ROUTLEDGE

The Global Political Economy of Trade Protectionism and Liberalization

Trade reform and economic adjustment in textiles and clothing

Tony Heron

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The Global Political Economy of Trade Protectionism and Liberalization

Given the widely-accepted premise that free trade is the best means of maximizing overall societal welfare, why has it proven so difficult to achieve in certain industries? This book tackles arguably the most perennial and deep-rooted of all questions in political economy, and questions the incumbent orthodox liberal theories of collective action.

Using a historical institutionalist framework to explore and explain the political economy of trade protectionism and liberalization, this book is based on detailed case studies of the textiles and clothing sector in the EU, the United States, China, the Caribbean Basin and sub-Saharan Africa. From this, the book expands to discuss the origins of trade protectionism and examine the wider political effects of liberalization, offering insight into why a successful conclusion to the WTO 'Doha' Round has proven to be so elusive. The book argues that the regulation of global trade – and the economic consequences that this has for both developed and developing countries – has been the result of the particular way in which trade preferences are mediated through political institutions.

The Global Political Economy of Trade Protectionism and Liberalization will be of interest to those studying and researching international politics, development studies, economics and law.

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For Clare, Lucas and Jessie

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Tony Heron
Sheffield, UK
August 2011

Abbreviations

ACP	African, Caribbean and Pacific Group of States
ACTIF	African Cotton and Textile Industries Federation
AfT	Aid for Trade
AGOA	Africa Growth and Opportunity Act
ATC	Agreement on Textiles and Clothing
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
CAFTA	Central America Free Trade Agreement
CARICOM	Caribbean Community and Common Market
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CBTPA	Caribbean Basin Trade Partnership Act
CCP	(EU) Common Commercial Policy
CEEC	Central and Eastern European countries
DDA	Doha Development Agenda
DFQF	duty-free, quota-free
DSM	(WTO) dispute settlement mechanism
EBA	Everything But Arms
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
EEC	European Economic Community
EIEA	Export Industry Encouragement Act (Jamaica)
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
EPZ	export processing zone
EU	European Union
FDI	foreign direct investment

GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNI	gross national income
GSP	Generalised System of Preferences
GTAP	Global Trade Analysis Project
HST	hegemonic stability theory
HTS	(US) Harmonized Tariff Schedule
ICTSD	International Centre for Trade and Sustainable Development
ILO	International Labour Organization
IMF	International Monetary Fund
IPE	International Political Economy
ISI	import-substitution industrialization
ITCB	International Textiles and Clothing Bureau
ITO	International Trade Organization
LDBC	(AGOA) Lesser Developed Beneficiary Country
LDC	least developed country
LTA	Long Term Arrangement Regarding International Trade in Cotton Textiles
MFA	Multi Fibre Arrangement
MFN	most favoured nation
NAFTA	North American Free Trade Agreement
NAMA	non-agricultural market access
NIDL	The New International Division of Labour
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPT	outward processing trade
OTEXA	(US) Office of Textiles and Apparel
PWC	post-Washington Consensus
SAP	Special Access Programme
SDT	special and differential treatment
SEA	Single European Act
SSA	sub-Saharan Africa
STA	Short Term Arrangement Regarding International Trade in Cotton Textiles
SYE	standard yard equivalent
T&C	textiles and clothing
TNC	transnational corporation

TSUS	Tariff Schedule of the United States
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
USAID	United States Agency for International Development
USITC	United States International Trade Commission
USTR	United States Trade Representative
WTO	World Trade Organization

1 Introduction

1 January 2005 was meant to be one of the most momentous dates since the creation of the General Agreement on Tariffs and Trade (GATT) in 1947 – perhaps more so than even the establishment of the World Trade Organization (WTO) in 1995. It was on this date that the Multi Fibre Arrangement (MFA), the protectionist trade regime governing textiles and clothing (T&C) that had become a byword for the hypocrisy and double standards beneath the advocacy by rich countries of the virtues of free trade, officially came to an end. The liberalization of T&C had been agreed to as part of the 1993 Uruguay Round, whereafter the MFA was dismantled in four progressive but unequal stages culminating in the removal of the most sensitive quotas on 31 December 2004. But the story did not end there. In fact within a few months of the abolition of the MFA both the USA and the European Union (EU) had introduced new trade restrictions against Chinese imports. Although these measures were justified on the grounds of offering a 'temporary' transition period so as to allow producers affected adversely by liberalization further time to adjust to freer trade – precisely the same rationale used to justify the original MFA – what this effectively meant, for China at least, was that the MFA was being extended for a further three years. More to the point, these new trade restrictions appeared to contravene the basic principles of the new multilateral order. In other words, although the Uruguay Round formally brought an 'end to a special and discriminatory regime that has lasted for more than 40 years' and created the WTO wherein T&C would be 'governed by the general rules and disciplines embodied in the

multilateral trading system' (Panitchpakdi 2004), the sector still appeared to be something of a law unto itself. It is this uniqueness that this book seeks to trace and to explain.

The textiles and clothing sector

In many ways, T&C can be regarded as the quintessential 'global' industry, constituting the most geographically dispersed forms of manufacturing across both developed and developing countries (Dicken 2003; Dickerson 1999). The industry is made up of a number of distinct economic activities, each with its own specific technological and structural characteristics, ranging from the supply of raw materials and intermediate inputs at one end of the supply chain to the transformation of these inputs into end-use products and their eventual distribution and retail at the other end (see Figure 1.1).

Although the 'upstream' segment of the T&C chain is now generally characterized by high levels of technological innovation and capital intensification, in the 'downstream' clothing segment of the chain – the main focus of the book – the impact of technological innovation, especially in sewing and assembly stages of production that account for approximately 90 per cent of labour costs, has been minimal. As a consequence, the clothing industry's association with low-cost barriers to entry and labour-intensive employment remains synonymous with 'sweatshop' employment practices, global outsourcing and trade conflict between rich and poor countries.

Theoretical speaking, T&C has arguably been at the forefront of two of the most important debates in International Political Economy (IPE) in the last 30 years. The first of these centred on the 'new international division of labour' first proclaimed by Folker Fröbel *et al.* in 1980. While this idea predated the globalization debate by a number of years, it nonetheless offered a precursor to precisely the sorts of concerns that would come to dominate IPE from the late 1980s onwards. In *The New International Division of Labour* (NIDL), Fröbel and his colleagues identified a qualitative shift in the nature of the political economy of North-South relations, away from an 'old' international division of labour wherein developing countries were restricted mainly

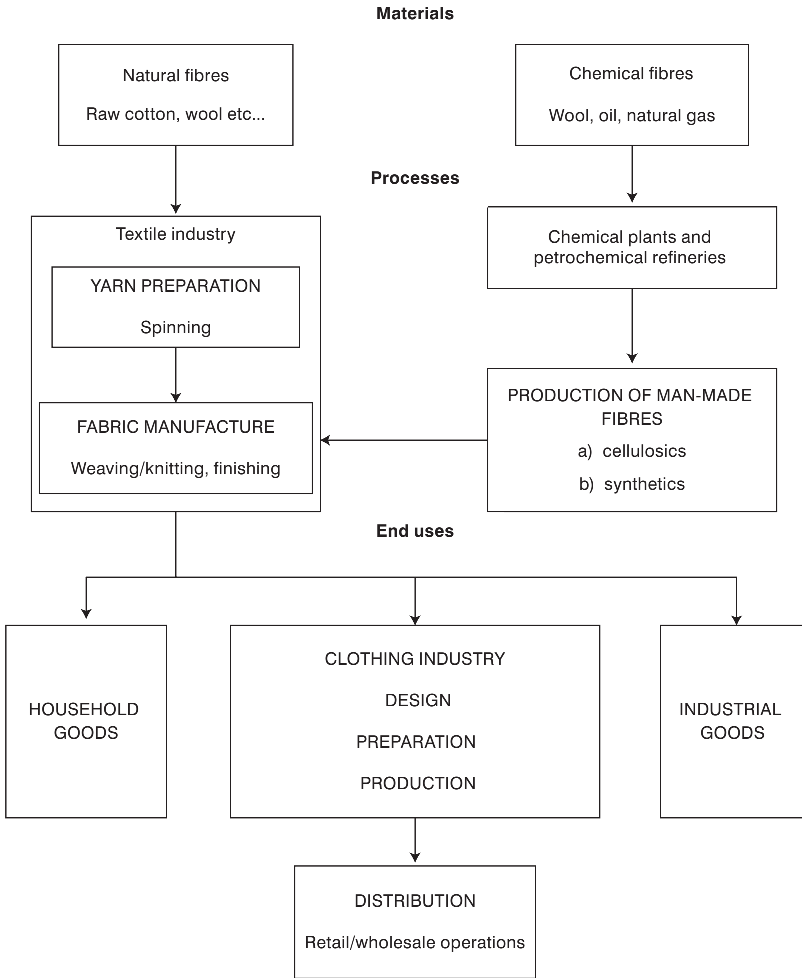

Figure 1.1 The textiles and clothing production chain
Source: adapted from Dicken 2008: 318

to the export of raw materials, and towards a situation based on the dispersal and reorganization of manufacturing activity away from the core and towards the periphery. As they saw it, this new international division of labour was due primarily to the internal logic of capitalism itself as corporate managers sought to maximize profits in conditions of heightened global competition. To buttress these claims, Fröbel *et al.* used the case of outsourcing in the German clothing industry, which they claimed was driven

by the attempts of transnational corporations (TNCs) to seek out the lowest possible labour costs and that this was leading to a re-allocation of elements of the production process towards those geographical areas where the cheapest and most compliant labour could be found. But Fröbel *et al.* went on to emphasize that this new international division of labour was not due to the conscious strategies of individual firms; nor for that matter was it a response to the policies pursued by particular developing countries. Rather:

> The new international division of labour is an 'institutional' innovation of capital itself, necessitated by changed conditions, and not the result of changed development strategies by individual countries or options freely decided upon by so-called multinational companies.
>
> (Fröbel *et al.* 1980: 46)

Of course, in the 30 years since the original publication of *The New International Division of Labour* this type of structuralist logic, and the neo-Marxist methodology underpinning it, has fallen out of fashion while the NIDL thesis as a whole was in time subject to numerous powerful critiques (Jenkins 1984; Gordon 1988; Mittelman 1997; Dicken 2003). Even so, the more substantive claim of the NIDL thesis – that is, that the international division of labour was driven by the 'cheap labour' strategies of TNCs – arguably left a more enduring mark on the debate. This is almost certainly true in the clothing industry. Although the geographical dispersal of clothing manufacturing documented originally by Fröbel *et al.* was, and is still, claimed to be indicative of the broader pattern of structural change within the international political economy, the industry is actually characterized by a number of technological and structural features which render it far more supportive of the NIDL thesis than other forms of manufacturing. Despite all of this, the extent to which the international, or global, division of labour can be understood as an expression of the 'cheap labour' strategies of Western TNCs is still questionable, even in the case of T&C. Indeed, as we intend to argue, although structural and technological characteristics render the sector more supportive of

the NIDL thesis than other comparable forms of manufacturing, a more important determinant of the geographical dispersal of T&C was the complex system of protectionist quotas which operated under the MFA between 1974 and 2004. Even though the MFA was supposedly intended to create an 'orderly' transition through the gradual opening-up of Western markets to exports from developing countries, in practice the subsequent renewals of the regime (1977, 1982, 1986, 1991) served to place increasingly restrictive quotas on most of the leading exporters. Paradoxically, however, these policies exacerbated the problems faced by developed countries by actually heightening the economic capabilities of developing country firms, as well as intensifying the scope of foreign competition as progressively more non-regulated countries entered the market (Gereffi 1999). In sum, the globalization of the T&C industry has been, at least to some degree, an unintended consequence of the protectionist policies pursued by Western governments.

The second debate in which T&C has figured prominently is that centred on hegemonic stability thesis (HST) which of course dominated mainstream IPE scholarship in the 1980s and 1990s. As is well known, HST correlates the smooth operation of the liberal economic order with the provision of global public goods, underwritten by a leader, or hegemon, willing to impose them and accept a disproportionate share of the cost of their provision. In the absence of such leadership in or in a situation in which the hegemon loses the capacity to impose these regimes, HST predicts a corresponding decline in their strength and durability, and hence a weakening in the liberal economic order. In *Liberal Protectionism*, Vinod Aggarwal drew on these insights to argue that the gradual 'weakening' of the post-war T&C regime – by which he meant the proliferation of protectionist quotas in contravention of the spirit of the original agreement and wider norms underpinning the multilateral trade order – was a direct consequence of US hegemonic decline. As originally conceived, Aggarwal argued, the MFA was consistent with the US preference for what he referred to as 'liberal protectionism'. During the course of the 1970s, however, as US dominance of the international trading system began to dissipate, the MFA gradually came to reflect the preferences of the European

Economic Community (EEC) for a more protectionist regime. As a result, the progressive hardening of the MFA from the late 1970s onwards was consistent with the theory of hegemonic stability, insofar as the latter predicted 'strong regimes when a single power is dominant' (Aggarwal 1985: 4).

Although Aggarwal's interpretation of the MFA was consistent with and supportive of HST, he claimed at the time that his account furthered the debate in two important ways. On the one hand, Aggarwal qualified his reference to hegemonic stability by insisting that the theory only provided an accurate explanation of regime strength if it was operationalized in terms of issue-specific capabilities. In the case of T&C, Aggarwal claimed that, because these products tend to be more demand-elastic than other goods, market dominance needed to be measured specifically in terms of market power, rather than simply by reference to wider sources of geoeconomic or geopolitical power. On this reading, he suggested, the USA was overwhelmingly the dominant player in the international T&C trade during the 1950s and 1960s, but by the late 1970s it had been overtaken by the EEC. Thus, it was the change in the distribution of capabilities measured specifically in terms of T&C consumption that accounted for the hardening of the MFA from the late 1970s onwards. On the other hand, although Aggarwal's thesis was in the spirit of neorealist thinking of the time in the sense that it favoured 'systemic' over 'reductionist' explanations, he was at pains to point out that his account did not neglect domestic factors. Indeed, Aggarwal specifically argued in a separate paper that, in relation to the 1981 MFA renewal, domestic interest groups in both Europe and the United States proved to be a 'significant constraint' on the type of regime that was ultimately agreed upon (Aggarwal 1983: 643). But in the final analysis Aggarwal saw the evolution of the T&C regime as closely corresponding to the theory and predictions of the hegemonic stability model, as his ultimate conclusion regarding the 1981 MFA renewal testified:

> Changes in the strength and nature of the regime appear to be caused by a shift in the distribution of capabilities and increasing competition from newly industrializing countries

> in the textile and apparel subsystems. In the matter of regime strength, the absence of a hegemon to impose or cajole others into subscribing to an international regime led to an accord that was of necessity a product of compromise between two key actors – the EEC and the United States.
>
> (Aggarwal 1983: 643)

As in the case of the NIDL thesis, the benefits of hindsight enable us to reject both Aggarwal's specific thesis regarding the T&C trade regime as well as the broader theoretical assumptions on which it rests (see Milner 1998). There is of course the obvious empirical point that US hegemonic decline – if indeed that is what occurred – did not lead to the further 'weakening' of international regimes, nor to spiralling levels of trade protectionism. In fact, in the light of the successful conclusion of the Uruguay Round in 1993, it might be argued that the precise opposite was true. At the same time, given the emphasis that hegemonic stability theory placed on systemic sources of regime change, it has difficultly accounting for the marked variation of regime dynamics across different sectors. To put the point another way, if the trajectory of international regimes could simply be 'read off' from changing structures of global economic power, then how would we account for the idiosyncrasies that have historically and continue to characterize the regulation of different industries, not least T&C?

The argument of the book

This book is concerned with the politics and political economy of trade protectionism and liberalization in T&C; more specifically, it seeks to trace and to explain why the sector has historically proven to be, and arguably remains, such an anomalous case with respect to the multilateral trading system. The two literatures already briefly mentioned offer us some important clues as to where we might begin our investigation. The NIDL thesis, for its part, alerts us to the changing structural context beginning in the early 1970s associated with the intensification of capitalist competition and the geographical dispersal of manufacturing – and given the low entry barriers and labour-

intensive patterns of accumulation closely associated with T&C one can see the escalation of protectionist pressures in high-income countries as a logical corollary of this process. However, this still fails to explain why trade protectionism became much more prevalent in T&C than in other industries, even those with similar technological and economic characteristics that were also the subject of global outsourcing, e.g. footwear, toys and consumer electronics. Meanwhile, Aggarwal's HST-inspired account does point to the importance of global leadership and changes in the distribution of economic power in shaping regime dynamics. But this still does not account for the decision in the first place to create a separate regime for T&C – a decision, moreover, presumably taken when US global hegemony was in the ascendency.

In other words, the decisive shift in the regulation of T&C occurred not in the 1970s when 'liberal protectionism' supposedly gave way to 'illiberal protectionism', but at a much early date when the original decision was taken to effectively exclude T&C from the post-war multilateral trading system and to establish a parallel system of trade governance – a system, it hardly needs to be added, which was both highly discriminatory and non-reciprocal. The approach we take in this book is that this parallel system of trade governance is understood best as a by-product of policy institutionalization and path dependency. While acknowledging the due influence of systemic pressures, alongside important technological changes, we draw upon historical intuitionalist insights in order to show that the MFA – and the economic consequences that this had for both developed and developing countries – was a result of the particular way in which sectoral trade preferences were mediated through political institutions. Once translated into policy, these trade preferences became embedded within a particular set of regimes that developed and changed over time, the result of which ultimately shaped the distributional politics of both protectionism and liberalization. In other words, *the global political economy of trade protectionism and liberalization in the T&C sector needs to be understood as a path dependent process that was heavily influenced by the embeddedness of policy regimes and attendant patterns of political and economic behaviour*.

This argument is underpinned by a conceptual framework that obviously takes its cue from historical institutionalism. In the field of IPE, historical institutionalism has in the past been deployed to good effect to reveal the political structures and patterns of behaviour that exist within policy making bodies and negotiating arenas. This is especially so in case of the GATT/ WTO. According to these accounts, institutions are said to promote asymmetries in negotiating power that persist over time, thus locking in patterns of negotiation and policy making that are procedurally unfair; moreover, the trade flows that result from such unfair policy processes are said to perpetuate (and even exacerbate) existing global economic inequalities, which are then carried by states and their delegates into future trade rounds, adding another layer of historical legacy to negotiation (Steinberg 2002; Smith 2004; Narlikar 2005; Wilkinson 2006). In this book, we draw inspiration from these accounts but deploy historical institutionalism in a slightly different way by considering the institutional legacies beholden by *policy itself* rather than the forum(s) within which policy is made. We will argue that by taking a different level of analysis – namely, the sectoral level – we can consider how the economic activity and political coalitions that accumulate around pre-established policy regimes – what we might refer to as the day-to-day governance of a sector – shape heavily the types of reform possible in international negotiations. In other words, patterns of trade protectionism and liberalization (or otherwise) of international trade exhibits a path dependency but not one that is captured entirely by those historical institutionalist accounts that focus principally on international organizations as the arena of political action.

Theoretically speaking, then, the book explores the form and effects of path dependency in international trade and, in so doing, what it adds to the literature is the application of a methodological technique that can illuminate the 'inner logic' perceived in sectoral trade reform and the (often overlooked) differences in liberalizing policy measures that result. In other words, the book addresses not primarily the underlying reasons for change, but rather sectoral constraints placed on change as manifest in the legal, political and ideational commitments of

agents. To these ends, the next task is to set out, albeit very briefly (for a more lengthy account see Heron and Richardson 2008) what path dependency entails, the benefits and dangers it carries, and how it can be set into a framework through which to study the institutionalization of trade policy. According to Adrian Kay (2005), path dependency is neither a framework nor a theory in itself but an organizing concept, a means to label a certain type of temporal process in which the trajectory of change up to a certain point constrains the trajectory after that point. As Douglass North puts it:

> At every step along the way there are choices – political and economic – that provide [...] real alternatives. Path dependence is a way to narrow conceptually the choice set and link decision-making through time. It is not a story of inevitability in which the past neatly predicts the future.
>
> (North 1990: 98–99)

The concept of path dependency is almost exclusively deployed in political science within institutional theories, relating to the emphasis institutionalism places on the strategic orientation of actors to the contexts in which they find themselves, the unintended consequences of purposeful action and the importance of the historical legacies bequeathed from the past to the present (Schmidt 2005). The precise way in which path dependency is understood relates to the particular type of institutional theory that is employed. In our case it is the historical institutionalist strand, directed to explaining historical structures rather than rational behaviour or norms and culture, which is of most relevance (Hall and Taylor 1996; Thelen 1999). For Colin Hay and Daniel Wincott (1998), historical institutionalism adopts a context bound rationality that stresses the degree to which actors strategically relate to the institutions in which they are embedded, introducing reflexive agency to the analyses of how political choices are constrained by past decisions. Within this framework, path dependency is understood as comprised of 'critical junctures' and 'developmental pathways'. Critical junctures emphasize the importance of sequence and timing in the creation and evolution

of different institutions, such as national models of capitalism or international organizations. This approach proposes that only at certain points do opportunities for institutional transformation present themselves, and that the decisions taken at these junctures constrain the future development of institutions. Developmental pathways, meanwhile, draw attention to the feedback effects of institutions that exhibit a reproductive logic, whereby agential behaviour tends to the same set of political outcomes and practices.

In summary, a framework for applying path dependency in policy processes must consider the following.

