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The Consequences for Ireland of Textiles and Clothing Trade Liberalisation in the Uruguay Round

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This article examines the impact in Ireland of any liberalisation of the restrictions on textile and clothing imports currently implemented under the Multi-fibre Arrangement (MFA). After outlining the importance to Ireland of the textile and clothing industries, and explaining the operation of the MFA, the potential benefits to developing countries of liberalisation are described. The effect of liberalisation on Irish jobs is then estimated: it is calculated that the textile sector will be relatively unaffected, whereas 10-13 per cent of clothing sector jobs could be lost. These losses must, it is argued, be set against substantial gains to developing country exporters and also to Irish consumers, and it is concluded that protection is an inappropriate response to the problems posed by competition from low-cost countries.

Since the early 1960s, trade in textiles and clothing between low-cost exporters and developed country importers has been governed and restrained by the Multi-Fibre Arrangement (MFA). The Arrangement operates as a derogation from the normal rules of the General Agreement on Tariffs and

Trade (GATT). At the start of negotiations in the current Uruguay Round of the GATT, all parties agreed to the eventual re-integration of textiles and clothing into the GATT 'on the basis of strengthened rules and disciplines'. Although no timescale was fixed for its completion, it was agreed that the process of integration would begin immediately after the completion of the Round. Abolition of the MFA has been one of the principal developing country objectives in the Uruguay Round.

Negotiations on liberalising textiles and clothing trade proceeded more slowly than envisaged. The situation was further complicated by the linkage with discussions in other negotiating groups – safeguards, dumping, tariff barriers and intellectual property rights. The EC insisted on tightened rules in these areas as a quid pro quo for agreeing to phase out MFA quotas. A number of developing countries (LDCs), for their part, were not prepared to support tangible progress in these other areas if their demands for liberalisation of world trade in textiles and clothing were not met.

Despite the difficulties, a tentative agreement has been reached for textiles and clothing whereby permitted growth rates for the volumes currently restrained in the MFA would be progressively expanded until the restraints became redundant. This phasing out of the MFA will be completed by 1 January 2003 when the sector is re-integrated into the GATT, although tariffs on textiles and clothing will remain.

Ireland has tended to drag its feet in these negotiations because of fears that liberalisation will lead to further job losses in the Irish textile and clothing industries. The main purpose of this paper is to examine what effects liberalisation might have for these industries and for Irish consumers. In view of the substantial benefits to LDCs from liberalisation (documented later), is this hard-line Irish stance justified?

The paper begins by describing the main features of the Irish textile and clothing industries. A brief overview of the MFA is given and the consequences of MFA protection and the benefits to LDCs of its elimination are then discussed.[1] The methodology used to estimate the impact of MFA liberalisation on producers and consumers in the Irish economy is described and estimates of the impact presented. The conclusions of the paper are given in the final section.

The Irish textile and clothing industries

Textiles accounted for 3.5 per cent and clothing for 1.8 per cent of Irish manufacturing output in 1990. However, they are much more important in terms of employment in the Irish economy – 6.4 per cent of total manufacturing employment was in the clothing sector and 5.4 per cent in textiles in December 1990. Thus, while accounting for only 5.3 per cent of manufacturing output, these two sectors together comprise 11.8 per cent of manufacturing employment. In absolute terms, these employment figures were 10,800 for textiles and 12,100 for clothing in December 1990.

The textiles industry consisted of about 180 firms in 1988, of which one-third were foreign owned. Almost 70 per cent of these firms are in the small industry category, i.e. employing less than 50 people. About 70 per cent of textile output is exported, nine-tenths of which goes to the EC.

The clothing industry consisted of over 300 firms in 1988, of which only 40 were not indigenously owned. Almost four-fifths of clothing firms are in the small industry category. About 55 per cent of the industry's output is exported, with the EC share at 85 per cent and the UK market alone accounting for two-thirds of these exports.

