share in employment in manufacturing has also actually grown (Figure 2).

Figure 2. Employment in The Clothing Industry in Ireland, 1975-84[1]



SOURCE: Central Statistics Office.
[1]Employment in September each year

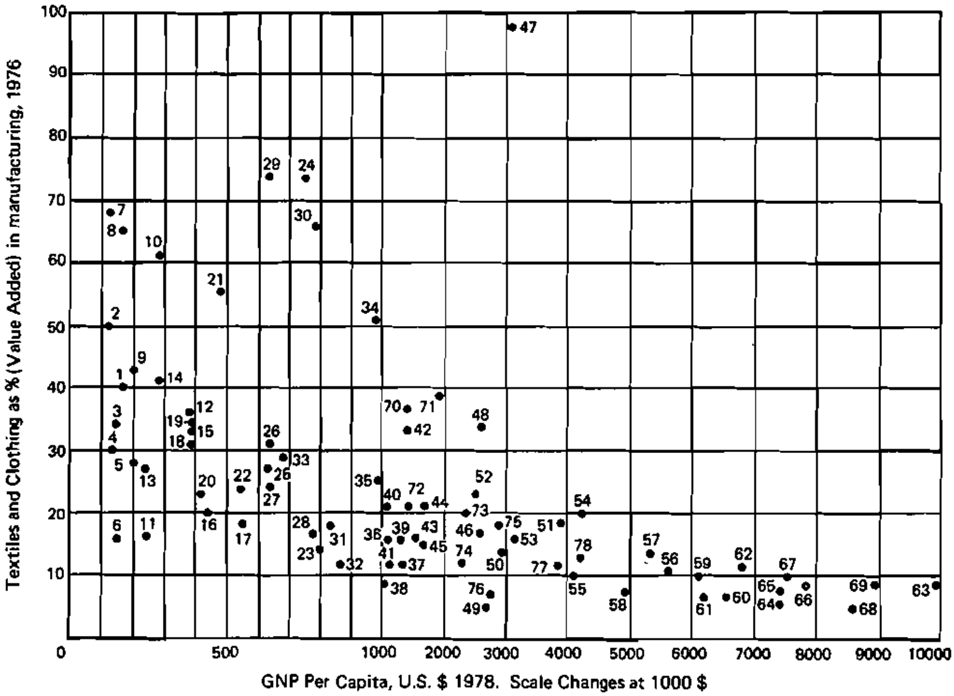
The textiles and clothing industries also have contrasting characteristics with regard to average plant size, capital and technological intensity and workforce. Clothing has many of the features of a traditional labour-intensive industry, and employs a very high proportion of female labour — nearly 80 per cent. Textiles, however display more of the features of a typical modern industrial sector.

Textiles and Clothing in Trade and Development

Just as long-term economic growth is accompanied by a change in the relative importance of agriculture, industry and services in output and employment, so too within industry newer sectors expand and older sectors such as textiles and clothing decline in importance. Across countries at differing levels of development and per capita incomes, a similar pattern is evident. Textiles and clothing are generally more important in less developed than in more developed economies (Figure 3).

This pattern also flows over into international trade. As well as being an early domestic industry, textiles and clothing are invariably one of the early successful manufactured exports of an industrialising economy. Large domestic markets, relatively high unskilled labour requirements, and relatively low and accessible technological requirements, allow the early emergence of an international competitive advantage. Then, as new industrialisers become competitive textile and clothing exporters, they increasingly compete with other countries further up the development ladder.