1 Multiple equilibria situations exist at the beginning of path-dependent processes. A number of viable policy alternatives are possible and the final outcome cannot be determined by any set of initial conditions.
2 Contingent events play a substantial role in establishing the particular policy regimes. When things happen affects how things happen.
3 Path-dependent events are linked by causal mechanisms underpinned by material and ideational foundations of political stability. Mechanisms generate 'inertial force' along developmental pathways which lead into the next critical juncture.

The aims and outline of the book

Having established the general remit and conceptual framing of the book, our next task is to set out a more specific set of research questions to guide the study and to offer a road map of how it will proceed. In essence, the book is concerned with four analytically separate but closely related research questions.

1 Why did sectoral protectionism become so entrenched in T&C and why did it take so long to bring the sector into line with multilateral trade disciplines?
2 Given the entrenched nature of sectoral protectionism how was it that the developed countries were willing to abandon the MFA during the Uruguay Round when they had defended it so forcefully in previous GATT rounds?

3 How far did the historical legacies bequeath by the MFA influence modes of liberalization and patterns of trade diplomacy in the period immediate following the removal of quotas?
4 What have been the main distributive consequences of liberalization and to what extent were these influenced by patterns of political and economic behaviour which accumulated during the MFA?

The first of these research questions is addressed in Chapter 2, which traces the origins of trade protectionism in T&C and the MFA system. Drawing upon our historical institutionalist insights, we suggest that the origins of the MFA lay in the particular way in which the discriminatory practices that characterized the T&C sector in early part of the twentieth century became embedded within the post-war trade regime. Because the key architect of the post-war trade regime – the USA – was said to possess an independent interest in the establishment of a liberal international order embracing emerging economies like Japan, but at the same time was constrained by social forces at home which pressed for the maintenance and (in some cases) the extension of pre-war trade restrictions, the adoption of voluntary export restraints which were nominally consistent with the GATT were justified as the 'least worst' policy option. Once in place, however, these export restraints, along with the various discriminatory practices retained in post-war Europe, had the effect of delinking the regulation of T&C from the wider GATT system. In time this separate regime became institutionally embedded within the multilateral trade architecture, leading gradually to both a widening and deepening of North–South trade protectionism.

Chapter 3 examines the liberalization of T&C that was agreed to as part of the 1993 Uruguay Round – an eventuality that, at least on the surface, raises awkward questions for our historical institutionalist account, given its emphasis on path dependency, policy continuity and so on. However, we will argue that a closer inspection reveals that, not only is T&C liberalization consistent with the story advanced so far, but also, the concept of path dependency holds the key to understanding why the ending of

the MFA has not proven to be as equitable as many analysts and policy makers originally envisaged (an issue dealt more specifically in Chapter 4). Briefly put, we argue that contrary to the popular idea that the liberalization of T&C during the Uruguay Round was somehow part of a 'grand bargain' between developed and developing countries, the outcome makes more sense once we take into account the internal contradictions of the quota regime and the not unrelated independent interests that the developed countries by this point had in abandoning the MFA.

In Chapter 4, we survey the main distributive impacts of liberalization once quotas were removed – especially for generally smaller developing countries that to a greater or lesser extent prospered when the MFA was in place. This chapter seeks to go beyond the economics literature to look more specifically at the political correlates of trade liberalization in the T&C sector. Again drawing on our historical institutionalist framework, the main aim here is to show that the problems of adjusting to freer trade are not simply, or even in some cases predominantly, a reflection of comparative advantage and the uneven distribution of factor endowments, as most analysts assume. What this chapter also takes into account are the various ways in which trade policy regulation became embedded institutionally within particular policy regimes – not just the MFA but also a series of preferential trade schemes that grew up alongside it – which changed over time. It is these policy regimes, as much as so-called 'natural' variables like size and factor endowments, we will argue, which ultimately determined the distributional effects of T&C liberalization for developing countries – a conclusion that is explored in much more specific detail in Chapters 6 and 7.

Chapter 5 puts aside for a moment the economic consequences of liberalization to examine its political effects in terms of emergent patterns of North–South trade diplomacy under the WTO. Here we return to the episode described briefly at the outset of this chapter with respect to the introduction of textiles 'safeguards' by the USA and EU following the abolition of quotas in 2005. Focusing on the EU case, the chapter contrasts the introduction of 'safeguards' not only with commitments made under the WTO Agreement on Textiles and Clothing (ATC)

– which supposedly brought an end to the use of quantitative restrictions – but also the 'pro-poor' trade and development discourse that the EU, in particular, has promoted over a number of years. By again invoking historical institutionalist arguments, however, we are able to show that, though incongruous in the light of the new multilateral order, these actions are far easier to understand once we take into account the embeddedness of the T&C regime and attendant patterns of political and economic behaviour. In short, on the basis of this case at least, it appears that textiles diplomacy in the post-MFA period continues to exhibit a path dependency in which emergent practices bear a closer resemblance to previous, sectoral-specific patterns of behaviour than envisioned by the WTO and its supporters.

In Chapters 6 and 7, we return to the distributive politics of liberalization first encountered in Chapter 4. But here we focus much more specifically on the adjustment problems confronting the hitherto preference-dependent countries of the Caribbean Basin and sub-Saharan Africa (SSA). Chapter 6 focuses on the Caribbean Basin and traces the co-evolution of the MFA with a particular development strategy – what we call the 'offshore' development model – built around the outsourcing of assembly functions by US garment manufactures. We then assess the prospects for this model in the light of the ending of the MFA and conclude that the prospects for the Caribbean Basin garment sector appear bleak. This is not just because the region's exporters now face greater competition from newly liberalized countries such as China. It is also because the sheer scale of the threat has the potential to undermine the entire production-sharing model as US domestic demand becomes progressively, perhaps exclusively, satisfied by direct imports from Asia, effectively ruling Caribbean Basin garment manufacturers and their US counterparts out of the supply chain.

Finally, in Chapter 7 we examine the analogous situation in SSA. Like the Caribbean Basin, SSA has been a major beneficiary of preferential trade in T&C made possible by the presence of the MFA (albeit only after the passage of the Africa Growth and Opportunities Act (AGOA) in 2000 at the midpoint of the MFA phase out). But, as the chapter will note, the two cases have generated quite a different supply response in terms of assembly

related investment. In the case of SSA, because the major source of investment has come from Asian firms specializing in 'buyer-driven' production rather than outsourcing, the region has arguably escaped the Caribbean Basin predicament described above. Despite this, the former has nevertheless experienced dramatic trade losses since the removal of quotas. The chapter uses the specific case of Lesotho in order to understand these losses. Rather than focusing solely on the impact of the MFA phase out, however, the chapter also seeks to locate the case of SSA within the evolving politics of the WTO's Doha Development Agenda (DDA) and consider how far, if at all, concrete measures currently being worked out in Geneva (the probable failure of the Doha Round notwithstanding) will serve to ameliorate the effects of preference erosion in SSA and other preference-dependent regions and countries.

2 The Multi Fibre Arrangement

As is well known, the post-war international trade regime was shaped decisively by the failure to ratify the 1947 Havana Charter, which would have established the International Trade Organization (ITO) as the 'third pillar' of the Bretton Woods economic order. Instead, the GATT emerged as a 'temporary' legal instrument for both facilitating multilateral negotiations and monitoring the subsequent liberalization of trade. The problem with this, however, was that the GATT lacked the organizational structure necessary to ensure that the key principles of the post-war trading system – reciprocity and non-discrimination – were applied consistently. The institutional deficiencies of the GATT also had a number of more specific consequences. The first of these was that it lacked a legally robust enforcement mechanism whereby contracting parties could be brought to account for treaty violations. The second consequence was that, while the GATT was relatively successful in securing liberalization through tariff cuts (at least for industrial goods), this was in a number of cases offset by a rapid increase in non-tariff barriers, including voluntary export restraints and other quantitative restrictions. The third and most substantive consequence of the GATT's weak organizational structure was that the pattern of liberalization was highly skewed in favour of the developed countries, with the result that trade in areas of economic interest to developing countries (especially T&C but also agriculture) was effectively excluded from the post-war multilateral trading system. The ultimate outcome of this was that a parallel system of trade governance emerged in

these sectors, which was both highly discriminatory and non-reciprocal.

The T&C sector itself has long since been a source of significant trade conflict between developed and developing countries. According to Aggarwal (1985: 9–10; see also Chang 2002: 19), trade discrimination can be traced as far back at least as early as the fourteenth century, when the import of woollen cloth into England was statutorily banned by King Edward III in 1337. In the 1600s, Aggarwal suggests, trade barriers imposed by the British Crown successfully prevented the growth of cheap imports from India and China and, in the process, enabled domestic producers to bring their industry to maturity. Once it had established industrial maturity, Britain was then able to target its manufactured cotton textiles at overseas markets, especially India, where the influx of mechanically produced goods had more or less overwhelmed indigenous industry by the early 1800s. Finally, by the mid-nineteenth century, Britain's industrial prowess in the T&C sector had become synonymous with *Pax Britannica* and the shift toward global economic liberalism.

By the early part of the twentieth century, however, the global T&C map was about to be radically reshaped. After World War I, Britain was still responsible for about two-thirds of the world's T&C trade; nevertheless, by this stage other developed countries, most notably the USA, were making rapid inroads in T&C production while erecting trade barriers to shield domestic manufacturers from foreign competition. Under the Tariff Acts of 1922 and 1930, for instance, the US effectively sealed off its domestic T&C market, with the average 1930 tariff standing at 46 per cent and that for woollen goods standing at 60 per cent (Cline 1990: 146). During the Great Depression, international trade in T&C was characterized by severe economic closure as each of the major powers resorted to retaliatory 'beggar-thy-neighbour' trade restrictions. British manufacturers were protected from foreign competition through the imperial preference system, while other countries resorted to the widespread use of quantitative restrictions. These restrictions were focused largely (though not exclusively) on Japan, to the extent that by 1936 its cotton textile exports were subject to quotas in 40 out of

a total of 104 overseas markets (GATT 1984: 62). All of this notwithstanding, by the mid-1930s Japan had replaced the UK as the world's largest producer of cotton textiles, while other developing countries including Hong Kong, South Korea, India and Pakistan would soon follow its lead in the post-war period. Significantly, also, Japan was the first country to sign what would become known as a 'voluntary export restraint', when it was forced to accept a 'gentleman's agreement' with the USA in 1936. This 'gentleman's agreement' – which placed quantitative restrictions on a range of cotton textiles – ultimately proved to be a precursor for the quota system which would become the defining feature of the post-war T&C trade regime.

After World War II the establishment of GATT and the post-war trade architecture soon led, relatively unproblematically, to the progressive dismantling of pre-war quantitative restrictions and tariff reductions in most non-agricultural sectors, including T&C trade between developed countries. In the case of T&C trade between developed and developing countries, however, barriers actually *increased* over the course of the 1950s, as the sector became partially delinked from the wider GATT system. The initial catalyst for the emergence of a separate sub-system for managing T&C outside of the newly established multilateral trade system came with Japan's accession to the GATT in 1955. The widespread fear that liberalization would lead to a rapid influx of labour-intensive imports, coupled with a distinct lack of confidence in existing safeguard arrangements contained within Article XIX, led some 14 countries – which accounted for approximately 40 per cent of Japan's exports to the GATT – to invoke Article XXXV (which permitted import restraints against new entrants) immediately upon Japan's accession (Patterson 1966: 285–86). The immediate effect of this, as Rorden Wilkinson (2006: 65) points out, was to more or less nullify much of the preferential treatment that Japan was supposedly entitled to through GATT membership. Yet trade discrimination against Japan did not stop there. Alongside reference to Article XXXV, a number of the contracting parties also made use of Article XII (which permitted import restraints on balance-of-payments grounds) in order to deny further Japan the benefits of GATT membership. Finally, after 1955, when quantitative

restrictions on industrial goods entering Western Europe were progressively removed, those affecting T&C were retained – and in some cases extended[1] – in violation of GATT rules and became known as 'hard core' residual restrictions (GATT 1984: 64).

The United States was said to possess an independent geostrategic motive for promoting Japanese membership of the GATT, due to the prevailing fear that post-war reconstruction would prompt Japan to return to its traditional markets in what had become communist China and North Korea (Krasner 1978).[2] At the same time, however, liberalization was fiercely resisted by domestic industry in the USA, which even by this stage was characterized by overcapacity and deindustrialization. A combination of industrial relocation (from the heavily unionized north to the non-unionized and lower-waged south) and the intensification of intra-industry competition (cotton- and wool-based products versus newly available synthetic and blended fibres) had served to politicize the domestic T&C sector. Although fragmented and lacking an overarching federation, by 1956 the various industry associations closed ranks to form the National Association of Wool Manufacturers which – with the support of the US Chamber of Commerce, national lobby organizations and the textile caucus within Congress – enabled it to pressure the Eisenhower administration into introducing quantitative restrictions against Japan. For its part, Japan initially attempted to resist new trade restrictions; with the threat of unilateral action, however, Japanese officials soon agreed to the establishment of a five-year voluntary export restraint, covering cotton fabric, garments and other apparel items, in 1957 (Firman 1988: 709).

The cumulative protectionist measures introduced by the EEC and the United States served a short-term function insofar as they offered a degree of protection for import-competing producers at home. The longer-term consequences of these measures were, however, more problematical. Although trade restrictions against T&C exports from Japan did provide temporary relief for producers in Western Europe and the USA, other low-waged exporters soon filled the 'supply gap'. In the USA case, for example, even though Japan's share of T&C imports actually

fell by more than one-half between 1955 and 1960, this was accompanied by a surge in imports from such countries as Hong Kong, India, Pakistan, Portugal and Spain; in fact, despite the restrictions, cotton textile imports as a proportion of domestic consumption witnessed a three-fold increase in the second half on the 1950s (Patterson 1966: 299). A further problem for these trade restrictions was that they were quite clearly at odds with the GATT principle of non-discrimination. In a technical sense, of course, the US bilateral export restraints imposed on Japan were at least nominally consistent with the GATT, given that these measures were 'voluntary' in nature. By way of comparison, the invoking of Article XII constituted a more blatant violation of the GATT. This was especially so after full currency convertibility was re-established in 1958, when the UK and a number of other countries in Western Europe maintained (illegal) import quotas against Japan and other low-waged countries unilaterally (Aggarwal 1985: 73).

In summary, by the late 1950s a proliferation of quotas and other protectionist measures within the T&C sector threatened to undermine the nascent multilateral trading system. But rather than reconciling this contradiction, subsequent policy choices instead exacerbated it by emphasizing the 'uniqueness' of the T&C sector in order to justify the partial delinking of the industry from the wider GATT system. The next important step on this policy trajectory came in November 1960 when, at the behest of US trade negotiators and following the recommendations of a working party which had been established the previous year, the GATT adopted the Decision on the Avoidance of Market Disruption. This became known subsequently as the 'market disruption clause' and was designed to strengthen the existing safeguard mechanisms contained within Article XIX of the GATT, thereby providing a sounder legal basis for the introduction of quantitative restrictions in the future. For these purposes, market disruption was defined by the GATT as follows:

> (i) a sharp and substantial increase or potential increase of imports of particular products from particular sources; (ii) products offered at prices which are substantially below those prevailing for similar goods of comparable quality in the

market of the importing country; (iii) instances where there is serious damage to domestic producers or threat thereof; (iv) when the price differential referred to in paragraph (ii) above does not arise from governmental intervention in the fixing or formation of prices or from dumping practices.

(GATT 1984: 65)

The key to understanding the significance of the market disruption clause lay in the fact that the definition offered deliberately avoided reference to the underlying *causes* of import growth leading to or threatening disruption; nor was it premised on the notion that the exporting country was penetrating overseas markets on the basis of improper or illegal practice. Rather, as Kenneth Dam (1970: 299) has put it, by defining market disruption solely in terms of low prices, 'it was the principle of comparative advantage that was being called into question'. More technically, the concept of market disruption constituted a noticeable departure from previously established GATT practice in a number of important respects. First, market disruption departed from normal GATT rules in that it stipulated that import restrictions could be enforced even if injury had not taken place, provided that a *potential* threat could be demonstrated. In addition, it further departed from GATT rules in that quantitative restrictions could be placed on a particular country and the most favoured nation (MFN) principle not applied. Finally, the concept of market disruption also established an important precedent with regard to the price differential between imported and comparable domestic goods. In other words, because developing countries were deemed to possess an 'unfair' advantage over developed countries in terms of lower labour costs, it was reasoned that price differentials constituted sufficient grounds for quantitative import restrictions to be imposed (GATT 1984: 65).

Although in theory market disruption was applicable to all sharp increases in imports, not just T&C, in practice the concept was only ever invoked in cases involving the latter (GATT 1984). Put another way, the market disruption clause was a mechanism designed specifically to delink T&C from the wider GATT system. As such, it provided the intellectual

rationale and legal underpinnings for the series of international agreements which would regulate the T&C industry from 1961 until 1995. Indeed, the first of the agreements, the Short Term Arrangement Regarding International Trade in Cotton Textiles (STA), was adopted more or less immediately following the market disruption addendum to the GATT. The STA, which was effective from October 1961 until September 1962, had three principal aims. First, to liberalize access to markets which were hitherto restricted; second, to maintain orderly access to markets that were by then relatively open; and, third, to secure a measure of restraint on the part of exporting countries in order to avoid market disruption until a more permanent agreement could be reached. On this basis, the STA was extended when the Long Term Arrangement Regarding International Trade in Cotton Textiles (LTA) was adopted in February 1962. The LTA was initially effective for five years but was renewed in 1967 and again in 1970, with a final three-month extension taking the agreement up until the end of 1973.

At the time of negotiation of the LTA, the introduction of quantitative restrictions against developing countries would have been extremely difficult to justify on the basis of the actual sectoral trade balance. In 1963, T&C imports into developed countries from developing countries represented just over one-half of the value of sectoral trade going in the opposite direction. The United States possessed an overall sectoral trade deficit of approximately US$490 million, of which only an estimated US$140 million came from the developing countries; in the same year, the ECC (including Denmark, Ireland and the UK, which did not join until 1973) benefited from a trade surplus of US$1,240 million overall and a surplus of US$280 million with the developing countries (Keesing and Wolf 1980: 17). Despite all of this, since the market disruption clause operated on the basis of the *potential* for sharp increases in imports, prevailing market conditions were not considered an obstacle to the introduction of pre-emptive trade restrictions. For their part, the developing countries had little in the way of bargaining power; they could either accept a multilateral agreement, albeit reluctantly, or run the risk of unilateral restraint. Furthermore, in Japan's case the rapid shift away from T&C towards high value added exports

such as shipbuilding, pharmaceuticals and electrical goods meant that the establishment of the LTA – alongside the revoking of Article XXXV – represented the further normalization of trade relations with the USA and EEC (Wilkinson 2006). Finally, it is worth noting that the LTA was originally promoted as a mechanism for *liberalizing* international trade in cotton textiles; as such, it was deemed to be at least as much in the interests of developing countries as in the interests of developed countries (Dam 1970: 301).

Despite the obvious asymmetries, the ostensible aim of the LTA – as with the STA before it – was to balance the interests of importing (developed) and exporting (developing) countries, through overseeing an 'orderly' expansion of trade in T&C. To this end, the LTA offered importing countries the prospect of gradual liberalization of developed country markets with the establishment of annual quotas to be set no lower than imports 'during the twelve-month period terminating three months preceding the month in which the request for consultation is made' (Keesing and Wolf 1980: 21). Furthermore, in cases where quotas were maintained for more than one year, the LTA stipulated that quotas would increase by no less than 5 per cent (although in 'exceptional cases' this rate might be lowered through bilateral consultations, but to no less than zero). Finally, the LTA also offered the importing countries the prospect of greater market access through the lifting of some of the residual trade restrictions (particularly the 'hard core' trade restrictions maintained by the EEC) that were still in place at that time. On the other hand, the STA still granted the developed countries considerable leeway in the management of T&C import policy. First, although Article 3 specified that the introduction of new quotas would only be permissible if an importing country was threatened with the prospect of market disruption, such restrictions could nevertheless be imposed unilaterally in the absence of bilateral agreement. Second, and more crucially, Article 4 allowed for the conclusion of bilateral arrangements which did not satisfy the above conditions but which were 'not inconsistent' with the basic objectives of the LTA. What this meant, in other words, was that the need for the 'orderly' expansion of trade in T&C could be used by importing

countries to sidestep Article 3 and impose trade restrictions on less generous terms (GATT 1984: 72).

As Keesing and Wolf (1980: 21) describe it, the typical pattern of trade diplomacy under the LTA would begin with a trade agreement under Article 3 (either imposed unilaterally or through bilateral consultations), and then proceed to a far more comprehensive set of restrictions through Article 4. This was certainly true in the case of the United States. More generally, though, the truth is that despite the fact that 83 separate countries had signed up to the LTA by 1973, the agreement was used very unevenly to regulate T&C. Like the USA, Canada used the LTA quite extensively to control import growth. In contrast, the ECC still relied largely on 'residual' bilateral and unilateral import controls, although some quotas did increase in line with the LTA while others were eliminated altogether. For its part, the UK had an even more tenuous link to the LTA. Although an important signatory, the UK maintained restrictions on cotton textile imports and, due to continuing economic difficulties caused by comparatively high rates of import penetration, was granted an exemption from the LTA in respect of further market opening. In addition to this, the UK took the somewhat unusual step of creating a 'global' system of quantitative restrictions (i.e. covering T&C for all exporting countries, both developed and developing) in 1965, which was supplemented in 1972 with the establishment of a uniform tariff applicable to all T&C imports, regardless of origin (Aggarwal 1985: 116–17).