Employment in both sectors has been falling over time. In the textile industry, 1990 employment levels were about half of the 1960 and 1973 levels and about two-thirds of total persons engaged in 1980. For the clothing industry the 1990 employment level was 77 per cent of the 1960, 74 per cent of the 1973 and 85 per cent of the 1980 level. The relatively better performance of the clothing sector has been due, it is argued, to the protection afforded by the MFA. Indeed, the performance of the Irish industry is quite striking in comparison with the clothing sectors in other EC countries where the fall in production and employment has been much greater. The textile industry, unlike its clothing counterpart, has to a much larger degree already rationalised and now faces liberalisation in a far stronger position. Indeed, one of the main fears of the textile industry concerns reduced availability of competitive raw materials which are currently guaranteed by the MFA arrangements.

As in other sectors of Irish manufacturing industry there is considerable variation in the competitive strength of individual firms. There is a wide distribution of design, marketing, quality control and management skills across firms. The best firms score highly on product quality, design and back-up services and have close links with overseas retailers but many relatively inefficient firms will require substantial teorganisation if they are to survive in an environment with additional low-cost competition.

The operation of the MFA

The MFA is an umbrella agreement negotiated under the auspices of the GATT.[2] It is both the most celebrated case of a global market-sharing arrangement and an anomaly in world trade: a sector-specific GATT agreement running counter to GATT's non-discriminatory principles and an acknowledged and permitted derogation from its rules. The MFA lays down the ground rules for the subsequent bilateral agreements between individual exporting and importing country signatories which are the core of the Arrangement. It is in the bilateral agreements that category quotas are agreed establishing limits on the quantities of various categories of goods to be exported, where goods are classified into categories according to the relative threat they pose to the domestic market.

The formal aims of the MFA as laid down in Article 1(2) are as follows: 'To achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalisation of world trade in textile products, while at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries.' This is the crucial dilemma facing the MFA: the reconcilation of alternative, and often contradictory, objectives. These conflicting interests are those of the declining western industries requiring temporary 'breathing space' to effect structural adjustment dictated by changing comparative advantage, on the one hand, and those of the developing world pursuing export-led industrialisation as the engine of economic growth, on the other. It is a matter of historical fact that for both supply and demand side reasons, the textile and clothing industries are among the first manifestations of industrialisation in most developing countries.

The MFA envisages two types of restrictions: those under its Article 3, which permits bilateral or unilateral restrictions as a result of market disruption, and those under Article 4, which provides for bilateral agreements to eliminate the risk of market disruption. The present MFA IV provides for a volume growth of at least 6 per cent annually in export categories and 'flexibility' provisions that permit switching between individual quota categories (swing), transfer of unutilised quota to the following year (carryover), or borrowing some of next year's quota (carry forward).

The original MFA covered the period 1974 to 1977. It has subsequently been extended three times, and the current MFA IV initially covered the period from August 1986 to August 1991 but was extended by seventeen months to January 1993 due to the delay in concluding a final GATT agreement. The spirit, and even the letter, of the original MFA has not been adhered to in its subsequent extensions. The developed countries' appeal to orderly trade developments in anticipation of losing market-share to the developing nations has increasingly entrenched existing trade patterns, and the liberalising intent has therefore been stifled. As Cable notes: 'The last decade has seen the strengthening of the MFA's protectionist features. Bilateral agreements have become more restrictive. Annual growth rates of goods under quotas have generally been below the minimum specified 6 percent. More product categories have been controlled. Flexibility has been reduced. Evidence offered to prove market disruption has become minimal. Very small suppliers have been subject to quotas. The "basket extractor" and "anti-surge" mechanisms have been introduced to trigger new or tighter quotas semi-automatically within existing agreements. And an essentially temporary arrangement to provide some breathing space to producers in developed countries has become permanent.'[3]

Consequences of MFA protection for protecting countries

Countries resort to import controls to protect domestic producers and employment in sectors which are perceived as vulnerable to foreign competition. Different methods of protection (tariffs, quotas, etc.) produce contrasting effects on domestic producers and consumers and world trade in general.

The main objective of textiles and clothing protection is to protect jobs in these industries. However, employment in these sectors has continued to fall due to increased automation and productivity gains. Furthermore, the cost to the consumer of any gain to domestic employment is high. For example, in a study of the UK economy Silbertson[4] found that in the event of MFA liberalisation export prices would fall by 9 per cent, import prices by 8 per cent and UK domestic producer and retail clothing prices by 5 per cent. If the same estimates were to apply in Ireland it would mean that current MFA protection costs each household IR£30 per annum (based on the 1987 Household Budget Survey).