Figure 3. *Per capita* income and relative importance of textiles and clothing in manufacturing for 78 countries



1. Mozambique
2. Burma
3. India
4. Malawi
5. Sri Lanka
6. Zaire
7. Benin
8. Pakistan
9. Haiti
10. Sudan
11. Kenya
12. Senegal
13. India
14. Egypt
15. Honduras
16. Zambia
17. Zimbabwe
18. Thailand
19. Bolivia
20. Phillipines
21. El Salvador
22. Morocco
23. Peru
24. Nicaragua
25. Colombia
26. Paraguay
27. Ecuador
28. Guatemala
30. Syria
31. Tunisia
32. Malaysia
33. S. Korea
34. Turkey
35. Algeria
36. Mexico
37. Panama
38. Chile
39. S. Africa
40. Costa Rica
41. Brazil
42. Uruguay
43. Argentina
44. Portugal
45. Yugoslavia
46. Venezuela
47. Hong Kong
48. Greece
49. Singapore
50. Spain
51. Israel
52. Ireland
53. Italy
54. New Zealand
55. U.K.
56. Finland
57. Australia
58. Japan
59. Australia
60. France
61. Netherlands
62. Belgium
63. Canada
64. Norway
65. West Germany
66. U.S.A.
67. Denmark
68. Sweden
69. Switzerland
70. Iraq
71. Iran
72. Romania
73. Bulgaria
74. Hungary
75. Poland
76. USSR
77. Czechoslovakia
78. East Germany

SOURCE: J. Fitzpatriek, "Why Textile and Clothing Industries are Shifting to the Third World", *Long Range Planning*, London, Vol 16, No. 6, 1983

As the first group of countries to industrialise (UK, US, Germany and smaller European countries) moved up this ladder, others followed. The main example between the two world wars was Japan. In the 1960s, as Japan became more highly industrialised, it was largely displaced in textiles and clothing by the "newly industrialising countries" (NICs), notably Hong Kong, South Korea, Taiwan and Singapore. During the past decade, these countries too have faced competition from a "second wave" of Third World textile and clothing producers such as Macao, China, Mauritius, the Philippines, Morocco and Tunisia. This "stair-case effect" was given additional impetus by improved transport and communications, and by the activities of multinational companies, both manufacturers and retailers, who began to secure supplies in Third World countries. Some large Third World countries — Brazil, Mexico, India, Pakistan, Egypt — have also had the added advantage of local cotton.

Textiles and clothing are now major industrial exports for many Third World countries at various stages of industrialisation. In 1981, the share of textiles and clothing in the manufactured exports of some of the major Third World producers was as follows:

Bangladesh	82%	China	40%
Pakistan	77%	India	39%
Sri Lanka	76%	Thailand	37%
Hong Kong	75%	Morocco	36%
Tunisia	45%	South Korea	33%

This compares with, for example, 13 per cent in Ireland and Italy, 7 per cent in France, 6 per cent in the UK and West Germany, 4 per cent in Japan, and 1 per cent in the US.

While textiles and clothing exports are much more important in the exports of Third World than of industrialised countries, international trade in these products is still dominated by the industrialised countries. The developed world accounted for 60 per cent of world textiles exports and 44 per cent of world clothing exports in 1982. The developing world accounted for 25 per cent of textile exports and for 42 per cent of clothing exports in the same year. The developing countries' share has risen rapidly. In 1963 it was 16 per cent of total world textile exports and 13 per cent of world clothing exports. The developed countries' shares shows a corresponding decline over this period.

The Multifibre Arrangement

Background

An inevitable result of the trends described above was "low cost" competition in western markets by new developing produeer countries. For the textile and elothing industries in developed countries the natural reaction was to call for protection against this threat. Such calls date back to the 1920s and 1930s. "Tariff" protection, i.e., the imposition of import duties, has always been and remains high in these industries. The first reported quantitative restrictions were adopted by the US against Japanese exports in 1936. Up to the late 1950s Japan continued to be the challenge, and cotton textiles the problem.

The post-war liberalisation of international trade in industrial goods under the auspices of GATT, Japan's aecession to the GATT in 1955, and the subsequent emergence of the NICs brought increased pressure especially in the US for some formal regulation of low cost competition in textiles and clothing.

While these were not, and still are not, the only industries affected by shifting international comparative advantage, they were the first major industrial sectors so affected. They were also large employers, relatively homogenous, and often regionally concentrated and politically influential. The outcome, after an initial arrangement in 1961, was the negotiation in 1962 of the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA). This lasted, with extensions, until 1973.

