ITCB

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Presentation by
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Let me begin by commending the European Commission for organizing this Conference. I am pleased to share some reflections from the perspective of developing countries and economies, exporters of textiles and clothing.

The importance of trade in textiles and clothing for developing countries cannot be over-emphasized. Manufacture of clothing is a labour intensive activity, with a strong gender dimension. The sector is therefore particularly important for the creation of employment opportunities in these economies.

The subject matter for discussion in this session is rather interesting, although it begs the central issue that has long been, and continues to be, the cause of iniquity in trade in textiles and clothing, i.e., the singling out of this sector for targeted policy interventions by major developed countries to provide protection to domestic industries.

- For years, the instrument of intervention was the quota system applied on exports from developing countries.

- More recently, it is the imaginative use of rules of origin, aided by the convenience of relatively higher tariffs applicable to textile and clothing products and the mechanism of regional arrangements. Often, the purpose has been to advantage domestic textile producers in the developed world. Subtle campaigns in the name of protection of labour rights and the environment – aided, sometimes willingly sometimes less so, by governments –

also have the potential of becoming constraints on exports from developing countries.

- For the short term future, there are fears about trade remedy actions (anti-dumping, safeguards, and so on) becoming the instrument of choice in the hands of protection-seeking elements.

It is useful to recall that developing countries have mostly been at the receiving end of these policy interventions, and have been striving to secure the application of multilateral rules to the sector. They offered significant concessions in the Uruguay Round to secure an end to the quota system over a ten year period even though quotas were never GATT-consistent. The central purpose behind such a long transition period was to facilitate a gradual process, with a smooth landing at the end.

Due to preoccupation with the quota regime, however, little attention was devoted to the issue of tariffs in the previous rounds of multilateral negotiations. In the meanwhile, policy developments of the recent past, alluded to earlier, have produced profound impact on the competitive landscape.

The evolution in trade patterns since the Uruguay Round attests to the effect of these policy interventions, not just the quotas. To cite a few examples:

- Taking ATC as the product coverage and measured in US dollars, the share of restrained suppliers in extra-EC imports declined from 42% in 1990 to 41.4% in 2001. On the other hand, quota and duty free access made available to ten countries that joined with the EU through regional arrangements enabled them to increase their share from 20.6% to 34% in the same period. The ten are: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic, Malta, Morocco, Tunisia and Turkey.

- Seen differently, while extra-EC imports from these ten countries over the ATC period (1995 to 2001) grew by 4.2% annually, those from restrained economies could advance by only 2% per year.

- The picture on the US scene is no less revealing. Whereas the import share of restrained economies declined from 79.3% in 1990 to 66.3% in 2002, the share of unrestrained suppliers increased from 21% to 34% in the same period.

- o Here again, looked at differently, while imports from unrestrained sources increased at an annual rate of 13.19%, they could increase at a rate of only 5.6% from restrained suppliers.

The uneven distribution of benefits caused by the changing scene of policy interventions is thus obvious.

Little wonder then that study after study finds that liberalization of trade in the sector could bring immense benefits, especially to developing countries.

To quote a recent study produced jointly by the IMF and the World Bank in September 2002, the export revenue loss to developing countries due to industrial country quotas and tariffs amounts to US $ 40 billion per year, of which $ 22.3 billion is on account of quotas. The same study also pointed out that as many as 27 million jobs are foregone in developing countries due to the effect of quotas and tariffs.

It goes without saying that, for these gains to materialize, a fundamental shift in policy stance by developed countries is imperative. Fortunately, the elimination of quota restrictions is just 600 days away. Regrettably, however, some recent signals are clouding the picture.

As part of its enlargement from May 2004, the EC plans to expand the scope of quota restrictions to include the ten newly acceding states. It is unfortunate that this should happen barely 8 months from the termination of all quotas anyway. It sends an awkward signal about EC commitment to multilateral obligations.

In a similar case of imposition of quotas by Turkey following the formation of EC-Turkey customs union, the Appellate Body of the WTO had ruled that these quotas were justified neither by the ATC, nor by Article XXIV of the GATT. Moreover, the acceding states have long had Free Trade Agreements with the EU. If they did not have to apply any quotas so far, when they have already been joined with the EU through FTAs, it is surprising that they should have to do so while joining the EU customs union.

It should be hoped that the EC would avoid such a negative move.

As noted earlier, an important element for transition to quota-free regime was to be progressivity in the process of liberalization. The central purpose behind such a long transition period was to facilitate a gradual process, with a smooth landing at the end. Unfortunately, the restraining countries chose to postpone the process to the end. A specific technical detail of the implementation regime assumes great importance even for the last year of the ATC.

Under the quota regime, restrained countries were entitled to borrow a certain portion of the quota from the following year and use it in advance. The denial of this so-called ‘carry forward’ has the potential of reducing quota availability in 2004 contrary to the liberalizing spirit of the ATC. Hopefully, steps can be taken by the restraining countries to allow the continued use of this flexibility in 2004 so that access opportunities are not reduced.

Another cause for worry for exporters is the increasing spectre of trade remedy actions, such as anti-dumping and similar other measures.

The initiation of investigations into allegations of dumping in itself produces profound trade-chilling effects on businesses. The experience with a spate of investigations by EC Commission over the last years has proven that these investigations are often prompted by interested parties to preserve their corner of the market. Many of these investigations were, or have since been, found to be unjustified.

Moreover, under the quota regime, trade transactions were not driven by normal commercial considerations alone. Quota considerations have been at the center of pricing arrangements. It will be some time before trade finds its normal course after the abolition of all quotas.

Also, the disappearance of quota premiums would exert downward pressure on prices, encouraging protection seeking interests to cry dumping and to demand anti-dumping actions.

In view of the distortion of pricing decisions under the quota regime, allegations about dumping in the immediate aftermath of the abolition of quotas could not be reasonably evaluated unless there was sufficient opportunity for trade to find its normal course.

In the event, is it not fair that exporters are provided with an appropriate period of time to compete in the market on a secure basis, free of the threat or uncertainty of protectionist actions in the name of trade remedy measures?

In short, trade in textile and clothing has had a long and continuing legacy of targeted policy intervention. We believe it is this intervention that should be central to the discussion about the post–2004 period.

The developed world owes it to developing countries to correct the situation, including by effective assistance particularly to least developed countries and small suppliers such as financial help, capacity building and other development tools. For this to happen, there is a need for a fundamental shift away from treating the sector different from all others, and to address it within the common integrated framework of multilateral rules and disciplines. Such an approach would best secure effective liberalization and, spread the benefits deep and wide.

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