It is important to note that under the MFA not all Irish textile and clothing imports face restrictions. The share of Irish imports from MFA restricted countries in 1990 was 7 per cent for textiles and 15 per cent for clothing. The great bulk of Irish imports come from other EC states (72 per cent of textiles and 75 per cent of clothing in 1990) while unrestrained non-EC suppliers are also important (20 per cent of textiles and 10 per cent of clothing). Even with respect to developing countries, not all suppliers are restrained. The EC has special preferential trade relationships with three associares (Turkey, Cyprus and Malta). Turkey is the most important country here in terms of clothing, supplying 2.6 per cent of the Irish market in 1990. The EC also has preferential trade agreements with some African, Caribbean and Pacific (ACP) countries but exports from these countries to the Irish market are insignificant.

Bilateral agreements negotiated under the MFA are effectively Voluntary Export Restraints (VERs). VERs violate three central norms of the GATT: (a) they are discriminatory, (b) they operate through quantitative restrictions rather than through prices, and (c) they fail to provide a fixed and quantifiable margin of protection. However, it is precisely these properties which make them so attractive to policymakers. VERs are effectively export cartels created under the compulsion of the importing country. They have two differential effects when compared to more traditional methods of protection – on the structure of prices and on the sources of supply.

When a single VER curtails exports of several different qualities of product, as is the case in the textiles and clothing industries, the prices of all grades are unlikely to rise in the same proportion. What is observed is a tendency to shift the composition of trade in this product toward a higher proportion of its relatively more expensive categories. Thus the MFA acts as a regressive tax. Poorer consumers, who would normally purchase relatively more of this lower quality product, are most adversely affecred.

Since VERs are normally negotiated on a bilateral basis where different sources of imports can be treated differently, selective application of protection is another major political attraction – and an economically expensive one – of VERs. If 'trade diversion' is the outcome, and the sales lost by the restrained low-cost suppliers are merely replaced by unrestrained higher cost suppliers, one source of foreign supply has merely replaced another and the objective of increased domestic employment is not enhanced. For example, between 1976 and 1983 Irish textile imports from Hong Kong remained at about 1 per cent of the total while the US share, an unrestrained supplier, grew from 7 to 19 per cent.[5]

Benefits of liberalising the MFA to LDCs

Surprisingly, of the estimated world textile trade of $96.7 billion in 1989, only $10.4 billion (the value of exports from developing countries to developed countries) is potentially covered by the MFA. This apparent incongruity is explained by trade among developing countries ($14.5 billion), exports from developed countries to developing countries ($9.6 billion) and trade between developed countries ($44.3 billion) of which almost two-thirds is intra-EC trade. However, in the case of clothing (total world trade value of $97.3 billion in 1989), the value of exports from developing economies to developed countries ($39.7 billion) exceeds that of intra-developed country trade ($34.3 billion). The remaining world clothing trade consists of exports of developed countries to developing countries ($3.3 billion) and intra-developing country trade ($2.5 billion).

The effects that the MFA has had on developing economies have been a matter of controversy for many years. Claims that developing countries have a major interest in seeking elimination of the MFA because it places restrictions on goods for which they have a comparative advantage are met by counter-arguments that this loss is offset by the quota rents which accrue to exporting countries (particularly in clothing) as a result of the operation of the MFA as a 'voluntary' export restraint. Quota rents refer to the higher prices producers in the MFA countries can charge for their exports because their supply is restricted. Empirical evidence suggests that rents can vary between 15-25 per cent of the export value.

It is further pointed out that the countries that were affected earliest by quota restrictions (Hong Kong, South Korea and Taiwan) have the largest share of exports to developed country markets, have relatively high per capita incomes and wage rates, and so under the MFA have a protected market niche against more competitive MFA suppliers. These countries, the argument goes, would not want the Arrangement abolished. Others have argued the contrary view, that if the present discriminatory quota system was replaced by free trade or a global quota system, the new and marginal suppliers would be priced out of international markets because of the size and greater productivity of established exporters.

A consequence of the MFA has been to encourage foreign direct investment by restrained countries in neighbouring unrestrained countries, thus creating new sources of supply. Some argue that these newer entrants tend to be relatively more inefficient suppliers and, with the elimination of the MFA, trade would tend to gravitate back to the larger, longer established suppliers. What little empirical evidence there is tends to support this view. When Canada (in 1977) and Norway (in 1978) moved from the MFA to global import quotas, trade became more concentrated on the big three Asian suppliers.