The LTA is the precursor of the MFA and its structure, mechanisms and operation anticipated much of what was to follow. Its aim was to regularise the then existing curbs on low cost cotton products, and to reconcile the aspirations of the new exporters for access to developed-country markets with the desire of the importing countries to protect their domestic industries from a rapid rise in cheap imports. Foreshadowing the MFA, the LTA was itself a multilateral agreement, but provided a framework for a series of detailed bilateral agreements between exporting and importing countries. It set a norm of 5 per cent annual growth for resulting quantitative restrictions on low cost exports.

In its operation the LTA did not achieve its aims and pleased neither importers nor exporters. This is not surprising since the aims were probably either unattainable, contradictory, or both. It did not succeed in containing the growth of cheap cotton textile and clothing exports to the 5 per cent norm. Instead these expanded at considerably more than that rate over the 1960s. However, production and exports in industrialised countries also continued to grow and the new Third World producers did not gain the type of increased share in developed-country markets which they would have liked. The period of the LTA also coincided with rapid expansion in the use of man-made fibres in both developed and less developed countries. As a result, an increasing share of cheap imports into the industrialised countries no longer fell within the LTA's ambit. Once again unilateral restrictions began to be placed on low cost imports of such products, and once again the GATT set about regularising matters in the form of an international agreement. The result in the early 1970s was the Multifibre Textile Arrangement, covering as its title implies textiles and clothing products of all fibres and not just cotton.

The Multifibre Arrangement

The first MFA (MFA I) came into force in January 1974. The Arrangement was renewed in 1978 (MFA II) and again in 1982 (MFA III). Most major industrialised countries and most "low cost" exporters are signatories, currently 41 signatories in all including the EC as one entity. Like its predecessor, the LTA, the MFA proper is a multilateral umbrella agreement of a rather general nature. It allows for the negotiation of bilateral regulatory trade agreements between pairs of developed importing and developing exporting countries. These agreements are the real "meat" of international regulation of textile and clothing trade between developed and developing countries, but the term "MFA" tends to be used loosely to refer to the whole system.

The MFA's expressed aims are "the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products". As regards LDCs it is "to further the economic and social development of developing countries and secure a substantial increase in their export earnings from textile products and to provide scope for a greater share for them in world trade in these products". The first MFA set a norm of 6 per cent annual growth in low cost imports into industrialised countries. As the expanding western domestic markets of the 1960s gave way to the successive recessions of the 1970s, this norm came under increasing pressure in importing countries. Renegotiation of the Arrangement in 1977 and again in 1981 was surrounded by high controversy and eleventh hour brinkmanship as importers tried to introduce increased restrictions to protect shrinking domestic markets for their own producers. In each case compromise involved leaving the original MFA text intact and adding renewal "protocols" which contained additional provisions. The MFA II (1978-82) protocol allowed for "agreed reasonable departures" from the original provisions. MFA III (1982-86) eliminated this but added a new so-called "anti-surge" device to prevent sudden sharp increases in low-cost imports.

To the textile and clothing industries in developed countries the original MFA tried to apply in a time of recession ideals conceived in an era of growth. Consequently, from an industry viewpoint, the Arrangement became gradually more satisfactory in allowing increased control over low cost import competition. From the Third World countries perspective, the impact of the MFAs' development was an undesirable mirror-image of this. To them an arrangement originally designed to facilitate an orderly shift of international comparative advantage in textiles and clothing was gradually converted into an unashamed protectionist device intended to offset any such shift. The debate between these two viewpoints is now about to be repeated in the negotiations on MFA IV.

EC and Irish Policy

Nature of the Policy

Ireland was not a signatory to the LTA. Prior to EC entry unilateral quotas and tariffs were used to protect the Irish textiles and clothing industries. As an EC member, Ireland is now a party to the MFA. The MFA and related bilateral restraints are part of the common Community external trade policy. Therefore the EC negotiates, signs and implements the MFA system as a single Community. While Ireland has a degree of flexibility in its application of this policy, Irish external trade policy regarding textiles and clothing is now essentially a Community matter.