Dissatisfaction with the uneven usage of the LTA was one of the key factors that lay behind the call in the late 1960s and early 1970s for the establishment of a multifibre agreement. Another important factor behind this call, at least from the point of view of the developed countries, was that the LTA had, quite simply, failed to control the growth of low cost imports. This was especially evident in the case of the USA. Measured at 1982 prices, Cline (1990: 148) estimates that US textile imports grew from US$1.02 billion in 1961 to US$2.4 billion in 1972; while in the same period clothing imports grew from US$648 million to US$3.5 billion. Taken together, US T&C imports during the 1960s grew at an annual rate of 11.5 per cent. Undoubtedly, the major reason for this anomaly was the

failure of the LTA to anticipate the rapid shift away from cotton to artificial and non-cotton textiles, which were not covered by the agreement. Technological advances in the 1960s led to the increasing proliferation of synthetic fibres such as polyester and acrylic and the not unrelated revolution in knitwear technology, which delivered a significant boon to the woollen textiles industry (GATT 1984: 73). Thus, from this perspective, even if the LTA was modestly successful in controlling import growth in cotton textiles, these restrictions had the effect of pushing low-waged exporting countries – particularly East Asian – towards the manufacture and export of newly available artificial and non-cotton textile products. The failure of the LTA to anticipate the growth in non-traditional textiles during the 1960s prompted industry leaders and policy-makers in the USA and, initially to a much lesser extent, other importing countries to seek an extension of the textile agreement to deal with the rapid expansion in artificial and non-cotton textile imports. The outcome of these deliberations is discussed next.

The Multi Fibre Arrangement

Since the growth of non-cotton imports up until the early 1970s had been unevenly distributed across North America and Western Europe, there was little in the way of consensus regarding the need for an extension of the quota system to cover man-made fibres and wool-based products. From the perspective of US policy-makers, however, in addition to the obvious economic imperative there were several reasons why the prospect of such a regime became politically desirable. First, the establishment of a multifibre agreement would serve as a trade-off so as to enable President Nixon to obtain congressional approval of the 1974 Trade Act which, among other things, paved the way for the negotiation of the Tokyo Round (1973–1979). Second, as Geoffrey Underhill (1998: 159) notes, whereas the LTA was very much seen as been driven by the interests of the US cotton industry, by the late 1960s the proliferation of new fibre types was generating a more broadly based and cross-sectoral protectionist coalition. As a result, the drive towards greater protectionism became even harder to resist. Third, policy-makers in the USA

viewed the prospect of a multifibre regime as the least worst option, insofar that it was preferable to unilateral restraint, nominally consistent with the GATT and hence less likely to jeopardize liberalization in other areas. Fourth, the MFA was even seen by some as a shift *away* from protectionism because it offered the opportunity to eliminate the worst features of the LTA while actually promoting trade through more orderly and predictable rules.[3] In sum, the USA possessed a clear, independent interest in the establishment of a multifibre agreement.

Because the ECC had been relatively successful in controlling the influx of artificial and woollen fibres during the 1960s (largely due to the use of bilateral and unilateral restrictions outside of the LTA), it was far from obvious what benefit – if any – there was to be gained from its participation in a multifibre agreement. Not only had the EEC been more successful in terms of restricting its own imports, but also, by the end of the 1960s a significant number of European firms had succeeded in establishing a presence in the US domestic market. Hence, from this perspective, the prospect of a multifibre agreement was neither a high priority for import-competing firms in Europe nor was it in the interests of exporting firms. As US policy-makers saw it, though, once it proceeded to establish a multifibre agreement for controlling imports unilaterally, the subsequent import diversion from the USA to the EEC would force national governments in Europe to enact regulations that included artificial and non-cotton fibres. In accordance with this logic, in 1971 the United States negotiated bilateral agreements restricting imports of man-made fibre and wool products from Hong Kong, Korea, Taiwan and Japan – the latter only agreeing to further export restraints after President Nixon had threatened to restrict imports of T&C unilaterally under the Trading with the Enemy Act.[4]

By 1972, the import diversion resulting from the bilateral agreements between the USA, Japan and what had become known as the newly industrializing countries (NICs) of East Asia pressured governments in Western Europe into accepting a new multilateral framework covering artificial and non-cotton textiles. Thus, following protracted negotiations in 1973, the Arrangement Regarding International Trade in Textiles, more

Table 2.1 Evolution of MFA restrictions

Importing countries[a]	*Exporting countries*	
	Pre-MFA quotas	*MFA quotas*
USA	Brazil, Colombia, Czechoslovakia, Egypt, El Salvador, Greece, Haiti, Hong Kong, Hungary, India, Jamaica, Japan, Korea, Macao, Malaysia, Malta, Mexico, Nicaragua, Pakistan, Peru, Philippines, Poland, Portugal, Romania, Singapore, Taiwan, Spain, Thailand, Yugoslavia.	Bangladesh, Brazil, Bulgaria, China, Colombia, Costa Rica, Czechoslovakia, Dominican Rep., Egypt, Guatemala, Haiti Hong Kong, Hungary, India, Indonesia, Japan, Korea, Macao, Malaysia, Maldives, Mauritius, Mexico, Nepal, Pakistan, Panama, Peru, Philippines, Poland, Romania, Romania, Singapore, Sri Lanka, Taiwan, Thailand, Turkey, Uruguay, Yugoslavia.
EEC 9	Egypt, Hong Kong, India, Japan, Korea, Pakistan, Yugoslavia.[b]	Argentina, Bangladesh, Brazil, Bulgaria, China, Colombia, Czechoslovakia, Egypt, Hong Kong, Hungary, India, Indonesia, Japan, Korea, Macao, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Romania, Singapore, Sri Lanka, Thailand, Uruguay, Yugoslavia.
Canada	Brazil, China, Egypt, Greece, Hong Kong, India, Mexico, Portugal, Spain, Hungary, Japan, Korea, Poland, Romania, Malaysia, Singapore.	Brazil, Hong Kong, Japan, Korea, Malaysia, Philippines, China, India, Poland, Romania, Pakistan, Macao, Singapore, Sri Lanka, Thailand, Czechoslovakia, Uruguay, Bulgaria, Bangladesh, Maldives, Mauritius, Turkey, Vietnam, North Korea.

Sources: adapted from GATT 1984, 1987

Notes:

a Technically speaking Japan and Switzerland also belonged to the MFA as importing countries but did not apply trade restrictions; Norway and Australia participated only in MFA I while New Zealand did not participate at all.

b This refers only to EEC bilateral agreements negotiated through the LTA; individual member states were at this point still utilizing unilateral quotas against a much larger selection of exporting countries, which are too numerous to mention.

commonly known as the Multi Fibre Arrangement, was duly signed and entered into effect on 1 January 1974.

In common with its predecessor, the MFA constituted no more than a general framework for determining the conditions under which export restraint agreements could be implemented. For the most part, the main text of the agreement was couched in liberal terminology which would not have looked out of place in other GATT treaties. Hence Article 1.2 reads as follows:

> The basic objective shall be to achieve the expansion of trade, the reduction of barriers to such trade, and the progressive liberalization 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.
>
> (GATT 1973: 2)

Despite the liberal tone of the above passage, the key to understanding the MFA lay not with the pages of the main text, but rather in Article 4, which set out the conditions in which bilateral import restrictions could be imposed. These bilateral agreements centred around a series of product and category-specific quotas that were set at an annual 6 per cent growth rate (but, as with the LTA, lower rates were permissible in exceptional circumstances). In addition, a number of caveats were added to make the MFA more flexible than the LTA, including: (1) '*swing*' allowed participating countries to transfer up to 7 per cent of any unfilled quotas to different product categories; (2) '*carry forward*' permitted the exporting country to borrow up to 5 per cent from a future year's quota; and (3) '*carry over*' permitted the exporting country to add up to 10 per cent of any unused quota to the subsequent year's imports.

The first MFA protocol ran from 1 January 1974 until 31 December 1977 and included 44 separate signatories, representing some 54 countries, not all of which were even members of the GATT. For its part, the United States moved very swiftly under MFA I to ensure that all of its bilateral cotton agreements were expanded to include artificial and woollen

fibres while simultaneously renegotiating the separate multifibre agreements it had established with Japan and the NICs previously. As a result, by 1977 the US had concluded 18 new bilateral accords; at the same time a further 10 countries were engaged in 'consultations' so as to ensure that in future rapid import growth was avoided (Aggarwal 1985: 137). By way of contrast, the EEC was initially slow to adopt a common position in the response to the conclusion of the first MFA protocol. As a result, the European Commission failed to establish a single quota for the first two years after the agreement came into force, thus granting major exporting countries the 'opportunity and the motive' to expand their exports as rapidly as possible in anticipation of quotas (Keesing and Wolf 1980: 55).

This delay was partly a result of the difficulties associated with reconciling the various economic interests of individual member states, but it was also due to the logistical and technical problems brought about by the need to mesh together different national requirements into the EEC's bilateral agreements with each individual supplier country (Dolan 1983). Although the MFA – like the LTA – was negotiated *en bloc* by the EEC, the truth is that at this point individual member states were to all intents and purposes still pursuing independent policies (De la Torre and Bacchetta 1980). At the same time, the existence of the Customs Union meant that the free circulation of goods within the Community more or less neutralized the effectiveness of national restrictions. Aggarwal (1985: 137) illustrates this problem using the example of France, which despite having quotas in place against 11 separate supplier countries, still suffered as low-cost imports were simply shipped via other countries belonging to the Customs Union, e.g. Germany, Italy and the Benelux countries, which enforced fewer trade restrictions (Aggarwal 1985: 137).

In the event, the two-year delay in the establishment of Community-wide quotas proved to be disastrous for the European T&C sector – a factor that led the EEC to adopt a far more guarded stance vis-à-vis low-wage imports in the 1977 renewal of the MFA. While the USA witnessed a mere 3 per cent increase in T&C imports in the 1974–1975 period, sectoral imports into the ECC increased by 41 per cent. By 1977, prior to the MFA renewal, the European Commission claimed that its member

states had lost approximately 430,000 jobs in the T&C sector in the time in which the first MFA protocol had been in operation (De la Torre and Bacchetta 1980: 98). Another important factor which contributed to the hardening of the EEC position towards the MFA was the accession of Britain, Ireland and Denmark to the Community in 1973. The accession of the UK (where T&C was at that stage still the third largest source of manufacturing employment), in particular, but also Ireland (where T&C was the largest source of manufacturing employment), served to solidify the protectionist wing of the EEC led traditionally by France (Farrands 1979). Finally, it is important to note that, in contrast to the relatively benign economic conditions that characterized MFA I, the 1977 renewal was negotiated in the aftermath of the 1975 global recession, from which the T&C sector was particularly slow to recover.

Hence, in contrast to the delay which characterized the establishment of bilateral accords under the first MFA agreement, under MFA II the EEC moved rapidly to secure quota agreements with all of its major low-cost suppliers, to the extent that it had signed no less than 22 separate treaties by 1 January 1978 (Dolan 1983). Of the more notable 'achievements', the European Commission would cite the insertion of a 'jointly agreed reasonable departure' clause from the terms of the original agreement, which allowed participating countries to establish bilateral agreements that no longer had to comply with the MFA. The key to this clause lay in the establishment of separate groups for 'sensitive' and 'non-sensitive' product categories. In Group 1, which contained the eight most import-sensitive product categories, quota growth rates were permitted to fall below the statutory 6 per cent, and in some cases the figure dropped to zero (the original MFA, it should be recalled, prohibited absolute quota reductions, even in exceptional circumstances). In the case of Hong Kong, for example, its 1978 quota allocation for Group I products was approximately 8.4 per cent lower than the 1976 allowance. In addition, the EEC established what amounted to global import quota for sensitive product categories from *all* low-waged countries through the principle of 'cumulative market disruption'. Not only did this violate the fundamental premise of the MFA – namely, quotas

should negotiated on a bilateral basis – but it also made no distinction between different suppliers, since market disruption would be calculated on the basis of total imports (Cline 1990: 152).

The dominant interpretation of the US stance towards the 1977 MFA renewal is that its preference was for a more liberal regime, at least in comparison with the EEC position (Keesing and Wolf 1980: 59–60; Aggarwal 1985: 144–45; Cline 1990: 151–53; Underhill 1998: 162–63). There were a number of reasons for this. First, as we have seen, the US made more effective use of quotas than the ECC during MFA I through the rapid conclusion of bilateral deals with all of its major T&C suppliers. The case of further trade restrictions, as opposed to the extension of existing arrangements, was therefore less urgent for the USA than it was for the EEC. Second, in the aftermath of the collapse of the Bretton Woods monetary system the US experienced a significant depreciation in the value of the dollar, thus boosting the international competitiveness of its T&C industry. Third, sectoral employment in the 1973–1977 period fell far less rapidly in the US than in Europe, where productivity had begun to outstrip output (Keesing and Wolf 1980: 54). These three factors combined meant that the demand for further protectionism was, at least for a time, considerably more intense within the EEC than it was in the US.

In the end the most notable aspect of US trade diplomacy under MFA II centred on its bilateral trade agreements with the 'big three' – namely, Hong Kong, South Korea and Taiwan. In each case, the provisions relating to 'swing' and 'carry over' were tightened significantly, despite the fact that five-year bilateral agreements had only been signed with these countries the previous year. In addition, the US abolished under-utilized quotas, replacing them with a 'call' mechanism, which required consultations between trading countries if imports exceeded certain levels or threatened to cause market disruption. Finally, in direct contrast to the 'cumulative market disruption' principle established by the EEC, under MFA II the US increasingly sought to discriminate between large and small suppliers. While quota rates for the 'big three' were frozen in 1978 at 1977 levels (and only permitted to grow thereafter well below the statutory 6

per cent), the US showed considerably more leniency towards newer, but smaller, entrants to the market (Cline 1990: 153).

Although the 1977 renewal of the MFA was generally regarded as something of a low point in North–South textiles diplomacy, the post-war trade regime continued to exhibit strong path-dependent characteristics through the course of the 1980s and early 1990s. By the time of the 1981 renewal, the bilateral quota system had become thoroughly institutionalized (in contrast to most other areas of manufacturing which were generally characterized by either ad hoc unilateral restraints or unregulated bilateral agreements), interest groups were by now firmly embedded within the policy-making machinery and trade negotiations were heavily influenced by past practices and procedures. As a consequence, while MFA III did eliminate some of the most controversial aspects of the 1977 agreement – most notably, the 'jointly agreed reasonable departure' clause – the general trajectory of the T&C regime remained firmly protectionist. For example, Paragraph 6 of the final protocol identified the 'goodwill expressed by certain exporting countries now predominant in the exporting of textile products…in contributing to mutually acceptable solutions to particularly large restraint levels' (Aggarwal 1983: 641–42). Similarly, Paragraph 9 made reference to 'mutually acceptable arrangements with regard to flexibility [provisions] for major exporters who accounted for a large share of an importing country's market' (Aggarwal 1983: 642). Although ostensibly benign, in practice the references to 'goodwill' and 'flexibility' empowered the EEC and the USA to discriminate differentially by imposing quota reductions on the dominant suppliers, in a way that was not only in blatant violation of the GATT but also the MFA itself.

And yet, while MFA III was noted mainly for the introduction of further discriminatory measures against the dominant suppliers, it was also around this time that quantitative restrictions began to impact more and more on smaller developing countries as well. Although the 1981 protocol – like the original 1974 MFA agreement – contained language favourable to smaller suppliers and newer entrants to the market, when it came down to it trade restrictions were applied to these two categories as well, covering countries as diverse as the Maldives, Mauritius,

Bangladesh, Uruguay and Turkey (GATT 1987). The typical pattern for the introduction of trade restrictions against a new entrant which was also a small supplier was that the conclusion of one bilateral agreement soon paved the way for similar action in respect of other importing markets. In the case of Bangladesh, for example, the conclusion of a bilateral restraint agreement with the Unites States in the mid-1980s was followed immediately by the establishment of quota agreements with the UK, France and Canada. All of these agreements, it needs to be added, were concluded despite the fact that in 1984 Bangladesh's per capita income stood at a meagre US$130 (by this measure, only Ethiopia was poorer) while its share in developing country clothing exports to developed countries amounted to just 0.2 per cent (Spinanger 1987: 76–80).

Another notable feature of the MFA III negotiations was the increasingly visible linkage between quotas and the proliferation of previously separate import regimes, which were designed to encourage the emerging practice of outsourcing on the part of domestically oriented producers. In essence, these regimes – which came to be known as outward processing trade (OPT) in the EEC and 'production sharing' in North America – enabled import-competing firms to outsource the most labour intensive aspects of production (e.g. garment assembly) while retaining the higher value added tasks (e.g. natural and synthetic fibre production; textiles design and manufacturing; the cutting and dyeing of fabrics) within the domestic economy. In this way, high-cost firms could in theory maintain price-competitiveness in their own domestic market and resist competition from low cost exporting countries.

In Europe, OPT was pioneered by West Germany during the 1960s and early 1970, to the extent that by 1975 approximately 14 per cent of its clothing imports were a result of subcontracting on the part of domestic firms (Fröbel *et al*. 1980: 109). The growth of German OPT, not surprisingly, had important consequences for its own labour force: total employment in its T&C industry decreased by roughly one-third in the 1970–1975 period. Interestingly, though, in the period in which the first two MFA protocols were in operation (1974–1980) the Germany attrition rate was far less severe, with its T&C workforce declining by

approximately 4.2 per cent. By comparison, the UK, France and Italy shed approximately 10.6 per cent, 6.1 per cent and 14.9 per cent of their respective T&C workforces in the same period (Dolan 1983: 599). In short, the German model of restructuring via OPT offered the EEC an alternative economic strategy to the protectionist trade policies that had been pursued hitherto through the MFA – an alternative which was to gain increasing acceptance through the course of the late 1980s and 1990s.

In a not dissimilar way, production sharing in North America emerged partly as a response to the failure of the MFA to shield import-competing firms from low-waged competition. In this case, regional outsourcing rested on a series of arcane import regimes – specifically, items 806.30 and 807.00 of the Tariff Schedule of the United States (TSUS, but later incorporated into the Harmonized Tariff Schedule [HTS] 9802.00) – which dated from 1930 and 1964 respectively (USITC 1999a). These provisions offered duty-free treatment to certain metal products and a range of manufactured goods that were made with US raw materials and then subsequently re-imported into the US market, with the importer paying duty only on the value added overseas. Although in theory these entitlements were available to any importing country in any industrial sector, in practice they overwhelmingly favoured garment assembly in low-waged countries in Latin America and the Caribbean, which either possessed under-utilized MFA quotas or were granted additional market access provided that imports were assembled with yarns and fabrics produced and 'cut-to-shape' in American textile mills.

As far as the MFA III negotiations were concerned, it was the ECC which was first to attempt to establish an explicit link between import quotas and OPT. The first Community-wide rules governing OPT trade were actually established as early as 1975 in the form of EEC Directive 76/119. This directive, which came to be known as *fiscal* OPT, granted tariff relief to the value of EU-made goods returned in articles assembled abroad. Although very much mirroring the US '807' production sharing scheme, EU *fiscal* OPT was confronted straight away with two key problems. First of all, unlike the US case, the Commission had to contend with a variety of national positions,

many of which were hostile to both OPT in particular and the attempts of the Commission to interfere in industrial policy more generally. A number of member states, including Germany, the Netherlands and Denmark, offered enthusiastic support to the idea of Community-wide OPT legislation; others, however, such as the UK and France, were adamantly opposed to OPT, not solely on principle but also because they feared that free circulation of OPT within the Community would advantage disproportionately those states – principally Germany – already engaged in outsourcing (Dolan 1983). More importantly, a second problem for *fiscal* OPT was that any benefits that would accrue to European producers from subcontracting would be denied to T&C firms because of the MFA quota system. That is to say, because the MFA system was based on a series of bilateral quotas, and because the first two MFA protocols made no distinction between OPT and other T&C imports, European firms could only engage in subcontracting if the country in question had not yet used up its allocated quota. In the light of this, the EEC attempted to reconcile the contradiction between the MFA and the 1975 OPT directive: as part of the 1981 MFA renewal negotiations the Commission proposed that the 10 per cent quota reduction for dominant low-cost suppliers be made up by new OPT quotas, which would apply solely to countries engaged in production sharing operations with European T&C firms.

Alongside the establishment of the 'flexibility' and 'goodwill' provisions which further legitimized differential discrimination on the part of the developed countries, MFA III was therefore significant in that it also served to institutionalize the practice of outsourcing within the global trade architecture. Yet, if the latter was designed to shore up the competitive position of the EEC and the other developed countries which turned to outsourcing as a means of restructuring domestic industry, the establishment of OTP as part of the T&C regime would be accompanied by an acute irony. This is because, while outsourcing did assist domestic restructuring, in time it also undercut the protectionist coalition that had sustained the MFA up until this point. That is to say, once domestic firms began to locate production overseas, they had less of a stake in the quota system since this placed

an artificial ceiling on their access to low-cost labour and raw materials (Underhill 1998; Heron 2004).