Nonetheless, most studies have found the decline in LDC export opportunities and revenues because of the MFA, even allowing for quota rents, to be considerable. For example, UNCTAD estimated that complete nondiscriminatory liberalisation (including the elimination of both tariffs on textiles and clothing as well as MFA quotas) could increase developing country exports of clothing by 135 per cent and textiles by 78 per cent.[6] An IMF study[7] suggested that developing country exports to the major OECD countries would increase by 82 per cent for textiles and 93 per cent for clothing if trade restrictions in both sectors were removed. Trela and Whalley[8] arrive at even higher gains than these earlier studies although they are highly variable across countries (Table 1). Allowing for the reduction in imports from developed countries by the EC, imports from developing economies would rise by 218 per cent. In aggregate, developing countries would gain around $8 billion, suggesting that the welfare gains from unrestricted access more than offset welfare losses from foregone rent transfers.

Table 1: Estimates of general equilibrium welfare effects of removing bilateral MFA quotas and tariffs on textiles and clothing in developed and developing economies

Economy	Country welfare gain or loss (US$ 1986 billions) MFA quotas and tariffs	MFA quotas only
United States	3.478	5.347
Canada	0.311	0.389
European Community	3.487	5.029
Exporting countries		
Bangladesh	0.290	0.223
Brazil	0.921	0.753
Bulgaria	0.002	-0.003
China	1.640	0.722
Colombia	0.309	0.240
Czechoslovakia	0.081	0.018
Costa Rica	0.007	-0.003
Dominican Republic	0.005	-0.012
Egypt	0.046	0.020
Guatemala	0.005	0.002
Haiti	0.006	-0.003
Hong Kong	-0.088	-0.573
Hungary	0.105	0.056
India	0.074	-0.036
Indonesia	0.321	0.149
Macao	-0.005	-0.058
Malaysia	0.191	0.122
Mauritius	0.030	0.013
Mexico	0.101	0.030
Nepal	0.018	0.008
Pakistan	0.004	-0.031
Panama	0.001	-0.001
Peru	0.045	0.018
Philippines	0.173	0.060
Poland	0.131	0.047
Romania	0.104	0.014
Singapore	0.016	-0.042
South Korea	1.562	0.817
Sri Lanka	0.053	0.000
Taiwan	0.884	0.164
Thailand	0.017	-0.045
Turkey	0.629	0.388
Uruguay	0.003	-0.004
Yugoslavia	0.056	-0.039
All Developing Countries	7.755	3.070
All Countries	15.032	13.837

Source: Trela and Whalley, 1990 (see Footnote 8)

In conclusion, the few studies that exist suggest that the transferred quota rents under the MFA do not fully compensate developing countries for market access lost. The indications are that most developing countries (including higher-cost suppliers) would gain from an elimination of the MFA since they would jointly share in an expanded developed country market, reduced developed country production, and reduced inter-developed country trade. The gains to the developed countries (accruing to their consumers) in Table 1 are also very substantial. Indeed, if the MFA alone was liberalised three developed country blocs (US, Canada and the EC) would account for almost 80 per cent of the global welfare gain. These calculations assume that redundant labour will be quickly re-employed in other sectors of the economy.

Quota utilisation rates

Within the EC, external trade policy is formulated and implemented at Community level. Thus Ireland is not an individual signatory to the MFA but its textile and clothing industries benefit from the restraint agreements which the EC concludes with low-cost suppliers. These EC-wide quotas are divided into ten 'regional' quotas (the Benelux countries taking one quota) according to a 'burden-sharing' formula. Ireland is

Table 2: Irish quota utilisation levels for MFA Group One categories, 1987-1990

CATEGORY	Actual Irish quota as percentage of 'burden-sharing' formula %	Level of quota utilisation %
1. Cotton Yarn	466.1	49.6
2. Cotton Fabric	362.2	40.4
3. Synthetic Fabric	458.9	40.4
4. T-Shirts, Shirts	77.5	136.9
5. Pullovers	90.6	98.3
6. Trousers	68.5	120.9
7. Blouses	60.0	97.0
8. Shirts	66.3	117.3