Under the MFA, the Community currently has bilateral "self restraint" agreements with 26 low cost textile and clothing importers, mainly developing countries together with a few East European producers. These agreements specify annual quantitative ceilings by exporting country and by product for all major "sensitive" textile and clothing items. The Community "global ceilings" are further subdivided into ceilings for each member state. For example, imports to Ireland in 1984 of shirts from Singapore or trousers from Taiwan could not exceed a specified number of items. In addition, a mechanism called the "basket extractor" allows for the introduction, at the instigation of an EC member state, of new ceilings on MFA signatories. This device has recently been used by the UK and France to limit imports of shirts from Bangladesh. Low-cost imports not already subject to restrictions are subject to statistical "surveillance". A mechanism also exists for controlling trade in low-cost imports between member states within the Community.

Some additional elements in Community external textiles policy exist outside the MFA system. These are bilateral agreements with low-cost non-MFA signatories, unilateral restrictions, and "gentleman's agreements" with preferential trade partners. This latter group of countries refers to those in the Mediterranean basin with whom the EC has preferential bilateral trade agreements, and to the Third World signatories of the Lomé Convention — the ACP countries. In both these cases the EC cannot legally impose formal import restrictions so informal restraints are placed on exports from these countries. This involves mainly Mediterranean countries — Spain, Portugal, Morocco, and Tunisia. Of the ACP states, only Mauritius is a significant low cost clothing exporter and it too has been subject to informal restraints.

Imports of textiles and clothing from developing countries into the EC are therefore subject to a complex network of controls and checks amounting to *de facto* central planning. Import controls are implemented through a double-checking system, involving export licences in the country of origin and import licences in the Community. In Ireland, this system is implemented by the Department of Industry, Trade, Commerce and Tourism.

Effects of EC Policy

During MFA I, EC common external textile policy was not fully developed. Many national measures remained in force; there was a "tug of war" between the Commission and members states for control of policy; and the Community was slow to negotiate the necessary restraint agreements with exporters. Consequently, it was only by MFA II that EC policy began to operate fully. By the time of MFA III negotiations in 1981, the Irish Textiles Federation, commenting on bilateral restraints under MFA II, felt able to state that "the terms of the present agreements have generally been properly observed, apart from late applications of the basket extractor mechanism by the Community itself."

Taking the five years 1976–81, imports of MFA products into the EC from all non-EC sources grew at an annual average rate of 2.1 per cent. Those from developed countries rose by 3.9 per cent, those from preferential low-cost countries rose by 9.6 per cent, while those from low-cost countries subject to MFA bilateral agreements rose by 0.9 per cent. Therefore, total imports of MFA products over this period grew much more modestly than in the years immediately before. It is evident that "trade diversion" away from MFA countries took place in favour of non-restricted countries, including the developed countries, against whom no import controls operate. The Irish experience has been similar. For example, between 1976 and 1983 the share of Hong Kong in Irish textile imports remained static at about 1 per cent while the US share grew from 7 to 19 per cent.

Negotiations on MFA IV

Timetable and Format

The MFA expires at the end of June 1986. Renegotiation is due to begin officially at GATT in Geneva one year in advance — in July of this year. Based on previous experience, real negotiations are likely to take place much nearer to the expiry deadline. The major participants are now in the process of formulating their positions. In this the EC's task is particularly complicated since a common Community position must first be agreed. In the past this has proved virtually as difficult as obtaining subsequent agreement with the low cost exporters. Agreement between the EC Members has usually come only well after the official start of renegotiations at GATT.