The long-term political implications of outward processing for trade protectionism more generally would not be realized immediately. For the time being, the MFA continued on the path-dependent trajectory which it had followed more or less uninterrupted since 1974. In contrast to 1977 and 1981, when the impetus for further trade restrictions rested mainly with the EEC, the 1986 renewal – MFA IV – centred on the acute industrial crisis which had beset American industry in general and the T&C sector in particular during the early to mid-1980s. To a large extent, this crisis was a direct result of the contradictory fiscal, monetary and exchange rate policies pursued by the first Reagan administration (1980–1984) (see Bergsten 1981). Among other things, the combination of a tight monetary policy and non-interventionist exchange rate policy pursued by the Federal Reserve under Reagan contributed significantly to the rapid increase in the value of the dollar between 1980 and 1985 vis-à-vis other major currencies. In the specific case of T&C, Cline (1990: 60–61) estimates that the value of the dollar increased against all major low-cost exporting countries, including Taiwan (22 per cent), Hong Kong (11 per cent, but 22 per cent between 1980 and 1983), Korea (28 per cent), China (90 per cent), Mexico (24 per cent), India (27 per cent) and Bangladesh (19 per cent).

Overall, the rapid appreciation of the dollar led to an almost doubling in the value of US non-oil imports between 1980 and 1986. In the case of T&C clothing, however, the increase was even greater: the nominal value of textile imports in this period grew by approximately 112.5 per cent whereas clothing imports increased by a still greater 171.2 per cent (Cline 1990: 59–60). The rapid increase of low-cost imports and the consequent economic crisis which beset the US T&C sector during the early to mid-1980s was sufficient to harden significantly the position of domestic industry towards the MFA. More than this, the magnitude of the increase in low-cost imports during this period also served to embolden Congress in its attempts to wrestle control of trade and import policy from the executive branch. In 1985 the Textile and Apparel Enforcement Act, otherwise

known as the Jenkins Bill, proposed, among other things, the replacement of all quotas with a series of unilaterally determined import licences, the 'roll back' of quotas for all major low-cost suppliers, the establishment of separate quota levels and growth rates for 'major producing countries', 'producing countries' and 'small producing countries', and the extension of MFA coverage to ramie, jute and other previously unrestricted fabrics. Although the Jenkins Bill was vetoed by President Reagan in December 1985, the proposals contained therein played a significant role in both shaping and strengthening the negotiating strategy of the administration towards the 1986 renewal of the MFA.[5]

The protectionist tone of MFA IV was thus to a large degree a reflection of the economic crisis which beset American industry in the early to mid-1980s, and of a resultant hardening of US trade preferences with respect to the T&C trade regime. Among its most controversial aspects, the final protocol of MFA IV included additional safeguards against import surges, language to legitimize outright cutbacks in quotas for the major low-cost suppliers and further derogations from the statutory 6 per cent annual growth rate stipulated by the original MFA agreement. Mirroring the proposals contained within the Jenkins Bill, MFA IV also extended quota coverage to previously unrestricted product categories including ramie, silk blends and linen. More substantively, MFA IV provided legitimacy for further trade restrictions that the US secured in a new round of bilateral agreements with Hong Kong, South Korea and Taiwan. These agreements broadened product coverage and introduced a miserly set of growth rates, ranging between 0.5 per cent and 1 per cent annually. In the case of Taiwan, the newly agreed quota for the next three years represented a 7 per cent reduction of its previous quota (Anson and Simpson 1988: 124).

In other words, the 1986 renewal of the MFA served to further entrench T&C discrimination within the international trading system. Yet, within a mere two months of the conclusion of the MFA IV negotiations, the GATT contracting parties committed themselves to a process that would ultimately – if not unproblematically – lead to the unravelling of the system of quantitative restrictions which had defined the T&C industry (in one way or another) for most of the post-war period. This

Table 2.2 Chronology of the MFA

Agreement	*Summary of key features*
Pre-STA	Prior to the GATT, voluntary restrictions and bilateral quotas commonplace; later many of these are maintained with reference to Article XIX and XXV; others are maintained in violation of international trade law.
STA (1961–1962)	Following the establishment of the 'market disruption' clause, the LTA created as a temporary protocol for 64 different categories of cotton textiles until a more permanent agreement can be reached.
LTA (1962–1973)	LTA establishes a framework designed to liberalize trade in T&C through 'orderly' expansion; many quotas abolished while new ones expected to grow at an annual rate of 5 per cent; Article 4 allows for the conclusion of less generous quotas provided that they are 'not inconsistent' with the basic objectives of the agreement.
MFA I (1974–1977)	MFA extends quota restrictions to cover synthetic and woollen as well as cotton fibres; minimum growth rates increased from 5 per cent to 6 per cent; definition of 'market disruption' made more precise; 'swing', 'carry forward' and 'carry over' provisions added to ensure that the MFA is more flexible than the LTA.
MFA II (1978–1980)	MFA II sees the introduction of a 'jointly agreed reasonable departure clause' allowing statutory growth rates to drop below 6 per cent (in some cases to zero); EEC establishes the principle of 'cumulative market disruption' effectively creating a global quota for sensitive product categories; US restricts the use of 'swing' and carry over' provisions in its bilateral agreements with the 'big three'; quota growth rates for the 'big three' are frozen in 1978 at 1977 levels but more leniency is showed towards newer, but smaller, entrants into the market.
MFA III (1981–1985)	Reference to 'goodwill' and 'flexibility' included in the final protocol of MFA III, allowing the US and EEC to discriminate against dominant suppliers by imposing quota reductions; small suppliers like Mauritius, Bangladesh and the Maldives are targeted for the first time; OPT provisions enshrined in the MFA.
MFA IV (1986–1991)	MFA IV includes additional safeguards against import surges and language to legitimize outright cutbacks in quotas for major low-cost suppliers and further derogations from the statutory 6 per cent annual growth rate; previously unrestricted product categories introduced to the MFA including ramie, silk blends and linen.
MFA (1991–1993)	MFA renewed for two years without significant amendment.
ATC (1995–2004)	The MFA dismantled over a 10-year period but in four separate stages: 16 per cent between 1995 and 1998; 17 per cent between 1998 and 2002; 18 per cent between 2002 and 2004; with the remaining 49 per cent of import quotas phased out by January 2005.

Source: author's elaboration

process was set in motion by the Uruguay Declaration, signed at Punte del Este in September 1986, which among many other things committed the contracting parties to:

> Negotiations in the area of textiles and clothing [which] shall aim to formulate modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines, thereby also contributing to the objective of further liberalization of trade.
>
> (Uruguay Declaration 1986)

The reference to T&C liberalization contained within the Uruguay Declaration (which went no further than the brief passage cited above) was arguably no less equivocal that the language contained within the various MFA agreements. Nevertheless, by the time the MFA was re-negotiated for the fourth and final time in 1991 (without significant amendment) talks were well underway to re-introduce, albeit gradually, T&C into the multilateral framework, soon to be governed by the WTO. As part of the Uruguay Round settlement, on 1 January 1995 the ATC replaced the MFA as a transitional instrument for facilitating the gradual integration of T&C into the WTO multilateral framework. Under the ATC, the developed countries agreed to phase out MFA quotas over a 10-year period but in four separate stages: 16 per cent between 1995 and 1998; 17 per cent between 1998 and 2002; 18 per cent between 2002 and 2004; with the remaining 49 per cent of import quotas scheduled to be phased out by January 2005.

Conclusion

The specific purpose of this chapter has been to offer an account of the post-war T&C trade regime. Drawing upon historical institutionalist insights, we have explained the establishment and subsequent consolidation of this system largely in terms of the concept of policy institutionalization. That is to say, the origins of the MFA lay in the particular way in which the discriminatory practices which had characterized the T&C sector in early part

of the twentieth century became embedded within the post-war trade regime. Because the key architect of this – the USA – was said to possess an independent interest in the establishment of a liberal international order embracing emerging economies like Japan, but at the same time was constrained by social forces at home which pressed for the maintenance and (in some cases) the extension of pre-war trade restrictions, the adoption of voluntary export restraints which were nominally consistent with the GATT were justified as the 'least worst' policy option. Once in place, however, these export restraints, along with the various discriminatory practices retained in post-war Europe, had the effect of delinking the regulation of T&C from the wider GATT system.

In substantive terms, the delinking of T&C from the GATT led to the creation of what amounted to a parallel system of trade governance that was both highly discriminatory and, worse still, targeted specifically at the developing countries. Hence, even though the MFA was supposed to lead to a progressive liberalization of the T&C sector, subsequent renewals of the regime – in 1977, 1982, 1986 – served to place increasingly restrictive quotas on most of the leading developing country exporters. All told, between 1974 and 1990 the MFA oversaw bilateral T&C agreements between 43 signatories representing 54 countries. In this period, the USA alone established quotas with 34 countries to the extent that quantitative restrictions covered approximately 80 per cent of its T&C imports from developing countries. At the same time, it is important to recall that in the entire period in which the MFA system was in operation T&C trade *between* developed countries – which, in 1990, accounted for approximately 43 per cent of total world trade in textiles and 35 per cent of total world trade in clothing – was not subject to quotas and was thus free from quantitative import restrictions (Cline 1990: 155). The MFA was, in other words, unique as an international trade agreement in that its entire *raison d'être* was to discriminate *against* developing countries. In the next chapter we turn to the question of how and why this system of discrimination was ended, and what emerged in its place.

3 The political economy of trade liberalization in textiles and clothing

On the face of it the liberalization of the T&C sector would have seemed an unlikely prospect in the late 1980s, given the extent to which embedded sectoral protectionism had come to coexist, albeit uneasily, alongside the multilateral trading system. The shift towards liberalization in T&C becomes even more difficult to explain when we take account of the timing of the Punta del Este Declaration which coincided with the intensification of protectionist pressure – especially in the USA – and the conclusion of the fourth MFA protocol in July 1986. Placed in theoretical terms, the fact that liberalization did occur in these unlikely circumstances raises awkward questions for our historical institutionalist account, given its emphasis on path dependency, policy continuity and so on. On closer inspection, however, it becomes clear that, not only is T&C liberalization consistent with the story that we have advanced so far, but also, the concept of path dependency holds the key to understanding why the ending of the MFA has not proven to be as equitable as many analysts and policy-makers originally envisaged (see Chapter 4). As was described in Chapter 2, the dismantlement of the MFA was set in motion by the creation of the ATC on 1 January 1995, whereafter liberalization proceeded in four progressive but unequal stages, culminating in the removal of the most sensitive import quotas on 31 December 2004. What this means, in other words, is that the system of protectionist quotas that shielded developed countries from T&C exports from developing countries for 30 years ceased to exist in 2005.

How was it, then, that the developed countries were able to abandon the MFA in 1994 when they had defended it so forcefully for three decades? The most popular answer to this question centres on the North–South bargaining dynamics of the Uruguay Round and suggests that the dismantlement of the MFA regime was a necessary *quid pro quo* for reciprocal commitments in areas such as trade-related intellectual property rights, investment and services. This popular interpretation is not without merit. At the same time, it does rest on a series of rather voluntaristic assumptions about how international trade diplomacy actually works, the most important of which is that states freely negotiate with one another relatively unencumbered by domestic constraints, history or institutional context (Heron and Richardson 2008). This is not to suggest that interstate bargaining was somehow inconsequential to the eventual outcome of the Uruguay Round; rather, the question that is left unresolved by this popular interpretation is how was it that trade negotiators representing the developed countries were able to forego the interests of the T&C coalition during the Uruguay negotiations but not in previous multilateral trade rounds? The approach that we take to this question is to begin from the premise that the dismantling of the MFA and the subsequent liberalization of T&C cannot be understood fully unless we take into account the *independent interest* that the developed countries had in abandoning the MFA. After all, a key point that is often missed amid the denunciation of the MFA is that not only did it discriminate against developing countries but it also demonstrably failed in its key objective of shielding domestic import-competing firms from low-waged competition.

The aim of this chapter is to explain the political economy of trade liberalization in the T&C sector by focusing primarily on the changing interests and policy preferences of the developed countries. Drawing upon our historical institutionalist framework, we argue that the main catalyst for the ending of the MFA lay not with the complex bargaining scenarios devised in the Uruguay Round negotiations, but rather within the internal contradictions of the regime itself. These internal contradictions came mainly from two different sources. The first centred on the inner workings of the quota system itself which, for reasons

that will be outlined shortly, had the unintended effect of heightening the economic capabilities of low-waged exporting countries as well as exposing import-competing firms in the developed countries to a wider array of low-waged competition. A second source was the practice of outsourcing which, as was mentioned in the previous chapter, helped to shore up the competitive position of firms in the USA and EU, but only at the cost of fragmenting the protectionist coalition that had sustained the MFA up until this point. Once attention is drawn to the shifting interest of the developed countries vis-à-vis sectoral protectionism, the decision to abandon the MFA during the Uruguay Round negotiations becomes easier to understand, while our historical institutionalist account also provides important clues as to why the subsequent mode of liberalization took the particular form that it did.

Beyond the 'grand bargain' of the Uruguay Round

Over the last decade or so the notion that the liberalization of T&C, along with agriculture, was secured as part of a 'grand bargain' between the developed and developing countries has established itself as the cornerstone in most accounts of the Uruguay Round (Ostrey 2000; Hoekman and Kostecki 2001; Narlikar 2005). At least initially, this notion had strong purchase among developing countries, conveying as it does the sentiment that 'concessions' in T&C and agriculture provided a powerful symbol of the gains to be had from more active participation in the GATT process. At an analytical level, however, the 'grand bargain' thesis has never been fully persuasive. Sylvia Ostrey (2000: 4) has commented that the 'grand bargain' rested on an 'implicit deal' (albeit, as it turned out, a highly asymmetrical one), by which is presumably meant that there was *no explicit link* between T&C – and by the same token agricultural – liberalization and the other aspects of the Uruguay Round. In the absence of such a link, many analysts have chosen to assert rather than demonstrate that the abandonment of the MFA was a result of multilateral pressure within the GATT.

There are several other discrepancies that render the 'grand bargain' thesis in respect of T&C liberalization less than

credible. First, it needs to be recalled that by the 1980s MFA restrictions fell disproportionately on a handful of highly competitive middle-income countries – especially South Korea, Hong Kong and Taiwan – while quotas for other developing countries were in many cases not fully utilized. Even in the case of the most heavily restricted countries, it is not altogether clear how much was to be gained from the abandonment of the MFA. On the one hand, for producers like Hong Kong that were still heavily reliant on T&C, the merits of MFA liberalization were complicated due to the perverse effect of 'quota rents', which enabled exporting firms to take advantage of artificially high prices in restricted markets (Goto 1989). On the other hand, even in parts of Asia where the effects of 'quota rents' were negligible there was still a considerable amount of ambivalence towards sectoral liberalization since by this point the 'first wave' of textile exporters had already begun to graduate towards other, more technologically sophisticated, forms of manufacturing. A related point is that as industrial upgrading and export diversification took root in East Asia T&C production began to migrate inexorably towards China – a country that took no part in the Uruguay Round negotiations. Finally, it needs to be highlighted that, due to the proliferation of outward processing and production sharing arrangements (a practice not unrelated to the eventual liberalization of T&C, as we shall see shortly) from the mid-1980s onwards, participating developing countries came to have an increasing stake in the *maintenance* of the MFA quota system. In any case, the steady if uneven increase in quota ceilings in the two decades since the first MFA protocol, at least according to some sources, already amounted to de facto liberalization even though trade restrictions remained nominally in place.[1]

In the parlance of the relevant political science literature, it can be said that those accounts of the Uruguay Round that seek to explain the outcome of the negotiations mainly with reference to the bargaining dynamics of those negotiations conflate *trade politics* (that is, how institutional, distributive and ideological conflicts are mediated through the state) and *trade diplomacy* (that is, how states attempt to defend and further their interests in the international arena) and relies on an excessively voluntaristic

account of how trade negotiations actually work. This is not to suggest that trade diplomacy has no analytical value in explaining patterns of trade liberalization. Indeed a close reading of the Uruguay negotiations does reveal how like-minded coalitions were able to bring to bear influence over many aspects of the final agreements, including the ATC. At the same time, the key point remains that, while these diplomatic contingencies cannot and should not be discounted, the abandonment of the MFA ultimately came about because the developed countries by this point possessed an independent interest is this eventuality.

The argument that the ATC was driven principally by the changing (independent) trade preferences of the developed countries is not a wholly original thesis. In *Industrial Crisis and the Open Economy,* Geoffrey Underhill makes this precise claim. According to Underhill (1998: Ch. 5; a similar argument was developed independently in Heron 2004), the liberalization accord reached during the Uruguay Round negotiations became acceptable to the T&C coalition in the EU and the USA largely due to the effects of the growth of transnational production sharing between local import-competing firms and low-cost export platforms located overseas. This thesis is an important contribution and one that has many similarities to the argument rehearsed below. But our argument does deviate from Underhill's in a number of quite important respects (more of which later). Although Underhill is right to point to the link between the proliferation of North–South production sharing arrangements and the unravelling of the MFA, the relationship is a less direct one than he asserts. The most important point to make at this stage is that, by the time that transnational production sharing took off in the USA and the EU in the late 1980s, the cumulative effects of a prolonged period of import penetration and capital intensification had served to weaken considerably the social and institutional basis of the T&C coalition. Indeed, as much as anything, the turn towards production sharing was part of a general acknowledgement by fractions within the T&C coalition that the MFA had largely failed as a policy pool for shielding local producers from foreign competition. Hence continued support for the MFA was in doubt even *before* sectoral production sharing arrangements became economically significant. Understanding

why this was the case is something which is explored more fully in the next section of this chapter.

The logic of collective action and the 'illogic' of the MFA

In the previous chapter, we described how the MFA became progressively illiberal from the late 1970s onwards, largely due to the fact that the bilateral agreements hitherto concluded under its auspice were deemed to have provided inadequate protection for local industry. This is a key point since it draws attention, not so much to the inequities of the quota system (though this was also very important, as we will see in the next chapter), but to the fact that the MFA largely failed to insulate the importing countries from the effects of the changing international division of labour. Yet, as a response to the question of how liberalization ultimately came about, the failings of the MFA alone can hardly be seen as a satisfactory answer. After all, it is not as though the problems with quotas – such as transhipment which had been observed as early as the 1950s – were unknown to the industry. More to the point, if the interests of the T&C coalition were not served well by the MFA then why did its supporters continue to defend it, in some case even beyond the ATC?[2] And, if the abandonment of the MFA was really in the independent interests of importing countries, then why was it that it was not until the Uruguay Round that the decision was taken to overhaul the T&C trade regime?

In addressing these sorts of questions, most analysts have to a greater or lesser extent fallen back on theories of collective action wherein trade policy is explained in terms of the political imbalance between protectionist forces and more disparate groups that are likely to benefit from free trade. In his often-cited study of American trade politics, I.M. Destler offers a neat summary of the collective action dynamics of international trade, which is worth quoting at length:

> It is an imbalance in intensity of interest and, as a result, in political organization. Producers and workers threatened by imports tend to be concentrated, organized, and ready and able to press their interests in the political arena. Those

> who benefit from trade are diffuse, and their stake in any particular trade matter is usually small. It is also an imbalance between clear, present benefits and possible future benefits. Exporters who would profit if increased US imports allowed foreigners to buy from us are unlikely to expend the same effort to achieve a conjectural gain their adversaries will to preserve a current market. Finally, it is an imbalance between those who are doing well and those who are facing trouble. Firms with expanding markets and ample profits tend to concentrate on business; their worry is that government may get in their way by placing constraints on their flexibility and their profits. It is the embattled losers in trade who go into politics to seek protection.
>
> (Destler 1995: 4–5)

Placed in these terms, the longevity of the MFA in spite of its obvious inefficiencies becomes easier to understand. The collective action thesis becomes even more compelling when attention is drawn to the skewed distributive consequences which the MFA had for importing countries. In other words, by restricting the supply of imports, the MFA raised the price of goods (both foreign and domestically produced) and hence served to redistribute income from domestic consumers to domestic producers.[3] During the 1980s, a whole series of econometric studies attempted to calculate the redistributive effects of the MFA in terms of the domestic 'costs' of protecting jobs within importing countries, mainly focusing on the USA (Hufbauer *et al.* 1986, Jenkins 1980; Cline 1990). In a review of the findings of these studies – which were typically derived from estimating the changes in the value of domestic production caused by import quotas and then dividing this by average production per worker – Junichi Goto (1989: 215) reports the estimated cost to US consumers of saving jobs in the T&C industry amounted to between US$42,000 and US$57,000 per worker – sums, it hardly needs to be added, way in excess of the typical earnings of US T&C workers at that time!

The persistence of quotas in the face of the obvious 'illogic' of trade protectionism, both in terms of the skewed distributive effects of the MFA and its rather dubious record in terms of saving

jobs, thus makes perfect sense when we take into consideration the ‘logic’ of collective action and the rational choice assumptions that underpin it. Put simply, because the ‘costs’ of the MFA were borne largely by other groups within society – and of course by the developing countries targeted by quotas – domestic T&C producers had a big stake in the maintenance of the MFA even if the protection it offered was far from perfect. Yet, even when seen in these terms, analysts are still at a loss to explain precisely why the T&C sector represents such an ‘exceptional’ case with respect to the regulation of international trade. Historically speaking, there have been plenty of labour intensive industries like footwear and consumer electronics that share many economic and technological features with T&C – and presumably similar collective action dynamics as well – but have not been afforded levels of protection comparable to the MFA. Likewise, there are numerous instances where more diverse industries, ranging from steel to automobiles to television sets, have at some point been subject to import quotas, but rarely has this led to the kind of *institutionalized* protection which characterised the T&C trade regime (Aggarwal *et al.* 1987). This raises the obvious question of why the outcome in T&C has been different to that in other comparable industries despite similar collective action dynamics. And with respect to the more specific question of why reform of the global trade regime for T&C was undertaken during the Uruguay Round but not before, we need to ask what might have changed to alter these collective action dynamics so dramatically?