Source: Own calculations, CSO and EC Official Journals notionally allotted 0.8 per cent of total EC imports from restrained countries under this formula. In practice, there are marked divergences from this notional share in the different textile and clothing product categories. In the past, Ireland could apply Article 115 if imports from a restrained supplier rose above the permitted levels and threatened to disrupt Irish textile and clothing producers. Article 115 is the mechanism by which individual governments can apply to the EC Commission to prevent trade in third country imports between member states. The frequent use of this article by Ireland is a major reason why, to date, this country has kept its rates of MFA import penetration lower than other EC states.

Data are presented on Irish imports under the eight most 'sensitive' product categories over the period 1987-90 in Table 2. Of these eight groups, categories 1-3 refer to textiles and are measured in tonnes while 4-8 refer to clothing and are measured in thousand pieces. Table 2 shows that while the actual Irish quotas in the textile categories are considerably greater than those predicted by a simple application of the burden-sharing formula, actual Irish clothing quotas facing MFA suppliers are significantly less than those which would be given by the formula. While the Irish textile quotas are 3.25 per cent of total textile quotas allocated to all member states between 1987 and 1990, the comparable share for clothing is only 0.6 per cent.

Table 2 also gives the actual level of imports, in tonnes or thousand pieces, as a percentage of these permitted quota levels to ascertain the quota utilisation levels for Ireland. There is a substantial divergence between the textile utilisation rates and those of clothing. While on average textile utilisation is less than 50 per cent, all the clothing categories face binding quotas. The differing rates of protection implicit in these differing utilisation rates must be taken into account in assessing the implications of MFA liberalisation for Ireland. To understand how they are taken into account the likely impact of completing the EC internal market on the textiles and clothing industries must first be discussed.

The effects of the EC Single Market

The completion of the EC Single Market will have a considerable impact on the Irish textile and clothing sectors. Some of these effects will arise because of changes in the internal competitive environment, for example, through reduced transport costs and VAT harmonisation. Others will arise because of changes in these industries' external environment. In particular, the principle of 'regional quotas' underpinned by Article 115 to prevent trade deflection from other member states is incompatible with the principles of the Single Market. The Irish industries thus face two sequential challenges in the future: the replacement of regional MFA quotas by a single EC global quota, and the subsequent increase and eventual elimination of this global quota as the MFA is liberalised.

There are two potential, not necessarily alternative, responses by MFA suppliers to the introduction of an EC global quota. First, these suppliers may continue to focus on those markets where they have established an efficient network of customer relationships but up to now have been restrained by regional quotas. The second alternative has more pessimistic implications for Irish textile and clothing producers. It envisages the MFA suppliers increasingly targeting the more sheltered member states, on the assumption that they are supplied by the least competitive producers and that prices are higher as a result. This study takes the view that the second scenario is the more likely

Table 3: Irish imports of textiles and clothing as % of total EC imports, 1987-90

	1987 %	1988 %	1989 %	1990 %	Average %
World					
Textiles	1.46	1.52	1.44	1.41	1.45
Clothing	1.64	1.71	1.69	1.64	1.67
Intra-EC					
Textiles	1.80	1.90	1.74	1.64	1.76
Clothing	2.86	3.14	3.09	2.98	3.02
Extra-EC					
Textiles	.90	.92	.97	1.02	.96
Clothing	.36	.35	.38	.47	.37
MFA restrained suppliers					
Textiles	1.00	.95	.93	.97	.96
Clothing	.31	.35	.36	.30	.33
Unrestrained third suppliers					
Textiles	.85	.90	.98	.99	.95
Clothing	.43	.36	.43	.49	.43

Source: Eurostat SCE-2311

one, especially when the indirect effects of the first are considered. More intense competition on the home markets of the larger member states may lead to the increased penetration of more sheltered member state markets by other EC producers attempting to compensate for their probable loss in domestic market share. Here, the reduction in transport costs and abolition of border conrrols because of 1992 will be important.