It was noted above that the term MFA is used to refer to both the MFA agreement itself and to the bilateral agreements operating under it. The coming negotiations will therefore have to decide on three inter-related questions. First, will there be a new MFA at all? Second, if there is, what form will it take? Third, what type of bilateral agreements are to be negotiated under it? Assuming that some type of umbrella MFA will continue, the latter two issues will be sorted out simultaneously in the EC since in previous renegotiations the Community made its acceptance of the umbrella agreement subject to advance conclusion of satisfactory bilateral restraint agreements. It is also virtually certain that most major importers would insist on bilateral agreements whether the MFA-proper continues or not. Existing EC bilateral restraints are already agreed for a period after expiry of MFA III itself. In the absence of an umbrella MFA such bilateral agreements would be outside even the low level of multilateral GATT regulation now in operation. Consequently, an ending of the MFA proper either by agreement or disagreement would not necessarily be a desirable outcome from a Third World perspective. It is the nature of the entire MFA-related system, rather than just the MFA itself, which is the central issue.

In the industrialised countries generally, including the EC, the main supporters of the present MFA system are the industry organisations and, to a lesser extent, the trade unions. National ministries for industry normally also side with the domestic textile and clothing lobbies. Opposition to the MFA stems from the low cost exporters themselves, and from interest groups in the industrialised countries. These include consumer and importer associations, Third World support groups, and free trade oriented economic bodies. In Ireland this division has been largely replicated, though consumers, importers and independent economic bodies have remained absent from MFA debates. The pattern and issues of previous MFA renegotiation debates are likely to be again followed this time round at international, EC and Irish level.

Outlook

While many of the issues and positions in negotiations on the question of an MFA IV and related policies are predictable, a number of developments mean that the eventual outcome is far from clear. At the international level, a variety of forces for liberation are at work. The low-cost countries seem likely to exert an especially vigorous campaign for a return to the original spirit of the Arrangement. A new lobbying body, the International Textile and Clothing Bureau, is being formed by them. However, the precise position that this will adopt is not clear. Some observers have noted the danger that the major established low cost "heavyweights" might enter an unholy alliance with the industrial countries in favour of the status quo and against the interests of newly emerging low-cost producers.

In some developed countries, notably in the EC, there is also some growth in anti-MFA sentiment. Consumer and importer groups are already campaigning against renewal. Analysts are also pointing to the MFA's failure to save employment in the textile and clothing industries, its raison d'etre from the industry's viewpoint. The apparent end to recession may make some western governments willing to listen more openly to these alternative views. Against that, both the US and Japan are likely to adopt a protectionist stance on MFA IV. Both have experienced strong low-cost import competition under MFA III. The danger of spillover from any tightening of these markets to the low-cost exporters means that other importers, including the EC, cannot ignore the US position when adopting their own.

Within the EC, the final common stance is still open. Traditionally, the less protectionist member states — Germany, Holland, Denmark — have given way to the more protectionist ones — France, Italy and the UK. So far the liberals are holding their normal position. Some more protectionist states, notably the UK, are still wavering. There is, therefore, a possibility that the balance of power could shift in favour of the liberals. The Community will have to take account of the likely accession of Spain and Portugal to the Community. These are rapidly growing exporters, subject to informal export restraint outside the MFA. Their accession will necessitate a phased elimination of these controls. At the very least there is unlikely to be any support for even greater protectionism than under MFA III.

In a closely balanced EC debate on renewal, Ireland's position could be important.This has always been protectionist. During negotiations on MFA III in 1981 the official position of the then Department of Industry and Energy was that it could not "contemplate MFA III in a spirit of liberality or even generosity". After a slow start, Ireland has also been an active initiator of new "basket extractor" import controls during MFA II and III. No position on MFA IV has been announced. A report on the textile and clothing industries by the Sectoral Development Committee, a tripartite body representing industry, government and trade unions, has come out in favour of continuation of the present level of protection under the MFA and Community external policy. This report has been accepted by government and this policy position has been communicated to the EC Commission in informal consultations.

The overall picture emerging, therefore, is that it is still early days in this round of EC and international debate on textile and clothing trade policy. Unlike previous MFA renegotiations, the outcome of this round is not a foregone conclusion. Perhaps more than at any time since 1961, the form of multilateral regulation of international trade in low-cost textiles and clothing, and even its existence, is likely to be put to fundamental debate. In the battle for the MFA this could be either the end of the beginning of the beginning or the end. Only the coming months will tell.