As in the previous chapter, our response to these questions rests on historical institutionalism and on the more specific claim that it was the high degree of policy institutionalization which accounted for the ‘exceptional’ nature of the post-war T&C trade regime. What is meant by this is that the initial decision on the part of the USA and its allies to embed a particular set of preferences – that this, the prosecution of sectoral trade restrictions targeted at specific countries but without undermining the nascent GATT system or jeopardizing broader liberalization efforts – set in train a path-dependent process which defined the parameters for the regulation of the T&C regime for the next 30 years. From the perspective of the importing countries – and in particular those groups most

susceptible to the changing international division of labour – the effects of this process can be said to have been double-edged. On the one hand, since T&C was effectively delinked from the multilateral trading system following the establishment of the 'market disruption' clause in 1960, import-competing firms and their employees were shielded from liberalization pressures which would no doubt have followed had the sector remained part of the GATT. On the other hand, in order for the regulation of T&C to remain at least nominally consistent with the GATT, policy-makers acting at the behest of the T&C coalition had to rely on a policy instrument – namely, quotas – which was far from perfect, as we have already noted.

The fact that importing countries had to rely on quotas provides important clues as to why the MFA was ultimately deemed to have provided inadequate protection for local industry. Because the MFA operated on the basis of a series of bilateral restrictions, the presence of quotas ultimately had the effect of encouraging non- and under-regulated countries to enter the market, either as transhipment points for exporting firms which had reached their quota ceiling or as suppliers in their own right. The MFA thus represented something of a double-whammy for importing countries: not only did quotas fail to arrest overall levels of import penetration but they may also have made the situation even worse for import-competing firms by widening the scope of low-waged competition (Gereffi 1999). From a liberal standpoint this outcome is hardly surprising. The canon of international trade theory has long since identified quotas as among the most inefficient, trade distorting and ultimately self-defeating of all trade defence mechanisms (Krugman and Obstfeld 1987). Yet, whatever the theoretical merits and demerits of quotas as a form of protection, a close inspection of the inner workings of the MFA reveals that its most problematical aspects (at least insofar as import-competing firms and their employees were concerned) stemmed from features of the regime that were far from inevitable.

One aspect of the MFA system that has received a great deal of commentary is the method by which quota levels were calculated. Because the MFA calculated imports on the basis of their physical volume – that is, the total weight or quantity of

garments – rather than their value, exporting countries actually had an incentive to produce more expensive goods in order to maximize revenue from quantities shipped within the quota restrictions allowed. One dimension of this tendency that occurred among East Asian suppliers during the late 1970s and early 1980s was the shift away from producing textile fabrics and other intermediate goods towards producing finished apparel items. For example, on the basis of United States International Trade Commission (USITC) figures, Cline (1990: 155) shows a clear pattern in the case of the USA between particular product categories and the rate of import growth: while the volume of US yarn imports measured in the standard yard equivalent (SYE) declined from 1.9 billion in 1972 to 1.25 billion in 1985, those of the next stage of processing, fabric, rose from 1.7 billion to 2.4 billion; of the subsequent stage, apparel, imports increased in the same period from 2.2 billion to 5 billion; and for made-up textile items (e.g. carpets) imports grew from 0.4 billion to 1.1 billion. Thus, the corresponding annual growth rates for these four product categories in this period (equalling -3.2 per cent, 2.8 per cent, 6.5 per cent and 8.1 per cent respectively) show a clear ascending order by stage of production (which, incidentally, also explains why clothing suffered more from imports than textiles). In an odd way, then, we can see how the MFA inadvertently heightened the competitive capabilities of developing country firms by encouraging them to upgrade to the production and export of higher value goods.

Another aspect of the MFA relates to the structural characteristics of the T&C industry and, more specifically, the nature of industrial organization in exporting countries. On the basis of what we have learned about the structural characteristics of the T&C industry in previous chapters, it is tempting to see the failure of MFA to offer adequate protection to import-competing firms and their employees in purely economistic terms. That is to say, because exporting firms were not constrained by the 'sunk costs' which normally act as a barrier to industrial relocation in more capital intensive industries, quotas were avoided simply by shifting production to neighbouring countries which were either not subject to MFA restrictions or had not filled their allocated quota. Hence the outsourcing of

production constituted a 'rational' response to the introduction of quotas. The problem with this interpretation, however, is that the evidence shows that the origins of outsourcing in East Asian industrial organization predate the MFA system by some considerable time. In an important and often-cited article, Bruce Cumings (1984; see also Bernard and Ravenhill 1995) has argued that the nature and origins of post-war capitalism in East Asia cannot be properly understood other than as an integrated regional political economy. According to Cumings, the industrial foundations of the East Asian regional political economy lay with the advent of Japanese imperialism at the turn of the century. Following the invasions of Taiwan (1898), Korea (1910) and Manchuria (1931), Japanese colonial administrators oversaw land reform, reorganized and strengthened state bureaucracies and invested heavily in transport and economic infrastructure. Of equal importance, the colonial period also witnessed the embedding of the *zaibatsu* (conglomerates) and *sogo shosha* (trading companies) within the regional political economy. In short, to see the avoidance of quotas on a country-by-country basis misses the central point that outsourcing was an intrinsic aspect of East Asian capitalism based on the 'fundamental unity and integrity of the regional effort' (Cumings 1984: 3).

In relation to the more specific issue of trade reform during the Uruguay Round, two key points need to be underscored, each of which centres on the fact that the failure of the MFA to shield import-competing firms from low cost imports led to the steady erosion of support for trade protectionism. The first and most obvious point is that import growth during the MFA period coincided with a massive contraction of industrial employment in the T&C sector in the USA and Western Europe, as is revealed in Table 3.1.

Most economic studies of the MFA have concluded that the amount of job losses attributable *directly* to increases in import penetration is negligible when weighed against technological changes and fluctuations in domestic demand. Yet, as Carol Parsons (1988: 114) notes, this conclusion overlooks the fact that increases in import penetration lay behind the restructuring efforts of import-competing firms to reduce the labour content of their products in order to remain competitive with low-

Table 3.1 Employment in T&C in selected countries in thousands (1970–1990)

	*1970**	*1980*	*1990*	*Total contraction (1970–1990)*
USA	2374	2157	1786	–598
UK	864	694	456	–408
France	713	573	372	–341
West Germany	1013	648	448	–565
Italy	1097	1073	920	–177

Sources: adapted from Dunford 2006; European Commission 1978

Note: *Data for UK and France is for 1972.

waged developing countries. More importantly, the insistence on formally separating the effects of trade on the one hand and productivity changes on the other misses the crucial point that the *perception* among politicians and policy-makers was that deindustrialization had been precipitated by the rise in foreign imports, in spite of the erection of trade barriers. Hence the continued haemorrhaging of jobs gradually undermined support among the political elite for further special treatment. Moreover, the huge loss of industrial employment in T&C during the 1970s and 1980s served to undercut the leverage that the once formidable T&C coalition possessed over the trade policy-making process.[4]

The second, closely related, point is that the unevenness of the process of deindustrialization had the effect of undermining the coherence of the T&C protectionist coalition. That is to say, because some segments of the T&C production complex were better able than others to offset the impact of international trade through productivity improvements and different forms of outsourcing, the ability of the industry as a whole to continue to coalesce around a coherent set of policy demands became increasingly unsustainable. One important source of industry fragmentation was the uneven impact of technological innovation on the upstream (textiles) and downstream (clothing) segments of the supply chain. Broadly speaking, there have been two forms of technological innovation – those which increase the speed and efficiency with which a particular manufacturing

process is carried out and those which replace manual labour with mechanized and automated operations – and in both cases the benefits accrued almost entirely to upstream textiles firms rather than downstream clothing firms. The advent of open-ended yarn spinning, for example, which combined what were formerly two separate processes into one by using rotors instead of spindles, contributed to a fourfold increase in spinning speeds while reducing labour requirements by approximately 40 per cent. In the same way, parallel developments with regard to textile weaving, knitting technology and in finishing led to the increased speed and efficiency of textile operations and a consequent reduction in the number of workers required by the industry (Dicken 2003). In contrast, where technological innovation did impact on the downstream segment of the supply chain it generally came at the pre-assembly stage of the production process, where improvements made in terms of speed and efficiency extended to less than 5 per cent of total labour costs, but at the same time affected the most highly skilled members of the industry's workforce (Parsons 1988). In the same way, technical innovation in peripheral sewing operations (e.g. pocket stitching and belt loop construction) and improved machine flexibility, both of which partially automated production, especially in the standardized product market, were not extended to the main sewing operations (Mody and Wheeler 1987). All told, when it came to the actual sewing and assembly of garments, accounting for approximately 90 per cent of total labour costs, the impact of technological innovation in the clothing industry in the post-war period was almost negligible.

Outsourcing and the 'hollowing out' of the T&C alliance

Whereas the opportunity to offset deindustrialization through technological upgrading fell mainly to upstream textiles rather than downstream clothing firms, the precise opposite is true in the case of international outsourcing. The obvious reason for this is that the low barriers-to-entry in the clothing sector – i.e. minimal levels of technological sophistication and a high dependence on labour-intensive production – meant that there were few constraints on import-competing firms seeking to

reduce costs by shifting production offshore. As we described in the previous chapter, the origins of outsourcing lay with a series of duty drawback schemes dating from the 1960s and 1970s, although it was not until the mid-1980s that this form of industrial organization really became economically significant. In the case of the USA, a pattern of industrial relocation analogous to outsourcing began de facto as early as the 1950s as the search for lower wages and less stringent labour laws led many clothing manufacturers away from north-east states like New York and Pennsylvania and towards southern states like South Carolina, Georgia, Tennessee and Alabama (Aggarwal 1983). In the same way, during the 1980s progressively more import-competing firms turned to international outsourcing in an attempt to remain price competitive in their own domestic market. The best quantitative measure of outsourcing in the case of the USA is gained from HTS 9802.00 production sharing statistics produced by the USITC (various years). As can be recalled from the previous chapter, HTS 9802.00 combines the previously separate US tax code provisions 806.30 and 807 and permits duty exemption to the value of US-made components returned in articles assembled abroad. Although (nominally at least) these entitlements were available to any importing country in any industrial sector, in practice they tended overwhelmingly to favour clothing production sharing in Mexico and the Caribbean Basin. By 1995, for example, these countries alone accounted for something in the order of 90 per cent of the total value of goods entering the US market through 9802.00; in the same period, clothing accounted for approximately 60 per cent of the total duty savings from the production sharing scheme (USITC 1997).

As a proportion of total US sectoral imports, production sharing grew rapidly from the early 1980s onwards. According to one estimate, by 1997 the top ten US clothing manufacturers, each with sales in excess of US$1 billion, were dependent on offshore factories (mostly, though not exclusively, located in Mexico and the Caribbean Basin) for between 50 and 95 per cent of their total assembly related production (USITC 1999b). The insular Caribbean was a principle beneficiary of the first wave of 9802.00-related investment (see Chapter 6). During the

1980s the export of clothing and other apparel items from the Dominican Republic, Haiti and Jamaica grew annually by more than 20 per cent (Deere *et al.* 1990: 167). In the Dominican Republic itself growth was even more spectacular: in 1988 the clothing sector constituted no less than 78 per cent of total manufacturing exports, worth a total of US$183.8 million, and representing an increase of 333.4 per cent since 1981 (Safa 1994: 251). Later, following the return of relative peace and stability to the isthmus, the Central American republics, along with Haiti (which benefited from the lifting of the UN trade embargo that was imposed following the 1991 coup d'état), began to attract an increasing amount of 9082.00-related investment from US manufacturers. Honduras increased its clothing exports by 550 per cent from US$244 million to almost US$1.6 billion between 1992 and 1998; while El Salvador increased its clothing exports by 674 per cent from US$130 million to US$1 billion in the same period. All told, even though some early beneficiaries of production sharing like Jamaica began to lose market share, the overall picture was one where 9802.00 imports from the Caribbean Basin accounted for close to 25 per cent of total US sectoral imports by the end of the 1990s.

Another obvious destination for the outsourcing strategies of US clothing firms was Mexico. During the 1980s and early 1990s, Mexico competed more or less equally with the Caribbean Basin countries for assembly related US investment through the 9802.00 scheme. The implementation of North American Free Trade Agreement (NAFTA) in 1994, however, introduced a number of additional incentives designed to encourage further production sharing activity between US manufacturers and Mexican assembly operations. First, NAFTA provided for tariff-free and quota-free treatment for trade among member states in T&C goods that originated from within the NAFTA trade area. In the case of Mexico, virtually all tariffs were phased out by 1 January 1999. The US eliminated import quotas for T&C originating from Mexico upon NAFTA's implementation, while those for non-originating goods were phased out on 1 January 2004. Second, regional production sharing was enhanced by NAFTA's rules of origin, which were designed explicitly to encourage the use of regional yarns and fabrics in all garment

production as means of consolidating the North American supply chain. In this respect, Mexican T&C entered the US market via NAFTA's 'yarn forward' ruling, which stipulated that all manufacturing stages, including yarn formation, must take place in the NAFTA trade area in order to qualify for tariff- and quota-free treatment. Finally, the attractiveness of Mexico as a destination for outsourcing received a significant short-term boost following the devaluation of the peso that took place between December 1994 and January 1995. Although this was not directly related to NAFTA or even to the promotion of its *maquila* exports, it amounted to a 50 per cent drop in the value of the peso against the US dollar; in relation to the clothing industry, this manifested itself in an estimated reduction in labour costs for local assembly workers from approximately US$2.47 in 1994 to US$1.23 in 1996. On the basis of these changes, Mexican clothing exports to the USA grew by approximately 517 per cent between 1992 and 1998. In 1998 alone Mexico exported approximately US$5 billion of clothing to the USA, accounting for roughly 15 per cent of the total value of sectoral imports in that year. By way of comparison, in 1987 this figure stood at a mere 2 per cent (USITC 1997; ECLAC 2000).

Although it was not until the late 1980s – and in some cases even later – that EU member states came to accept outsourcing, the first Community-wide rules governing Outward Processing Trade (OPT) were established in 1975 in the form *fiscal* OPT, as we discovered in Chapter 2. In addition, the creation of a separate *economic* OPT regime following the 1981 MFA renewal served to harmonize the various unilateral policies which individual EU countries had used to govern their own OPT up until this point. This included, among other things, setting Community-wide standards relating to rules of origin, stipulating the types of firm which could engage in OPT and types of product that could be imported under OPT regulations (Pellegrin 2001). In principle, these regulations did not make any distinction between countries residing within close geographical proximity to the EU market and those located elsewhere. Yet a brief glimpse at the sectoral trade pattern reveals a very strong regional bias in this direction: Scheffer (1994: 57) estimates that as of the early 1990s approximately 65 per cent of total EU OPT sectoral imports

came from the transitional economies of Eastern and Central Europe, a further 30 per cent from the Mediterranean Rim with the small remainder made up of extra-regional partners such as Mauritius, the Far East and the Indian subcontinent. A further, albeit indirect, measure of the strong geographical bias of OPT can be gained through reference to the changing composition of EU clothing imports more generally during this period.

During the mid-to-late 1990s, transitional and developing countries residing within relatively close geographical proximity to the EU market became increasingly significant vis-à-vis the overall composition of EU clothing imports. Not only was this seen in terms of the heightened importance of individual regional suppliers, e.g. Turkey, Romania and Morocco, but also in terms of the increased collective significance of the Central Eastern European Countries (CEECs) and the Mediterranean. The CEECs alone were jointly responsible for approximately 17 per cent of total EU clothing imports in 2000; by comparison China – by some measure the single most important player in the European clothing market – accounted for approximately 15.4 per cent of the EU clothing market in the same period. According to the United Nations Economic Commission for Europe (UNECE) (1995), in the six CEECs – Poland, Hungary, Czech Republic, Slovakia, Romania and Bulgaria – OPT accounted for approximately 18 per cent of their total exports to the EU in 1994, with T&C responsible for more than 75 per cent of this trade. The Polish, Hungarian and (later) Romanian T&C industries were especially reliant on OPT, with such trade responsible for between 70 and 80 per cent of their sectoral exports to the EU. In actual fact, it was only in the Czech and Slovak Republics that the share of T&C exports taken up by OPT was smaller than that taken up by direct exports.

The strong regional bias of OPT can be explained partly in terms of the regional imperatives of outward processing – that is, the need for geographical proximity for suppliers to be able to respond rapidly to changing market conditions through swift production turnover – but in a more direct way it owed more to the dominant role played by Germany. As we have stressed, outsourcing in the EU was pioneered by Germany, and its manufacturing firms continued to dominate the OPT system,

accounting for almost 70 per cent of EU T&C imports processed in CEECs in 1994 (UNECE, 1995: 116–17). At the same time, Germany relied mostly at this time on a relatively small number of OPT suppliers, especially Poland, the Czech Republic and, to a lesser extent, Romania and Hungary (Pellegrin 2001). There was thus a strong correlation between the high instance of outsourcing among German manufacturing firms and the relatively large share of OPT undertaken in CEECs. In addition to this, the key role played by the CEECs in respect of OPT also owed much to their changing political relationship with the EU – culminating in full accession in May 2004. Prior to this, the CEECs already benefited substantively from a series of trade concessions offered by the EU, which were particularly significant in terms of their T&C exports. First, the CEECs were among the earliest to be granted additional T&C quotas following the establishment of the *economic* OPT regime in the early 1980s. Second, a series of bilateral trade agreements were signed in the 1980s that were intended to provide a general contractual basis to EU-CEEC trade relations, which had hitherto been absent (UNECE 1995). These bilateral treaties helped to pave the way for the Europe Agreements, concluded between 1991 and 1993, which established (among other things) a free trade area in manufactured goods between the EU and individual CEECs.

While important differences clearly existed between production sharing in North America and OPT in the EU, the broad pattern was one in which a growing proportion of sectoral imports were due to the outsourcing strategies of domestic manufacturers. By 1998, such activity accounted for approximately 39 per cent of US clothing imports; in the EU, despite significant national variations in the uptake of OPT, various studies conducted in the 1990s placed the respective figure at around 30 per cent (Underhill 1998: 215). In terms of the wider regulation of international trade, the growth of production sharing and outward processing trade during the 1980s and early 1990s had a number of important consequences for the T&C sector. Two points are especially worth emphasizing. First, the shift towards outsourcing signalled a growing disillusionment with the MFA, as progressively more import-competing firms adopted an ‘if-

you-can't-beat-them-join-them' response towards international subcontracting and foreign sourcing. Second, as more and more firms began to locate production overseas the protectionist coalition that had sustained the MFA up until this point began to unravel. This is because outsourcing firms had little at stake in further quantitative import restrictions, since it placed an artificial ceiling on their access to low-cost labour and raw materials (Underhill 1998; Heron 2004).

To sum up, the argument that we have relayed in this chapter so far is that, rather than a 'concession' that was extracted from the developed countries, the ending of the MFA, to a large extent, lay within the internal contradictions of the regime itself – and by the time of the conclusion of the Uruguay Round in 1993, T&C firms in the EU and the USA had an independent and growing interest in the dismantlement of quotas. These contradictions do not necessarily account for the precise timing of liberalization, for which more attention needs to be paid to exogenous factors such as the wider bargaining context of the Uruguay Round and the significant role played therein by powerful developing countries like Brazil and India (Narlikar 2003). Indeed, on this point it should be noted that during these negotiations the developing country coalition was able to bring to bear influence over key aspects of the post-MFA trade regime (Raffaelli and Jenkins 1995). The coalition, for example, helped to thwart a proposal put forward by the USA to replace the MFA with a 'global' system of quantitative restrictions (i.e. to extend MFA quotas to cover developed as well as developing countries) for all T&C imports. Likewise, the developing country coalition was successful in resisting the attempt by the developed countries to establish a 15-year, as opposed to a 10-year, transition period for phasing out all quotas. Yet when the ATC ultimately came into effect on the 1 January 1995, it became clear that the new trade regime matched the preferences of the developed countries far more so than that of those developing countries which had pushed for immediate liberalization. To recall from the previous chapter, under the ATC importing countries agreed to phase out the MFA over a 10-year period but in four unequal stages. To make matters worse, the backloading of quota removal was

even more skewed than initially appeared to be the case. The reason for this is that the majority of the product categories integrated into the WTO framework in the early phases of the ATC were, generally speaking, already benefitting from quota-free treatment. In many cases, the developed countries cynically exploited the ATC by including products within the 10-year phase out that had not actually been subject to any bilateral (i.e. MFA) restraint in the first place. As a consequence, the 10-year liberalization schedule effectively left the elimination of quotas until the very end of the transition period in 2004. To be more precise, the proportion of quotas that was retained by the EU and the USA until the very end of the transition period in 2004 stood at 73.3 per cent and 85.6 per cent respectively (Williams *et al.* 2002: 580). Still, it might be argued that since the ATC has now been implemented fully, and the MFA now no longer exists, the timing of quota removal is, strictly speaking, no longer relevant to the realization of the 'grand bargain' of the Uruguay Round. Yet, as we shall discover in the next chapter, when it comes to assessing the distributional effects of the ATC it is clear that the timing of quota removal – and the political correlates that lay behind this decision – is crucial to understanding the story of why the liberalization of T&C has not proven to be as equitable as many analysts and policy-makers originally envisaged.