The Irish share of extra-EC textile and clothing imports is an important parameter in the methodology used to estimate the consequences for Ireland of MFA liberalisation. These shares for the years 1987-90 are shown in Table 3. What is relevant for the analysis, however, are not the historic shares of extra-EC imports but the likely Irish shares following the completion of the Single Market. Under a global quota, other things being equal, the Irish share would approximate its share of overall EC consumption – 0.85 per cent for both textiles and clothing. Factors leading to an import penetration of less than this theoretical share would be the relatively small size of the market and the protection of being an island economy. However, the concentrated nature of the Irish clothing market makes it more susceptible to import penetration and the Irish share of total EC population (1.1 per cent) is greater than our consumption share. The competitiveness of the Irish industries must also be taken into account. In the light of the quota utilisation rates discussed in the previous section, in the caleulations which follow it is assumed that in the case of textiles the post-1992 Irish share of extra-EC imports will remain unchanged at 1.0 per cent, while the post-1992 share for clothing is assumed to increase from 0.37 to 0.85 per cent.

Welfare effects of MFA liberalisation for the Irish economy

Any calculation of the effects of MFA liberalisation requires assumptions to be made about how producers and consumers will respond to the removal of protection. The behavioural assumptions underlying the results presented here are spelled out in the Appendix for the interested reader. The calculations are made in two steps. First, the liberalisation impact on trade flows and EC and MFA suppliers' welfare is calculated at the level of the EC as a whole. Second, the Irish welfare effects are derived from the EC effects by assuming that the Irish share of EC welfare changes is proportional to its share in extra-EC imports. In addition, because of the uncertainty about the amount of protection provided by the MFA, two sets of results are shown using a high estimate (assuming the quotas are equivalent to an additional 10 per cent tariff on textiles and a 15 per cent tariff on clothing) and a low estimate (assuming tariff equivalents of 5 per cent and 10 per cent respectively) of this protection. The estimates are for MFA liberalisation only and assume the continuation of current levels of tariff protection.

Table 4: Additional trade flows arising from MFA abolition by the EC for 1990 in IR£ '000s

	Textiles		Clothing	
Alternative tariff equivalent	0.10	0.05	0.15	0.10
Additional imports EC	686,850	424,024	4,301,727	3,096,927
Additional exports				
MFA countries	3,709,790	2,007,469	8,643,877	6,123,274
Demand effect	2,575,685	1,413,414	7,792,983	5,530,227
Substitution effect	1,813,764	950,067	3,101,536	2,161,676
Rent loss	-679,659	-356,012	-2,250,642	-1,568,629
Additional exports				
Other suppliers	-3,022,940	-1,583,445	-4,342,150	-3,026,347
Substitution effect	-1,813,764	-950,067	-3,101,536	-2,161,676
Rent loss	-1,209,176	-633,378	-1,240,614	-864,671
EC imports 1990	Textiles		Clothing	
From MFA countries	17,476,253		17,254,923	
From other suppliers	13,300,935		9,511,376	

Table 4 presents the authors' calculations of the effects on EC imports, MFA exports and the exports of unrestrained suppliers of abolishing MFA quotas. Depending on the assumption regarding the tariff equivalent of MFA quotas, EC textile imports will increase by between 1.4-2.2 per cent while EC clothing imports are predicted to increase by 11.6-16.1 per cent over 1990 levels.

The export gains for the MFA countries consist of additional exports to the EC due to an increase in import demand (demand effect), plus additional exports to the EC because of substitution for EC imports from other suppliers, minus the losses in quota rent currently captured. These export gains to the MFA economies, given in Table 4, represent an increase on current export values of 12-22 per cent in textiles and 36-50 per cent in clothing, again depending on the tariff equivalent employed. Similarly, the expected loss on current export values for unrestrained suppliers to the EC is between 12 per cent and 23 per cent for textiles and 32 per cent and 46 per cent for clothing.

The effects of the increase in textile and clothing imports into the EC on Irish employment in these industries can be estimated using the information contained in Table 4. On the assumption that total EC consumer expenditure on textiles and clothing remains unchanged, any increase in extra-EC imports simply displaces domestic EC production. The Irish share of EC production is .83 per cent for textiles (1988) and .71 per cent for clothing (1986-89 average). These Irish proportions of total EC output are then applied to the EC-wide additional imports to estimate the amount of Irish domestic production which will be displaced. The predicted loss in Irish output from this calculation amounts to IR£3.5-5.7m for textiles and IR£22-31m for clothing depending on the tariff equivalent used.