Conclusion

The aim of this chapter has been to account for the liberalization of the T&C sector. In so doing, we have chosen deliberately and self-consciously to eschew conventional accounts of trade reform, focusing on collective action dynamics and international bargaining. Instead we have borrowed concepts from historical institutionalism – policy institutionalization and path dependency – to describe the uneven shift towards freer trade in the T&C sector in accordance with the inner workings of its trade regime. Although there is no denying that the transition from the MFA to the ATC was ultimately decided by policy commitments undertaken during the Uruguay Round, the mainstream literature nevertheless relies on an excessively voluntaristic account of

how trade negotiations actually work. By drawing attention to the inner workings of the T&C trade regime, we have shown how far the importing countries possessed an independent interest in abandoning the MFA. Hence the 'grand bargain' of the Uruguay Round was nothing of the sort – a point that will become increasingly evident in the following chapters of this book.

4 The ‘winners’ and ‘losers’ of trade liberalization in textiles and clothing

At the time of the 1993 Marrakesh Agreement, the ATC was regarded as the centrepiece of the North–South ‘grand bargain’ that supposedly characterized the Uruguay Round settlement. In substantive terms, the ATC was widely expected to deliver the lion’s share of developing county gains from liberalization: some early econometric forecasts predicted annual increases in global welfare as high as US$324 billion, suggesting that the ATC would ultimately be responsible for approximately two-thirds of all the global economic gains from the Uruguay Round (Francois *et al.* 1994). In the period since 1994, however, there was considerable disillusionment with the ATC. This disillusionment stemmed from (at least) three different sources. First, as we have seen, the specific mechanics of the ATC enabled the developed countries to backload heavily the elimination of MFA import quotas, to the extent that approximately four-fifths of these remained in place until the very end of the 10-year transition period in 2005. As a result, the economic gains anticipated by competitive exporters like India and China were only fully realized a decade after the ATC was signed. Second, although the MFA placed restrictions on almost all developing country suppliers, it also created numerous ‘niche’ opportunities for generally smaller developing economies, which were able to take advantage of production-sharing incentives and restrictions imposed on more competitive producers. Hence, in the absence of the MFA (the temporary backloading of quota removal notwithstanding) these countries faced the prospect of competing more or less directly with the world’s most dynamic exporters. Third, another source of disillusionment with the ATC

stemmed from the actions of the developed countries after MFA quotas were removed. Even though the ATC supposedly heralded the obsolescence of quantitative restrictions within the T&C sector, both the USA and the EU introduced new quotas against China within months of the ending of the MFA (see Chapter 5). In short, it is clear that the implementation of the ATC neither brought an end to trade discrimination in the T&C sector nor did it necessarily create a more equitable trading system.

The purpose of this chapter is to examine these contradictions more closely. Following the conclusion of the Uruguay Round, the debate over the ATC was dominated by the econometric modelling provided by the World Bank and other multilateral and regional organizations (OECD 2004; USITC 2004). In contrast, and with the benefit of hindsight, this chapter seeks to go beyond the economics literature to look more specifically at the political correlates of trade liberalization. The approach taken is to draw upon the historical institutionalist insights developed in the previous chapters, in this case applied specifically to an assessment of the ATC in terms of its distributive effects and adjustment costs for developing countries – including for generally smaller and preference-dependent states that prospered to a greater or lesser extent under the MFA. In accordance with our framework, the aim is to show that the problems of adjusting to freer trade are not simply, or even in some cases predominantly, a reflection of comparative advantage and the uneven distribution of factor endowments, as most analysts assume. What we also need to take into account are the various ways in which trade policy regulation – liberal, protectionist, preferential and so on – becomes embedded institutionally within particular policy regimes and how and in what ways these regimes change over time. It is these policy regimes, as much as so-called 'natural' variables like size and factor endowments, which have ultimately shaped the distributional effects of T&C liberalization for developing countries.

The distributive politics of the WTO Agreement on Textiles and Clothing

As we have indicated, much of the post-Uruguay Round analysis of the global trade in T&C rested on the econometric forecasting

provided by the World Bank and other like-minded organizations, usually but not always accompanied by an implicit belief in the benevolence of free trade. Whatever the technical merits of these studies, they generally rest on the assumption that the main effect of trade reform in T&C would be to redistribute income from the North to the South. From a technical standpoint, the general assumption behind these free-trade scenarios is that import quotas constitute a ‘tariff equivalent’ and, as such, have the effect of raising domestic prices and depressing demand. Further, because importing countries shielded by MFA quotas were sufficiently large to affect world demand, the tariff-equivalent effect not only depressed local prices but also prices in unprotected importing countries as well (Nordås 2004). Hence, the expectation was that the removal of quotas would not only increase global demand for T&C but also raise prices. But this model is beset with a number of complications. First, as was shown in Chapter 3, the substantive economic consequence of the MFA was to redistribute income not so much from poor countries to rich countries (although this did occur to an extent) but to redistribute income *within* rich countries from domestic consumers to domestic producers. Therefore one would expect the main immediate beneficiary of liberalization to be consumers in importing countries. Second, the merits of liberalization are complicated by the perverse effect of quota rents, which as we also discovered in the previous chapter enabled exporting firms to benefit from artificially high prices in quota-restricted markets. It is worth noting in this regard that even the more optimistic modelling scenarios of the ATC recognized the possibility that, without taking into account the ‘dynamic’ effects of trade liberalization, some exporting countries would be worse off after liberalization because trade gains would be insufficient to compensate for the loss of quota rents (Francois *et al.* 1994). A third point relates to supply side responses to trade liberalization. Although the general expectation was that the removal of quotas would serve to raise global demand and therefore prices, insufficient attention was paid to the influence of the entry of China and other low-income countries on the supply of T&C manufactures. And as it turned out the ATC was accompanies by price *de*creases rather than increases (see

below). Finally, not enough attention was paid in the modelling to the 'lock-in' effects of preferential trade regimes – which had coexisted with the MFA – on patterns of international trade both before and after the removal of quotas. Almost invariably, eligibility for these agreements is predicated on strict 'rules of origin' that generally prohibit the use of 'non-originating' raw materials and other inputs. Hence developing countries benefiting from preferential trade, but seeking to take advantage of more competitively priced yarns and fabrics available in the post-MFA environment, would first have to forego tariff relief if their exporting firms were still to target these markets. These are just some of the problems that are explored in greater detail below.

The impact of China's entry into the WTO

Without a doubt, the most controversial aspects of the ATC all in some way related to China's accession to the WTO. Although China was not an original signatory to the Marrakesh Agreement, following important bilateral accession agreements with the USA and the EU, it was admitted to the WTO in December 2001, and was thereafter granted immediate access to all ATC benefits (though with several important caveats, which are discussed later and, in much more detail, in Chapter 5), including the removal of all quotas by 1 January 2005. China is now by some measure the most important player in the global T&C industry and has thus been the major beneficiary of liberalization even though it took no part in the negotiations that brought about the removal of quotas. By 2002, even before the later stages of the ATC were implemented, it accounted for approximately 13.5 per cent of global textiles exports while the respective figure for garments stood at a staggering 20.6 per cent (OECD 2004). Most analysts point to China's extremely low labour costs – which are approximately two to four times lower than Mexico, the Caribbean Basin and sub-Saharan Africa (SSA) but higher than other parts of Asia – as the major reason behind its competitiveness in the T&C industry. Analysts also highlight China's relatively high-skilled workforce, strong productive capacity in the manufacture of cotton and man-made fibres, plus

very close trade and investment links with South Korea, Taiwan and Japan (Nathan Associates 2002).

The significance of China's accession to the WTO for the T&C industry did not, however, simply rest with its cost structure, production capacity or enmeshment in regional production networks. Its sheer size also heralded a wider, structural shift in the global division of labour as a whole. By the mid-1990s, China accounted for over one-fifth of the world's population and one-quarter of the global labour force. The implication of this for global manufacturing is that China now plays a decisive role in determining product availability and hence global prices – thus not only influencing its own terms of trade but other developing countries competing in overseas markets. To illustrate the point, Kaplinsky (2005: 181–86) cites the link between China's increased participation in global trade and production after 1985 and the dramatic fall in the price of manufactures following two decades of sustained and rapid price *increases*. Clearly these price changes cannot be attributed solely to China – technological changes and greater macro-economic stability in the 1990s also played a role – but Kaplinsky does point to an important correlation between the income group of the exporter and the tendency of prices to fall. Examining the price data for manufactured exports to the EU between 1988 and 2001, Kaplinsky reveals that low-income countries specializing in low-technology products such as T&C experienced a greater reduction in export prices than higher-income countries specializing in medium- or high-technology product categories – and the unit prices of manufacturers from China fell by more even than the lowest-income group of countries. In other words, China's increased participation in global trade and production is associated with falling unit prices – especially for low-technology products – leading to what Kaplinsky (2001: 52) refers to as 'immiserizing growth' for low- and medium-income countries: that is, 'an expansion of economic activity which coincides with a decline in real incomes'.

As the archetypal global industry associated with low-technology production and minimal barriers-to-entry, T&C has long been associated with footloose investment and severe price competition. Accordingly, following China's accession to the

WTO and the subsequent removal of quotas, the T&C sector witnessed a rapid increase in China's share of global exports and a corresponding – and equally dramatic – fall in unit prices. In the US case, of the 29 clothing categories for which MFA quotas were removed in 2002 (i.e. Stage II of the ATC), China increased its relevant share of the US market from 9 per cent to 65 per cent (Ellis 2004). In four of the main tariff categories that were liberalized at this stage, unit prices fell between 15 per cent and 60 per cent, with an average price reduction for Stage II standing at 48 per cent (USITC 2004; Kaplinsky 2005). The EU was a similar story. While quantitative restrictions during the MFA only covered about 30 per cent (in value terms) of total EU T&C imports, almost one-half of Chinese imports were subject to quotas – the bulk of which lasted until the very end of the 10-year transition period. Similar to the US case, the European Commission (2003: 12) reported a 46 per cent increase in Chinese imports following Stage II of the ATC in 2002. The Commission also reported that an average unit price drop of approximately 50 per cent accompanied this import surge.

Given the widespread absence of worker protection it may be tempting to regard China's usurpation of the global T&C industry in a wholly negative light (Chan and Ross 2003). At the same time, though, what needs to be recalled is that, as the world's most heavily populated country, China accounts for a disproportionate share of the world's poor. As a result, any positive long-term developmental consequences that the ATC brings – even if skewed towards China – are expected by some to make a significant contribution to the reduction of global poverty. As noted by a 2004 report by Oxfam, although China and India (another beneficiary from the lifting of quotas) accounted for the lion's share of the trade gains derived from the ATC, it needs to be borne in mind that the joint population of these two countries in the early 2000s was an estimated 2.3 billion, approximately 563 million of whom lived in abject poverty. But as Kaplinsky (2005) reminds us, the surge in Chinese exports since the mid-1990s has occurred within a structural context entirely different from that which characterized the MFA period: whereas in the 1980s and early 1990s, the trade gains for developing countries largely came at the expense of import-

competing firms in the developed countries, export growth is now more likely to come at the expense of other, low-income – but less-competitive – developing countries. The reasons for this is that the cumulative effects of 40 years of import penetration and capital intensification has decimated domestic production (of clothing in particular) in both the EU and the USA, to the point that by the time quotas were finally removed there was little, if any, further scope for displacing domestic production with further imports. In short, by the late 1990s the T&C sector had become a zero-sum game for developing-country exporters.

Despite all this, it needs to be stressed that the removal of MFA quotas did not occur without incident nor has China's spectacular export growth been allowed to go completely unchecked. In Chapter 5, we will take a much closer look at the actions of the developed countries (the EU in particular) since quotas were removed, but it is worth mentioning at this stage, albeit only briefly, precisely what happened since the removal of quotas. Before doing so, however, it is worth recalling exactly what was – and was not – liberalized in 2004: even though the ATC led to the removal of quotas, the post-MFA regime left punitive import tariffs completely untouched. Revealingly, even after the Uruguay Round, average import tariffs levied on T&C were still substantively higher than those for other comparable industrial goods. In the US case, for example, it has been estimated that after the Uruguay Round the T&C industry benefited from a 15.5 per cent *ad valorem* trade-weighted rate of duty, compared to just 3 per cent for other comparable products (USITC 1999b: 29). What is more, these average figures understate the significance of so-called 'peak' tariffs (i.e. higher rates of duty imposed on 'sensitive' import items), which reach up to as high as 40 per cent for certain T&C products.

In addition, immediately following liberalization the developed countries (and some developing countries) resorted to so-called 'safeguard' mechanisms – which permit the imposition of temporary restrictions to deal with sudden import surges – as a means of compensating for the loss of quotas. It is worth noting that such action is actually permitted under WTO rules, while the ATC itself contained a number of specific safeguard clauses that allow both developed and developing countries to

impose temporary import restrictions. In other cases, developed countries (in particular) have bypassed the WTO, instead turning to bilateral safeguard mechanisms as a means of dealing with low-cost imports. Significantly, the safeguard mechanisms contained within these bilateral arrangements often derogate noticeably from usual WTO standards. Under the Sino–US bilateral arrangement that paved the way for China's entry into the WTO, for example, the provisions relating to 'market disruption' – which allows US Customs authorities to impose unilaterally import quotas after a 90-day consultation period – are far easier to satisfy than those found in the WTO multilateral agreements (Williams *et al.* 2002). Even before the final quotas were removed in 2004, there was mounting evidence that both the USA and the EU (which has a similar bilateral arrangement with China) were making increasing use of bilateral as well as WTO-mandated safeguard mechanisms in order to arrest T&C import surges. By mid-2005, just a few months after quotas were removed, both the USA and the EU took advantage of these safeguard measures in order to impose new quantitative restrictions on a range of T&C imports from China. In the US case, the decision followed an investigation by the Department of Commerce into whether shipments of certain types of textiles from China were disrupting the domestic market. This investigation led ultimately to the unilateral imposition of temporary quotas against seven different categories of T&C. The EU case followed a slightly different pattern. In April 2005, the EU established an 'early warning system' to monitor the growth of imports from China and the effect of this on EU industry. Shortly thereafter, the EU Trade Commissioner, Peter Mandelson, formally requested 'consultations' with China under the WTO, after trade data revealed significant increases (ranging between 51 per cent and 534 per cent) in Chinese imports. The consultation process is usually the precursor to the imposition of trade restrictions and it was widely expected that the EU would impose safeguard measures against China. In this particular case, however, the threat of unilateral action was sufficient in itself to convince China to agree to 'voluntary' restrictions. Nonetheless, these restrictions still amounted to an estimated 8 to 12.5 per cent annual cap for relevant product

categories until 2008 – a growth rate similar to that allowed previously by the MFA!

In sum, the ATC could only be equated with 'free trade' in a very nominal sense; at the same time, it was alleged by more competitive developing countries that these various protectionist strategies represented nothing less than a means of maintaining a de facto quota system without the need for the MFA.[1] Theoretically speaking, the previous two chapters have already provided us with important clues as to why this may be the case: that is to say, the legacies of policy institutionalization and path dependencies evidently had significant influence over the trajectory of the post-MFA regime, exhibiting more continuity than discontinuity with the previous, sector-specific, pattern of trade regulation. Even so, it is impossible to ignore the fact that, even in this imperfect environment, the ATC and – more decisively – China's accession to the WTO have altered dramatically the global T&C map. We have already hinted at the nature and potential consequences of this trend in the respect of the early stages of the ATC; it is now time to consider the broader pattern that has emerged since 2004, the introduction of textiles safeguards notwithstanding.

In 2004, on the eve of the implementation of the final stage of the ATC, Hildegunn Kyvik Nordås of the WTO produced an important study of the impact of liberalization on the global T&C industry. Although Nordås's study was neither particularly innovative in methodological terms nor that original in its substantive conclusions, the fact it was written under the auspice of the WTO guaranteed its findings would be widely reported. As a consequence, the Nordås study has come to be regarded as the most authoritative – and certainly the most frequently cited – 'insider' account of the post-ATC global map of T&C. In this, Nordås used the Global Trade Analysis Project (GTAP) simulation model to provide a general equilibrium assessment of the expected economic consequences of liberalization. This was done by calculating an export tax equivalent for MFA quotas for all major suppliers in the base year of 1997 (we can recall that liberalization began in 1995 but only a nominal 16 per cent of quotas were eliminated before 1998), then running computer-generated simulations 'before' and 'after' quotas while holding

all other factors constant. The results of Nordås's simulation exercise are summarized in Tables 4.1 and 4.2.

As can be seen from the first two columns of Tables 4.1 and 4.2, Nordås's model predicted significant trade gains for China and (although to a much lesser degree) India, and corresponding losses for both developed countries (we can recall from Chapter 2 that developed countries were exempt from MFA quotas even though they accounted for the bulk of global exports in both textiles and clothing) and most other developing countries. It is worth noting, however, that while Nordås's expected dramatic increases in trade for China and India he thought that – contrary to Kaplinsky's prediction set out earlier – these would at least to some degree come from the displacement of domestic production rather than at the expense of other developing country exporters. Thus Nordås (2004: 26) calculated that clothing imports as a proportion of domestic consumption would increase from 48.5 per cent to 51 per cent in

Table 4.1 Nordås's estimates of the share of EU clothing imports (%) from selected suppliers before and after the lifting of quotas

	Before (1997) EU15	*After (2005) EU15*
China	18	29
Turkey	9	6
India	6	9
Morocco	5	4
Mexico	–	–
CBERA	–	–
AGOA (special apparel rule)	–	–
Indonesia	3	3
Hong Kong	6	6
Other North Africa	6	5
Bangladesh	3	4
Poland	5	4
Other CEECs	9	6
Rest of the world	30	24

Source: Nordås 2004

Table 4.2 Nordås's estimates of the share of US clothing imports (%) from selected suppliers before and after the lifting of quotas

	Before (1997)	*After (2005)*
China	16	50
Mexico	10	3
Hong Kong	9	6
EU15	5	–
Chinese Taipei	4	–
CBERA	16	5
AGOA (special apparel rule)	–	–
Indonesia	4	2
Philippines	4	2
India	4	15
Bangladesh	4	2
Sri Lanka	–	2
Thailand	–	3
Rest of the world	24	10

Source: Nordås 2004

the case of the EU and from 33.8 to 45 per cent in the case of the USA. This suggests that the (expected) displacement of domestic production would be far greater in the case of the USA than in the EU and that the corresponding rate of import growth for the most-heavily restricted exporters would be far more dramatic in the case of the former than the latter. The reason for this, it might be recalled from Chapter 2, is that apart from during MFA II (1977–1981), the EU generally depended less on MFA quotas than the USA (see Underhill 1998: esp. Ch. 5). In the case of China, for example, Nordås estimates the export tax equivalent prior to the removal of quotas in the USA to be approximately 33 per cent compared to just 15 per cent in the EU. Hence the general expectation was that the removal of quotas would be more significant in the case of the USA: while Nordås expected a relatively modest increase in China's share of EU clothing imports from 18 per cent to 29 per cent, he anticipated that the equivalent increase for the USA would be from 16 to 50 per cent. An important corollary of this was that, to the extent

that the anticipated trade gains for China (plus India and other newly liberated exporters) would not come entirely from the displacement of local production, then less-efficient producers most dependent on preferential access to the USA market – specifically, Mexico and the Caribbean Basin countries alongside beneficiaries of AGOA – would be most exposed by the removal of quotas.

At this point, Nordås introduced an additional caveat (that is, in addition to the caveat that adverse distributive effects would be shouldered mainly by domestic producers) to his model. While the general thrust of Nordås’s findings was supportive of previous econometric studies, he acknowledged that general equilibrium models, including his own, do not always provide a wholly reliable picture of the effects of trade liberalization. The reasons for this are that these models cannot control for political and physical barriers that ultimately determine bilateral trade flows. Nordås identified this failing as especially relevant in T&C because of the industry’s reliance on transnational production, meaning trade flows are highly sensitive to variations in tariff levels imposed by different countries. Further, Nordås claimed that estimating the effects of trade liberalization on the basis of changes in relative prices was complicated by the fashion-sensitive nature of the downstream clothing industry. Specifically, Nordås found that geographical proximity to destination markets had a powerful effect on trade flows, multiplying them by a factor of nine in the clothing sector; conversely, he found trade flows declined by approximately 5 per cent for every 10 per cent increase in the distance between the exporter and final market. The key summative point is that the GTAP simulation initially adopted by Nordås essentially replicated the predictions of previous econometric studies but this was found to have underestimated the importance of other determining factors and thus probably exaggerated the scale of the losses facing less-efficient exporters benefiting from preferential trade and close proximity to final markets.

In Tables 4.3 and 4.4, we summarize the main changes in the composition of EU and US garment imports ‘before’ and ‘after’ quotas according to datasets produced by the various organizations, which can be compared with Nordås’s

Table 4.3 Share of EU clothing imports (%) from selected suppliers before and after the lifting of quotas

	Before (1997) *EU15*	*After (2005)* *EU25*
China	16.13	32.39
Turkey	10.77	14.28
India	5.05	6.23
Morocco	4.89	4.00
Mexico	1.09	0.08
CBERA	0.25	0.09
AGOA (special apparel rule)	2.02	1.12
Indonesia	3.42	2.17
Hong Kong	6.83	3.08
Other North Africa	5.73	4.91
Bangladesh	3.76	6.18
Rest of the world	40.05	25.46

Source: Eurostat, COMEXT database

predictions. The point of this is not primarily to 'test' the accuracy of Nordås's findings, but to offer points of reference in discussing his broader observations regarding the 'winners' and 'losers' of trade liberalization. In this respect several issues deserve comment. First, although Nordås's predictions for China's post-MFA performance have proven to reasonably accurate in the case of the EU they appear considerably less so in the US case. This discrepancy is potentially an important one, since China's projected post-MFA trade gains were expected to come disproportionately from the liberalization of the US market – and therefore at the expense of domestic producers and, more significantly from our perspective, Mexico and the Caribbean Basin countries. Yet the figures in Table 4.4 show that, while China's immediate post-MFA trade gains in the US market were less dramatic than predicted by Nordås, this was not reflected in a better than expected performance for Mexico and the Caribbean Basin. One possible explanation for this is that Nordås overestimated the scope for the further displacement of local production by foreign imports; although

Table 4.4 Share of US clothing imports (%) from selected suppliers before and after the lifting of quotas

	Before (1997)	*After (2005)*
China	10.48	22.04
Mexico	11.79	8.85
Hong Kong	9.19	5.11
EU15	4.31	2.80
Chinese Taipei	4.84	1.65
CBERA	17.71	13.96
AGOA (special apparel rule)	0.82	2.03
Indonesia	3.73	4.18
Philippines	3.73	2.66
India	3.15	4.33
Bangladesh	3.38	3.45
Sri Lanka	2.81	2.40
Thailand	2.93	2.63
Rest of the world	21.14	23.90

Source: OTEXA

our own calculations (summarized in Tables 4.3 and 4.4) suggest, if anything, Nordås *under*estimated the overall levels of import penetration both before and after the MFA. Here it is worth noting that the rate of increase during Stage IV of the ATC (when the bulk of quotas were removed) was relatively small, at least in comparison to China's dramatic trade gains. In the US case, for example, clothing imports from China doubled in the first 12 months after the implementation of Stage IV of the MFA while overall imports showed only a modest increase from 66.8 per cent of domestic consumption to 69 per cent (see Chapter 6). In short, although Nordås gives a number of grounds for optimism for preference-dependent countries in the post-MFA environment there are enough discrepancies in his model to suggest we may be best looking at alternative means for measuring the impact of liberalization on preference-dependent countries – a task taken up in the next section of the chapter.

Preferential trade and the distributive consequences of liberalization for smaller developing countries

The caveats introduced by Nordås point to some of the discrepancies between the two sets of data discussed above, but this hardly constitutes a satisfactory explanation for the trade patterns which have emerged since 2005. Why, for instance, have Mexico and the Caribbean Basin countries benefiting from zero tariffs and close geographical proximity to the USA – in short, suffering from none of the disadvantages quantified in Nordås's model – suffered more than the preference-dependent and geographically distant AGOA countries? Or why have countries like Bangladesh fared much better in the post-MFA period than was generally predicted (Hiller and Trygve 2003; Appelbaum 2004; Mlachila and Yang 2004) on the eve of the MFA phase-out? Although Nordås's analysis does point to some of the methodological difficulties associated with econometric modelling, our perspective suggests that these discrepancies come from a more basic failure to get to grips with the underlying political dynamics of trade liberalization and the nuances of its distributive effects for developed and developing countries. As in previous chapters, the task here is to deploy historical institutionalist insights – especially the twin concepts of path dependency and policy institutionalization – to shed light on this underlying politics. In other words, the aim is not to critique the modelling produced by Nordås and other like-minded econometricians on the basis of technical flaws in their methodology – although this is certainly merited – but on the failure to identify the social embeddedness of trade policy regimes.

A common theme in the critical commentary and debate generated by the removal of quotas in 2004 was the contrast between the 'winners' and 'losers' of trade liberalization. Even critical voices in this debate, however, relied on the presumption that the distributive effects of 'free trade' along with the attendant adjustment costs for less-efficient developing countries were, more or less, a true reflection of comparative advantage and the uneven distribution of factor endowments following the removal of 'artificial' trade barriers (Appelbaum

2004; Oxfam 2004). Yet, in the same way embedded policy regimes accounted for the persistence of sectoral protectionism, our argument is that the productive capacity of individual firms and countries – and therefore their ability to cope with freer trade – has been heavily influenced, but not determined, by the unique regulatory environment inherited from the MFA era. As such, the task of adjustment facing developing countries under liberalization is far from uniform and cannot simply be read off from 'natural' economic variables such as size, geographical location and underlying factor endowments, important though each of these characteristics is. It is of course undeniable that the net effect of the MFA was to discriminate blatantly against developing countries. Yet it is obvious that not all developing countries were affected in the same way. The reason for this is that the quantitative restrictions that were introduced under the auspice of the MFA emerged alongside a system of trade preferences that actually *encouraged* T&C production on the part of developing countries.

In drawing attention to the role of trade preferences in shaping post-ATC trade patterns, it is important for analytical purposes to distinguish between two different sources. The first source of trade preferences, which we might call 'indirect' preferences, came from the MFA itself. As we have described, the MFA served to shield developed countries from low-waged imports from developing countries through a series of highly restrictive bilateral quotas; however, while this system discriminated against developing countries as a whole and undoubtedly truncated the export growth of some countries, it actually created economic opportunities for others. This was largely due to the fact that the quantitative restrictions authorized by the MFA were not distributed evenly across the developing world, as we discovered in Chapter 2. A second source of trade preferences, which we might call 'direct' preferences, came from the 'production sharing' schemes that we have already encountered. Although these schemes initially operated outside of – and prior to – more general trade preference programmes, during the 1980s, 1990s and early 2000s attempts were made to combine them.

Insofar as each of these trade agreements related to the T&C sector, the following observations can be made. The

most relevant point is that the establishment and subsequent expansion of production sharing was intimately connected to the existence of the MFA system. This is true in two respects. On the one hand, even though trade preference schemes were often justified on the grounds of offering 'trade not aid', as we have already argued they served the needs of outsourcing firms at least as much as the supposed beneficiaries in the developing world. On the other hand, the quantitative restrictions imposed against the most competitive developing countries through the MFA fostered the particular market conditions than enabled preferential trade to flourish. Hence one would need to ask whether or not production sharing and preferential trade would have been viable had it not been for the presence of the MFA and the peculiar market environment that it helped to create.

In order to evaluate the influence of preferential trade regimes on the distributive effects of the ATC, then, we need to be cognisant of the effect of both *direct* and *indirect* preferences. With this in mind let us now consider a few brief examples of how trade preferences have shaped the political dynamics behind patterns of trade and production both before after the removal of quotas. The case of Bangladesh offers a good illustration of the effect of indirect trade preferences on the distributive consequences of liberalization. During the 1980s and 1990s, Bangladesh benefited substantively from the quota restrictions imposed on its more competitive East and South Asian neighbours (even though Bangladesh itself was subject to quotas under MFA III). Between 1978 and 2001, its annual earnings from garment exports increased from US$1 million to US$4.5 billion, by which time such trade accounted for approximately 86 per cent of its total merchandise exports (Appelbaum 2004; Mlachila and Yang 2004). In 2004 an estimated 95 per cent of Bangladesh's garment exports went to either the EU (where it was the fifth largest supplier) or the USA (where it was the seventh largest supplier), and in both cases this trade was facilitated by terms favourable – although hardly generous – to those offered to China and India. With the completion of the ATC, however, Bangladesh faced the prospect of competing more directly with these countries. It is for this reason that Bangladesh was generally expected to be one of the main casualties of liberalization: a report published by

the United Nations Development Programme (UNDP) in 2003 predicted that the Bangladeshi T&C sector would ultimately lose as many as one million jobs as a result of the ending of the MFA (Hiller and Trygve 2003). Likewise, a report published by Oxfam in 2004 pointed to the fact that, following the completion of Stage II of the ATC in 2002, Chinese exports of newly liberalized infant wear increased by 298 per cent in 2002 and by 81 per cent in 2003, while Bangladesh saw comparable exports shrink by 25 per cent in 2002 and by 9 per cent in 2003. Similarly, Christian Aid chronicled the announcement by the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) that it had lost almost one-half of all its export business in uncapped lines as a result of the ATC; at the same time, China reportedly increased its exports in all newly liberalized products by approximately 544 per cent (BGMEA, cited in Christian Aid 2004: 9).

As it has turned out, these reports based on the early stages of the ATC provided a rather misleading picture of the vulnerability of the Bangladeshi T&C sector post-ATC (ILO 2005). In fact, not only did Bangladesh manage to maintain its overall market shares, its share of the EU market actually doubled between 1997 and 2005 (from €1.46 billion or 3.76 per cent of total sectoral imports to €3.54 billion or 6.18 per cent of total sector imports) while holding onto its share of the US market in the same period. It should be noted also that, post-ATC, Bangladesh increased its exports to the USA by approximately 72 per cent from US$1.98 billion in 2004 US$3.41 billion in 2009, or 5.4 per cent of total sectoral imports. On the face of it these figures sit uncomfortably, not only with the reports summarized above, but also with our own thesis with its emphasis on the constraining effects of preferential trade. After all, as a beneficiary – albeit mainly indirectly – of trade preferences under the MFA one would expect Bangladesh to come off much worse from the removal of quotas has subsequently proven to be the case. A closer inspection of the relevant arguments, however, suggests an alternative reading is also plausible. In the case of the EU although Bangladesh was in theory offered favourable terms of trade because of its eligibility for the Generalised System of Preferences (GSP) – and the more recent Everything But

Arms (EBA) initiative – in practice the restrictive rules of origin that accompanied these trade arrangements had the effect of discouraging the utilization of preferences – to the extent that by the early 2000s only about one-half of Bangladesh's garment exports to the EU entered duty free (Brenton 2003). While this obviously had a negative impact on Bangladeshi T&C exporters in lost preferences it also meant that they avoided the rules of origin constraints associated, for example, with US programmes such as the Caribbean Basin Economic Recovery Act (CBERA) which is characterized by utilization rates in excess of 95 per cent. In short, Bangladesh constitutes a 'preference-dependent' country only in a very nominal sense. In fact this is even truer with regard to the US market. Unlike the EU case, T&C imports from Bangladesh under the MFA did not even theoretically qualify for duty-free treatment (mainly because T&C was exempt from its version of the GSP); and, to make matters worse, Bangladesh was also subject to quotas prior to 2005. As a consequence, the abolition of the MFA effectively created a 'level playing field' between Bangladesh, China and other low-cost exporters. But while this meant greater price competition it also heralded better market access – and it appears that this has enabled Bangladesh to offset lower prices and declining terms of trade with a much increased volume of exports.

A second set of developing countries expected to suffer from the removal of quotas were those that hitherto benefited from *direct* preferences via the production sharing arrangements briefly discussed in Chapters 2 and 3. These arrangements are typically based on a reciprocal relationship whereby investing firms are granted tax holidays and other fiscal incentives by neighbouring developing countries in exchange for preferential access to developed country markets. A good example of this type of arrangement (which we shall encounter in much more detail in Chapter 6) is the CBERA. Since 1986, the CBERA has granted duty-free treatment and relatively generous import quotas to T&C imports from eligible Caribbean Basin countries; in turn, eligible countries have offered a range of economic incentives to foreign investors in order to encourage them to invest in their particular assembly sites. The effect of this reciprocal arrangement was, at least initially, quite spectacular –

but since the ending of the MFA the continued viability of production sharing in the Caribbean Basin has been thrown into doubt. The main reason for this is to be found in the fact that production sharing was in the past made possible largely because of the MFA. In this sense, now that the artificial ceiling on US imports from more competitive developing countries has been lifted, the resulting increase in market penetration may prove to be so overwhelming as to undermine the long term sustainability of production sharing. To put the argument another way, in the post-MFA environment US clothing retailers may exercise their newly acquired freedom to satisfy demand exclusively through direct imports from Asia, thus effectively ruling Caribbean Basin suppliers (as well as domestic producers in the US) out of the North American supply chain.

This eventuality is made more likely by the fact than many of the supposed benefits of trade liberalization have not flown to the Caribbean Basin, because of the strict rules of origin attached to the CBERA. As noted earlier, much of the economic modelling mentioned at the outset of the chapter is based on the presumption that the lifting of quotas will enable developing countries to enhance their competitiveness by securing access to more competitively priced yarns and fabrics. This presumption is certainly merited in the case of developing countries that do not rely on preferential trade or, like Bangladesh, have chosen to forego tariff preferences. But for those that do it can be argued that this presumption is of little relevance. In the case of the CBERA, for example, the duty-free provisions relating to T&C are only applicable if such goods are manufactured with US-made yarns and fabrics. In other words, the CBERA is an effective means by which US firms can secure access to the dramatically lower wages paid to garment assembly workers in the Caribbean Basin, while providing a 'captive market' for these firms in terms of the supply of all the necessary raw materials and intermediate inputs. Hence the real problem for the Caribbean Basin, and other developing countries that rely on similar preferential trade schemes, is that they are to all intents and purposes 'locked' into a trading arrangement, wherein they are required to source raw materials from developed countries even if these are not competitively priced. Conversely, if these developing countries

were to eschew preferential trade in order to secure access to more competitively priced yarns and fabrics, they would first have to forego tariff relief if they were still to target the same developed country markets.

The predicament faced by Caribbean Basin producers and others that in the past have benefited from production sharing is similar to that which now confronts a third set of (even poorer) states that only really began to take advantage of preferential trade towards the end of the MFA period: namely, the least-developed countries (LDCs) of SSA. In the last few years in which quotas were still in place a number of African countries began to establish a noticeable, albeit still relatively minor, presence in the global T&C industry (to be examined in much more detail in Chapter 7). This presence was due almost entirely to trade preferences offered by the EU and, to a much more significant extent, the USA. In the EU case preferential market access is now granted mainly via the EBA initiative, which offers duty- and quota-free treatment to all products (although with complicated rules of origin very similar to the GSP) from the 48 LDCs; whereas preferential access to the US market comes almost exclusively from AGOA, which came into effect in 2000. The AGOA mimics the CBERA to the extent that duty- and quota-free market access is restricted mainly to garments manufactured with US-made inputs. In addition to this, though, it also grants duty-free treatment to garments made from local or third country (e.g. China) yarns and fabrics, subject to certain quantitative limits. However, the AGOA does make a crucial distinction between 'lesser developed beneficiary countries' (LDBCs) and others eligible for trade preferences in respect of local content requirements. For the LDBCs, the relevant rules of origin stipulate only that the assembly and finishing must take place in the beneficiary country; whereas for non-LDBCs (e.g. South Africa) the rules require that yarn and fabric manufacture must also take place in the beneficiary country (or in the US or another AGOA-eligible country) in order to qualify for duty-free entitlements. But as far as the LDBCs are concerned the AGOA certainly avoids the worst effects of the CBERA in terms restrictive rules of origin – although, as we will show in Chapter 7, this maybe more than offset by the presence of

arbitrary quantitative restrictions and continuing uncertainty over the permanency of the AGOA programme.

Despite these caveats, there is no denying that the AGOA gave an important fillip to garment production in SSA. Prior to its implementation, it is worth recalling that T&C imports from the region entered the US at MFN rates of duty, while imports from Mauritius and Kenya were also subject to MFA quotas. The early indications suggested that AGOA would have a significant impact on garment exports from Africa to the USA (Gibbon 2003b). Further, with the impetus provided by AGOA garment export growth from Africa to the USA came from a greater number of sources than in the case of similar trade patterns with the EU. In addition, the initial evidence suggested that AGOA only led to a very limited amount of trade diversion from the EU to the US. This suggested that the major effect of new trade preferences was not (as some feared) to consolidate the dominant position of traditional suppliers like Mauritius, but rather to facilitate the establishment of new sources of garment production within the region. In short, then, the preferential trade schemes offered by the USA and (possibly to a much lesser extent) the EU, while not perfect, have helped to facilitate a degree of export growth in the T&C sector for a number of African countries.

Yet, as with other parts of the developing world that prospered while quotas were in place, the ending of the MFA system cast a shadow over the future of the nascent garment industry in Africa. Like the other cases examined, the removal of quotas constitutes a threat not so much because the future economic opportunities for African garment exporters will be less, but rather because those for more competitive developing countries like China will be greater. Then again, since trading programmes like AGOA operate primarily on the basis of tariff rather than quota preferences, it might be argued that the ending of the MFA is of less relevance in Africa than it is in other parts of the developing world. By the same token, it can be argued that, since AGOA is generally predicated on more flexible rules of origin than those stipulated by either the CBERA or the EBA, African garment producers might well be in a better position – at least as far as the US market is concerned – than their counterparts located elsewhere in the developing world. Indeed, in early 2005 a report

published by the International Textiles and Clothing Bureau (a Geneva-based organization which campaigns for better market access for developing countries) advanced this exact argument (ITCB 2005). According to the ITBC, the impressive growth rates achieved by AGOA beneficiaries in the 2000s contrasted sharply with the experience of more established garment producers like Mexico and the Caribbean Basin countries. The reason for this, the ITCB suggested, is that more flexible rules of origin have enabled African garment producers to secure access to the most competitively priced yarns and fabrics, whereas Mexico and the Caribbean Basin countries (as we have noted) are required to source raw materials from less competitive US suppliers.

While theoretically consistent with our earlier argument, this conclusion is still debatable – not least because direct comparison between Africa and more established garment suppliers is complicated by the former's negligible role in the US supply chain prior to the implementation of AGOA. More to the point, while the advocacy of more flexible preferential trade rules is to be encouraged, the relevance of these to the immediate problem facing AGOA beneficiaries – adjusting to the post-MFA landscape – still needs to be questioned. This point is especially relevant when comes to the diversionary consequences of the removal of quotas on foreign investment in SSA. As Gibbon (2003b) has argued, the dominant economic response to AGOA came not from indigenous firms in Africa, but rather from foreign – predominantly ethnic Chinese – investors specializing in garment assembly and finishing rather than manufacturing, which are thus seeking to target the US market through the establishment of export platforms in Africa. Accordingly, much of the investment that flowed to the region since the implementation of AGOA might be described best as 'footloose' in nature and therefore presumably sensitive to external policy changes typified by the ending of quotas. Of course, footloose investment in the garment industry is unique neither to AGOA nor to Africa, and as such a similar argument could be made in relation to other developing countries that we have discussed. What makes this problem particularly acute in this context is that, unlike Mexico and the Caribbean Basin countries, Africa does not possess the natural advantage of geographical proximity to major markets –

one of the key factors identified by Nordås as crucial for enabling preference-dependent countries to withstand the shock of the removal of quotas.

Conclusion

This chapter has examined key tensions and controversies associated with the transition from the MFA to the ATC and the distributive consequences of this for the developing world. While acknowledging that the removal of quotas has generated considerable welfare gains for developing countries as a whole, our main purpose has been to highlight the predicament of those that have become significantly worse off in the post-MFA environment. With the benefit of hindsight, we have been able to cast further doubt on the wisdom of the 'grand bargain' thesis – and on the accuracy of the econometric models which underpin it. But the key purpose of the chapter has not primarily been to critique these models in terms of technical merits or predictive power; rather, the aim was to look specifically at the political correlates of trade liberalization to the extent that previous, historically embedded patterns of trade policy regulation shaped the distributional effects of T&C liberalization for developing countries. To this end, the penultimate section of the chapter focused on the adjustment problems confronting the hitherto preference-dependent countries of the Caribbean Basin and SSA – an issue which is explored much more fully in Chapter 6 (which focuses on the Caribbean Basin) and Chapter 7 (which focuses on SSA). Before we turn to this, however, the next chapter takes a more specific look at the actions of the developed countries in respect of China since quotas were removed in 2004.

5 The EU, China and textiles diplomacy under the WTO

In this chapter we consider emerging patterns of trade diplomacy in the post-MFA era. We do this by focusing specifically on the trade dispute that took place between the EU and China in the summer of 2005, regarding the implementation of the final and most controversial stage of the ATC. Although, as we discovered in the previous chapter, the ATC was established in 1994 as part of the Uruguay Round, its subsequent implementation by the EU and other developed countries has proven to be very controversial. On the one hand, the specific mechanics of the ATC enabled importing countries to backload the elimination of MFA import quotas, to the extent that approximately four-fifths of these remained in place until the very end of the 10-year transition period in 2005. On the other hand, within a few months of the eventual removal of quotas, the EU and the USA took advantage of WTO 'safeguard' provisions to introduce new trade restrictions against China. In the EU case, this decision proved to be especially problematical when it emerged that the new agreed limits for T&C imports had been reached within a matter of weeks of a deal being struck, and as a result approximately 77 million Chinese garments were left stranded at various European ports. Although this episode – quickly dubbed 'bra wars' by the British press – was resolved relatively quickly, it nevertheless left a number of very big and important questions unanswered.

Many of these questions relate to the specifics of the global T&C trade regime, as described in previous chapters. At the same time, however, there is a sense in which the significance

of 'bra wars' goes well beyond the specifics of this episode and thus makes the EU – as opposed to the USA or other developed countries – an especially interesting test case of patterns of trade diplomacy in the post-Uruguay Round era. Over the years, the EU has attempted to construct a particular discourse towards the developing countries that, among other things, has sought to articulate a distinctively 'European' approach to issues like preferential trade, equitable growth, poverty reduction, financial assistance and so on (Grilli 1994; Lister 1997; Holland 2002). Accordingly, the point is often made that the normative underpinnings of EU foreign policy allow for a more nuanced and – perhaps – more enlightened attitude towards global economic governance than in the case of the US (Grugel 2004). Despite this, the apparent contravention of the T&C trade regime is one of a number of recent controversies wherein the pro-poor rhetoric of the EU has been overshadowed by self-interest and a set of policy decisions that have patently not served the needs of the developing world. Hence the broader analytical question raised by 'bra wars' centres on the incongruity between the rhetoric and the reality of the trade and development policies of the EU.