Table 5: Estimated effects of MFA liberalisation on employment in the Irish textile and clothing industries

	Textiles		Clothing	
Alternative tariff equivalent	0.10	0.05	0.15	0.10
Irish share of EC loss in output (IR£m)	5.7	3.5	30.5	22.0
Gross output per Irish worker, IR£	39,360		18,231	
Direct job losses	144	89	1,667	1,206

Table 5 predicts that MFA liberalisation would result in between 1,200 and 1,700 jobs losses in Irish clothing employment, representing between 9.7 per cent and 13.4 per cent of 1990 employment in the industry. The losses in the Irish textile industry would be relatively minor at between 100 and 150 jobs. The gender implications of these job losses should also be noted. Women account for 43 per cent of employment in the textile industry but over four-fifths of employment in the clothing industry. There would also be important regional effects as the clothing industry is widely spread throughout the country.

Table 6 provides estimates of the welfare impact on the Irish economy of eliminating the MFA. The higher the implied protection it provides, the greater the gain to Irish consumers from its removal. The estimates given in the third row of Table 6 overstate the likely national gain by assuming that resources made unemployed in the textiles and clothing industries are quickly re-absorbed in other sectors. This is not an unreasonable assumption in the long-run, even in a high-unemployment economy such as the Irish one. The lower price level resulting from the availability of cheaper consumer goods after MFA liberalisation will improve the general competitive position of Irish industry and this will facilitate the creation of new jobs in export-oriented and import-competing sectors. However, the analysis ignores the short-run costs of unemployment which should be included in a comprehensive analysis.

Table 6: Welfare effects of abolishing the MFA for Ireland (IR£m)

Alternative tariff equivalent	Textiles		Clothing	
	.10	.05	.15	.10
Change in:				
consumer surplus	12.2	6.2	20.1	11.5
Government revenue	0.2	0.2	2.0	1.5
National welfare	12.4	6.3	22.1	13.0
less				
Annual value of adjustment costs	0.2	0.1	1.8	1.3
Adjusted welfare gain	12.2	6.2	20.3	11.7
Direct job losses (no.)	144	89	1,667	1,206
Average annual wage (£)	9,460		6,530	
Cost per job saved (£)	84,790	69,775	12,177	9,677

The key parameter in calculating these adjustment costs is the length of time a person made redundant remains unemployed. The average period of unemployment for those on the Live Register in 1991 was around 18 months, but given the higher unemployment rates in traditional textile and clothing regions and the higher proportion of female employment in clothing, particularly, the adjustment cost calculations have been made on the assumption of an average unemployment duration of three years. Total adjustment costs are the product of the number of people made redundant, times the length of time they remain unemployed, times the annual loss of output per person. These adjustment costs are non-recurrent and are expressed in their annual value equivalent in Table 6 to make them comparable to the welfare gains. Even taking adjustment costs into account, the cost to the Irish economy per job saved of the present MFA restrictions is seven to nine times the annual wage in textiles and between and one-and-a-half times and twice the annual wage in clothing.

Conclusion

This paper argues that the Irish textiles industry will experience little increase in competition and few job losses as a result of MFA liberalisation. The Irish clothing industry will be harder hit, with employment losses estimated at between 10 and 13 per cent of the 1990 level of employment. However, it is further estimated that maintaining these jobs costs the Irish consumer and taxpayer between £20m-£32m per annum, or between £9,000 and £12,000 per job saved.

A number of caveats must be entered in interpreting these conclusions. First, the results refer to the liberalisation of the MFA only and not to full trade liberalisation. Existing tariffs on textiles and clothing are assumed to be maintained. If these were removed as well, the adverse impacts on the textile and clothing industries would be greater, although so would the corresponding benefits to consumers.

Second, the expected job losses in the clothing industry are the result of two separate regime changes: the elimination of EC regional quotas as a result of the Single Market, and the liberalisation of MFA quotas at the EC level. The former effect will happen anyway. Increased imports from MFA restrained suppliers will occur as a result of this in any case, so that the total effect of MFA liberalisation alone will be smaller than quoted above.

Third, as against this, the Irish clothing industry will expect additional competition from Central Europe in the future. Outward-processing activities in these countries, by which is meant the temporary export of semi-finished goods to be processed in Central Europe and then reimported into the EC in the form of finished goods, and sub-contracting activities will certainly increase and to some extent replace direct imports from low-cost MFA countries. Zero-duty outward-processing status was granted to Hungary, Poland and Czechoslovakia as of 1 March 1992 with Romania, Bulgaria and the independent republics of Yugoslavia and the former USSR next in line. Thus the liberalisation of the Central European economies can be expected to add to the competitive pressures on the Irish clothing industry.

The paper began by asking if Irish opposition to MFA liberalisation in the GATT negotiations could be justified. The gains to developing countries from such a move are snbstantial. This article argues there would also be gains to the Irish economy, although these gains are smaller than would otherwise be the case because of current high levels of Irish unemployment. The appropriate response to expected job losses in the Irish clothing industry is not to maintain protection, but to assist the process of restructuring and adjustment in order to improve competitiveness in sectors of the industry less vulnerable to developing country competition.

Appendix

The methodology used in this paper follows that used by Pearson[9] to evaluate the impact of removing footwear quotas in the US and by Koekkoek and Mennes[10] to evaluate the impact of MFA liberalisation in rhe Netherlands. The basic assumption is that imports and domestic production are imperfect substitutes. Restrained exporters and domestic producers are assumed to be able to produce as much as the market demands at a constant price, while unrestrained exporters are assumed to be able to increase production only if offered a higher price. These assumptions imply that the price of domestic production will be unaffected by trade liberalisation which will only affect the volume of domestic output demanded. Ignoring these price changes understates both the producer loss and the consumer gain from trade liberalisation, and because domestic production is less than domestic consumption the net effect is that the figures reported in Table 6 are a conservative estimate of the national gain.

Other parameters required to estimate the effects of MFA liberalisation are the EC tariff rate, the tariff equivalent rate of the VER, the import elasticity of demand and the elasticity of supply of unrestrained exporters.

The EC applies many different rates of Common External

Tariff (CET) according to the sensitivity of the product category. Weighting the rates taken from the 1990 TARIC (the integrated tariff of the EC), a general tariff rate of 8 per cent and 12 per cent is used for textiles and clothing respectively.

The restraining effect of the VER placed on the MFA suppliers is measured through a tariff equivalent rate. This rate is derived from the premium paid by producers for export quotas auctioned in the exporting countries. Most studies have taken the Hong Kong rate but recent estimates for South Korea, India and China have not been dissimilar.[11] The wide range of rates estimated in previous studies hardly allows for a unique choice and reflects the different categories analysed and time periods involved. Therefore, higher-bound and lower-bound estimates of the tariff equivalent rate are used: 15 per cent and 10 per cent for clothing and 10 per cent and 5 per cent for textiles. This reflects the view that the VERs have been more restrictive for clothing exporters than their textile counterparts.

Different studies have also chosen quite diverse estimates of the responsiveness of imports to changes in price. This study uses Koekkoek and Mennes'[12] estimates for the EC of –1.5 for textiles and –2.5 for clothing. The elasticity of supply of unrestrained exporters is assumed equal to the import elasticity of demand.

In calculating the government revenue effects of changes in trade flows account has been taken of the fact that CET revenue is an EC own resource.

Footnotes

1. A fuller discussion can be found in: J. Fitzpatrick, 'MFA IV -Prospects for the textile and clothing negotiations', *Trócaire Development Review*, 1985, pp.65-74; J. Blackwell, 'Ireland's trade with developing countries: some policy issues', *Trócaire Development Review*, 1986, pp.7-22; and N. Timoney, 'GATT: The new round of trade negotiatious', *Trócaire Development Review*, 1986, pp.34-43.
2. For more details see A. Matthews, (1991), *EC Trade Policy and the Third World*, Dublin, Gill and Macmillan and Trócaire.
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11. R. Kumar and S. Khanna, (1990), 'India, the Multi-Fibre Arrangement and the Uruguay Round' in C. Hamilton, (ed), op.cit; C. Hamilton, (1991), 'The new silk road to Europe' in K. Anderson, (ed), *New Silk Roads: East Asia and World Textile Markets*, Cambridge, Cambridge University Press
12. A. Koekkok and L. Mennes, (1986), op.cit.