The rest of this chapter looks more closely at this issue. It begins by revisiting the origins of trade protectionism in the T&C industry as set out in Chapter 2, but by looking specifically at the role of the EU therein. The second section focuses on the actions of the EU since MFA quotas were removed in 2005, especially the decision to re-introduce trade restrictions against China. The third and final section places this case in a wider context. This is done by asking what – if anything – we can learn from 'bra wars' about the conduct of the EU not just with respect to the T&C trade regime but global economic governance more generally, particularly in terms of balancing the collective welfare of its members and their citizens against the (often irreconcilable) interests of the developing world.

European trade politics and the MFA

As early as the 1950s, the various countries that would in due course establish the EU recognized clearly that the labour intensive

nature of the T&C sector would soon make domestic producers vulnerable to competition from emerging exporters like Japan. Accordingly, prior to the signing of the Treaty of Rome in 1957, European governments more or less independently invoked Article XII and Article XXXV of the GATT in order to restrict cheap imports from Japan and other 'low-waged' countries (see Chapter 2). In the subsequent period, the establishment of the EU led to the adoption of a common commercial policy (CCP) wherein responsibility for the negotiation of international trade agreements would supposedly reside exclusively at the supranational level. Despite this, the adoption of the CCP with respect to the T&C sector did not lead immediately to a greater role for Europe in international trade negotiations, nor did it presage a shift towards a more liberal international trading regime. In fact the opposite was true. As we discovered in Chapter 2, during the 1960s and early 1970s the EU mostly deferred to US leadership in T&C negotiations, even when it became clear that the latter was pursuing a decidedly selective approach to trade liberalization. Thus both the STA and LTA can be interpreted largely as US initiatives designed to do no more than bestow a degree of multilateral legitimacy to what were, in essence, a series of bilateral – and highly discriminatory – trade restrictions. As we have argued, the evidence suggests that the EU as a whole only agreed to these two initiatives reluctantly and only then with a number of important reservations. This is because at the time European T&C imports from Japan and other emerging economies were negligible (partly as a result of the trade restrictions that had been imposed earlier through the GATT system – see, again, Chapter 2) when compared to the US experience.

But, as we discovered in Chapter 2, the initial reluctance of the EU to sign an international textile agreement was also linked to the fact, while the STA and the LTA were in theory negotiated *en bloc*, at this point individual member states were still pursuing more or less independent policies.[1] The need to reconcile the competing national economic interests and ideologies of individual member states became even more pronounced with the establishment of the MFA in 1974. To recall again from Chapter 2, while the MFA extended quota protection to cover

woollen and man-made fibres as well as cotton textiles, the agreement itself constituted no more than a general framework for determining the conditions under which bilateral export restraint agreements could be implemented. The responsibility thus remained with the EU to protect the Community from low-waged imports through the establishment of quota agreements with individual supplier countries. As a consequence, whereas the US was able to established fairly quickly MFA quotas with all of its major T&C suppliers, the EU failed to establish a single quota agreement for the first two years of the MFA. The precise causes and consequences of this delay are detailed in Chapter 2 so do not need repeating here, suffice to say that the need to mesh together different national requirements into Community-wide bilateral agreements left the EU highly exposed to trade diversion from the USA, leading to an increase in sectoral imports of some 41 per cent between 1974 and 1975, and a reported loss of some 430,000 jobs by 1977.

It was against this backdrop that the EU adopted a far more protectionist stance vis-à-vis low-wage imports in subsequent renewals of the MFA – leading to a gradual but unmistakable hardening of its position to a point where by the late 1970s it was arguably even more protectionist than the USA (Aggarwal 1985: esp. Ch. 6). By late 1980s, talks had begun to re-introduce, albeit gradually, T&C into the multilateral framework, soon to be governed by the WTO. Before we go on to analyse the actions of the EU since the ending of quotas, however, it is first necessary to re-examine briefly the reasons behind liberalization, from the perspective of the EU. How was it that the EU – of course alongside other developed countries – was able to abandon the MFA in 1993 when it had so fiercely defended it in the late 1970s and early 1980s? As we saw in Chapter 3, the most popular answer to this question centred on the North–South bargaining dynamics of the Uruguay Round and suggests that the liberalization of the T&C trade regime came about as a result of the strategic calculation on the part of developed countries that movement in this area would offer significantly more room for manoeuvre with regard to reciprocal liberalization in more controversial areas, such as trade-related intellectual property rights and services (Hoekman and Kostecki 2001:

229). This argument is not without merit. At the same time, however, we have suggested that it does tend to underplay the independent interest that the EU and other developed countries had in abandoning the MFA. After all, the key point that is often missed amid the denunciation of the MFA is that, not only did it discriminate blatantly against developing countries, but also demonstrably failed in its key objective of shielding Western firms from low-waged competition.

In addition to this, though, we have advanced another reason for why the MFA was not defended forcefully during the Uruguay Round negotiations. By the mid-1980s, many firms in the EU and the USA began to take advantage of special tax regimes that were designed to encourage outsourcing on the part of domestically oriented producers. In essence, these policies enabled domestic firms to outsource the most labour-intensive aspects of production (e.g. garment assembly) while retaining the higher value added tasks (e.g. natural and synthetic fibre production; textiles design and manufacturing; the cutting and dyeing of fabrics) within the domestic economy. In this way, firms could in theory maintain price-competitiveness in their own domestic market and – with the additional assistance of the MFA – resist competition from the most competitive developing countries. The problem with this strategy, however, was that while outsourcing did assist domestic restructuring, it also served to undercut the protectionist coalition that had sustained the MFA up until this point. That is to say, once domestic firms began to locate production overseas, they no longer had a stake in the quota system since this placed an artificial ceiling on their access to low-cost labour and raw materials.

The bargaining dynamics of the Uruguay Round, coupled with the declining utility of the MFA, thus take us some way towards an explanation of the decline of T&C protectionism in the developed countries. Yet there is another aspect to the story. Although the factors cited above offer a reasonably convincing general account of T&C liberalization, there is a sense in which they are more relevant in the case of the USA than the EU. This is an important point, not least because the decision-making structures are obviously far more complex in the latter case. For this reason a number of analysts have stressed that trade

liberalization in the EU needs to be understood, not primarily in terms of changing trade preferences nor external diplomatic pressure, but in terms of broader changes to the institutional setting in which decisions at the supranational level are made. Brian Hanson, for example, has argued that external trade liberalization in the EU came about largely as an unintended consequence of the implementation of the Single European Act (SEA) in 1992 (Hanson 1998). On the one hand, Hanson argues that the completion of the internal market undermined the ability of member states to use national policy tools (which were commonplace even after the adoption of the CCP) to protect sensitive industries. On the other hand, he suggests, a 'liberal bias' in the decision-making rules within the EU – namely, the need for qualified majority voting in the Council of Ministers – made it much more difficult for member states to then introduce compensatory protectionist measures at the supranational level.

Mehmet Ugur (1998) has offered a not too dissimilar argument. He suggests that the levels of EU protectionism in any given industry have been determined historically not primarily by the intensity of interest group pressure, but by the extent to which the policy/issue is transparent and divisible in terms of a national economic interest. Accordingly, in the earlier 'shallow' phase of European integration it was relatively straightforward for T&C interest groups and individual member states to press for industry-specific protectionism on the grounds of national interest. However, in the later 'deep' phase of integration following the introduction of the single market the transparency/divisibility of the T&C sector became less pronounced, and it became more difficult for interest groups and individual members states to claim special treatment on the above grounds. Hence, from this perspective, EU trade policy tailored specifically to the T&C industry became incompatible with deeper European integration.

EU textiles diplomacy after the Multi Fibre Arrangement

Given the plethora of theoretical explanations premised on declining trade protectionism in Europe, one might have

expected the implementation of the ATC to go relatively smoothly. The story of what actually did happen was relayed briefly in the previous chapter but it is worth reiterating the main points as follows. As was described in the previous section, under the ATC the EU and other developed countries agreed to phase out the MFA but in four separate stages, with a large share of quotas remaining until 1 January 2005. This meant that, not only would the developing countries have to wait until the very end of the transition period in order to reap the full benefits of liberalization, but also that the accumulated costs of adjusting to freer trade would be borne by European industry (and by producers in other countries which benefited directly or indirectly from trade protectionism) more or less all at the same time. In preparation for this, a whole gamut of meetings, conferences and seminars were organized by the European Commission in the run-up to the MFA phase out – all with the explicit aim of preparing domestic industry for life after quotas. In October 2003, the Commission published a major study, entitled 'The future of the textiles and clothing sector in the enlarged European Union'.

This report was supposed to serve as a review of all relevant EU trade and industrial policies and to come up with concrete policy recommendations for the T&C sector. The report offered few specific proposals, but in the executive summary it did state the following: 'the Commission does not call for any subsidies, or for a privileged treatment of the sector, or for the replacement of the import quotas by other forms of protection' (European Commission 2003: 4). Despite this recommendation, as the deadline for the expiry of the ATC approached, it became increasingly clear that the maintenance of quotas after January 2005 was a distinct possibility. This was especially so in the case of China. On 30 June 2004, the so-called High Level Group on Textiles (a committee composed of EU officials, trade ministers of member states and industry representatives) called explicitly for the establishment of a 'monitoring' system and a set of guidelines for determining when and under what circumstances safeguard measures could be applied to T&C imports from China. This recommendation was duly acted upon with Council Regulation 2200/2004, which established a

surveillance mechanism for monitoring newly liberalized T&C imports, specifically from China.

Once this surveillance mechanism was put in place, analysts soon predicted that it would only be a matter of time before trade restrictions would be introduced in order to counter the effects of the expiry of the ATC (ICTSD 2005). Accordingly, within a matter of months of the ending of quotas, the EU followed the US in launching investigations against China on the grounds that rapid import surges were causing severe harm to domestic producers. On 7 April 2005, the EU established of an 'early warning system' to monitor the growth of imports from China and the effect of this on EU industry. Shortly thereafter, the EU Trade Commissioner, Peter Mandelson, formally requested consultations with China under the WTO, after trade data revealed significant increases (ranging between 51 per cent and 534 per cent) in Chinese imports. The consultation process is usually the precursor to the imposition of trade restrictions (this actually happened in the US case) and it was widely expected that the EU would impose safeguard measures against China at this point.

In this particular case, however, the threat of unilateral action was sufficient in itself to convince China to agree to 'voluntary' restrictions. This agreement covered ten of the 35 categories of Chinese T&C imports liberalized in accordance with Stage IV of the ATC (even though only four categories had been subject to EU investigation), amounting to an annual cap of between 8 and 12.5 per cent until 2008. Despite the fact that these new 'voluntary' restrictions came into force less than six months after the termination of the MFA, the textiles agreement seemed – at least initially – to be welcomed by the EU and China, with both sides comparing the deal favourably with the decision by US authorities to impose trade restrictions against China unilaterally (Dyer and Minder 2005).

If the EU–China textiles agreement was seen initially as a vindication of bilateral negotiation and compromise, within a few weeks the deal had degenerated into farce. Part of the problem was that the buying cycle for major EU retailers – which normally operates approximately 12 months in advance for mail order companies and six to nine months in advance for retailers

– was out of step with the EU decision making process.[2] As a result, many retailers placed large orders for Chinese T&C goods prior to the announcement of new quantitative restrictions, and before it was known that these annual quota limits would operate retroactively. To make matters worse, while the EU arrangement for governing Chinese imports was announced on 10 June, it was not until four-weeks later on 12 July that the Commission actually published the accompanying regulations.

In the intervening period, national governments (including those such as France and Italy which had lobbied hardest for the imposition of textiles safeguards against China) reportedly granted licences to retailers to import a further 120 million Chinese garments – a figure twice the quota for the rest of the year and four times greater than total sales in 2004 (*Economist* 2005)! Within approximately six weeks of the announcement of new quantitative restrictions on Chinese T&C, quotas were not only full but an additional 77 million Chinese garments were left stranded at EU ports. The European Commission was then forced to renegotiate the terms of the Chinese textile agreement, and to increase the quota ceiling in order to release the impounded orders (although China was forced to accept one half of this increase against its recently agreed 2006 quota).

Had it not been for the political furore surrounding the issue of the impounded garments, the imposition of new trade restrictions against China by the EU might have gone largely unnoticed (as in the US case, where the issuing of new T&C quotas was more or less ignored by the mainstream media). As it was, the EU–China textile dispute generated something of a media frenzy in the summer of 2005, especially in the UK where interest in the story was no doubt heightened by the prominent role played by Trade Commissioner Peter Mandelson (a close political ally of the then UK Prime Minister, Tony Blair, and formerly a cabinet minister and key architect of the New Labour project). A good deal of the media commentary focused initially on the impact of EU trade protectionism on domestic consumers, including the extent to which the costs of this would be borne mainly by low-income families (Willets 2005). More crucially, however – and against the backdrop of a range of intergovernmental summits and the anti-poverty initiatives that

either took place or were (re-)launched in the summer of 2005 – ‘bra wars’ also exposed the impact of trade protectionism on developing countries.

In particular, critics ranging from financial journalists such as Martin Wolf to anti-poverty campaigners like Bob Geldof highlighted the long history of trade discrimination in the T&C sector against the developing countries, and the fact that the new trade regime had seemingly failed to bring an end to such practices. The EU–China textiles dispute and the heightened media attention generated by the issue of the impounded garments thus served to draw attention, not only to the imperfections of the ATC, but to the broader impact of trade liberalization – or the lack thereof – on the developing countries. Among the various questions that were asked, undoubtedly the most cited was that which centred on the apparent failure of the developed countries to implement fully the ATC. Why was it, critics asked, that despite the fact the developed countries had already been granted a 10-year adjustment period, many were demanding further protection? And how was it that both the EU and the USA were able to enforce new textile quotas against China – albeit ‘temporary’ ones – when the ATC had supposedly brought an end to all quantitative restrictions in the T&C industry in 2004?

At least insofar as the EU was concerned, the conclusion that most critics reached was that the use of textile safeguards was, quite simply, the predictable outcome of a process of intensive lobbying on the part of Europe’s most protectionist countries and their industry associations. This argument is certainly persuasive. Throughout the ‘bra wars’ episode it was those EU member states normally associated with trade protectionism – most notably, France but also Italy, Spain, Greece and Portugal – which offered the most enthusiastic support for the imposition of trade restrictions against China. Added to this, it was also notable that the evidence of market disruption used by the Commission to justify the trade restrictions was not spread evenly across the EU, but rather relied heavily on one or two cases. For example, the investigation that preceded the introduction of T&C safeguards found that the surge in Chinese imports of T-shirts was felt mainly by Portugal and Greece, which witnessed

a lessening in local production of between 30 and 50 per cent and 12 per cent respectively in the first three months of 2005 (ILO 2005: 16). The other interesting feature of these losses is that they occurred in precisely the same countries that benefited most from the backloading of the ATC. While in Germany an estimated 60 per cent of T&C product categories in which local producers specialized were liberalized in the first two phases of the ATC (1995 and 1998), in the case of Greece approximately 88 per cent of its share of intra-EU exports were reportedly shielded until the very end of the 10-year transition period (Francois and Spinanger 2005).

In short, then, the maintenance of quotas in the EU after the expiry of the ATC would seem to rest with the trade preferences of those member states exposed most by economic liberalization. Despite the apparently self-evident nature of this conclusion, however, it does not entirely correspond with our earlier analysis. As we described in the previous section, something of an intellectual consensus now exists regarding the issue of EU protectionism – or the lack of it – suggesting that the ‘deepening’ of European integration has made it progressively more difficult for sectoral interests groups to ‘capture’ the supranational policy-making process. This then begs the question, if the institutional setting of EU trade policy has become less conducive to illiberal rent seeking, how was it that Europe’s most protectionist countries and their industry associations were, on the face of it, so successful in getting their way? In order to address to this question it is necessary to consider two issues – the first relates to the peculiar nature of the ATC as an instrument of liberalization and the second to the uniqueness of the Chinese case. Let us first consider the ATC.

Although in theory the ATC was designed to liberalize the T&C sector through a series of incremental stages, so as to allow affected firms time to restructure and modernize, the reality was quite different. Because the ATC liberalization schedule was determined largely by the developed countries it was decided to delay painful economic adjustment for as long as possible by retaining the most significant quotas until the very end of the 10-year transition period. In fact the mode of liberalization was even more lopsided than initially appeared to be the case. This is

because the majority of the product categories integrated into the WTO framework in the early phases of the ATC were, generally speaking, ones already benefiting from quota-free treatment. In many cases the EU and the USA cynically exploited the ATC by including products within the 10-year phase out that had not actually been subject to any bilateral (i.e. MFA) restraint in the first place. As a consequence, although Stage IV of the ATC accounted for less than one-half of all T&C import categories it covered a much higher proportion of actual quotas. To be more precise, the proportion of quotas that were retained by the EU and the USA until 2005 was 73.3 per cent and 86.5 per cent respectively (Williams *et al.* 2002).

Although the clear intention of the developed countries was to postpone liberalization for as long as possible, this strategy only served to delay – and ultimately intensify – the adjustment process for uncompetitive firms. That is to say, since there was little incentive for T&C producers benefiting from quota protection to modernize and restructure while the MFA was still in place, the backloading of the liberalization schedule simply meant that the accumulated costs of economic adjustment would, in the end, have to be met more or less all at the same time. As a result, it was always likely that the developed countries would be forced to react to a significant increase in cheap imports once the transition period ended – a scenario made even more likely after China was admitted to the WTO in 2001. From this perspective, the failure of many firms in the EU and the USA to modernize (or to get out of the industry altogether) between 1995 and 2005 was arguably *because of* rather than in spite of the ATC transition period.[3]

The issue of how the developed countries came to introduce new quantitative restrictions once the 10-year transition period – and therefore the MFA quota system – ended is a slightly different matter. At the time of the 'bra wars' fiasco, the obvious conclusion to draw was that the decision by the EU and the USA to impose textile quotas against China was simply the latest example of hypocrisy and double standards on the part of the developed countries, with respect to the advocacy of free trade (Oxfam 2002). Some commentators even went so far as to suggest that the introduction of quotas was suggestive of spiralling protectionist sentiment within the developed

countries, and that, worse still, these measures were encouraging similar rent seeking behaviour in other sectors affected by low-waged imports. This may or may not have been the case. What needs to be borne in mind, however, is that – unlike the MFA – new quotas were only applied in the case of China. This is a crucial point, not least because the rules governing China's membership of the WTO contain a number of stipulations that are not present in the case of other member states.

In fact, the legal basis for safeguard action does not come from the WTO itself, but rather from the various bilateral agreements that China signed prior to accession. Crucially, these agreements derogate noticeably from usual WTO standards in a number of important respects. First, the provisions relating to 'market disruption' – which allow importing countries to impose unilaterally import quotas after a 90-day consultation period – are far easier to satisfy than those found in the WTO multilateral agreements (see WTO 2001a: 9–10). Second, because these bilateral agreements were formally negotiated outside of the ATC framework, any decision to invoke textile-specific safeguards would not be subject to approval by the WTO Textiles Monitoring Body (which oversees the implementation of the textile agreements) or any other external body. Finally, while the textile-specific safeguards contained in the bilateral agreements were only applicable until 31 December 2008, importing countries can invoke the 'product-specific' safeguards until 31 December 2013!

All in all, even though the use of textile quotas against China was used to illustrate the broader inequities of the international trading system, it is clear that we are dealing with a rather exceptional case. This in itself does not invalidate the suggestion that the Chinese case set a dangerous precedent with respect to the use of quantitative restrictions in the post-MFA environment; nor does the uniqueness of this case rule out the possibility that these quotas presaged an increase in trade protectionism against developing countries more generally. At the very least, however, the wider significance of these quotas must be assessed in the light of one or two very important caveats.

The first caveat relates to the question of whether or not China can be realistically thought of as a 'developing' country. This is

actually a long-standing controversy and, in part, explains why China's accession to the WTO proved to be so protracted and controversial (Breslin 2003). Ever since China first notified the GATT of its intention to 'reclaim' it status as a contracting party in 1986 (which had been suspended following the communist victory in the civil war in 1949), it has done so on the basis of being classified as a 'developing country' – not least because this would entitle it to special treatment with respect to the pace of domestic liberalization as well as eligibility for multilateral trade preferences. However, as Breslin notes, since the WTO replaced the GATT no applicant country has been granted 'special treatment' on the grounds of 'developing country' status. This is due to the fact that this classification does not actually have any legal status under WTO rules. As a result, the issue of whether a new member of the WTO is or is not classified as a developing country is determined largely by the bilateral negotiations that precede accession (Breslin 2003: 218).

Hence, even though China has defined itself *nominally* as a developing country member of the WTO, a more telling indication of its de facto economic status is to be found in the country-specific measures, which, among other things, allowed the EU and the USA to impose trade restrictions exclusively against Chinese textiles. To put the point slightly differently, because of China's ambiguous economic status the rules governing its accession to the WTO contain a number of conditions that are not in place for any other member state, developed or developing. As a result, it would be considerably more difficult for either the US or the EU – or any WTO member for that matter – to justify the use of similar trade restrictions against any country other than China.[4] For this reason, the risk that textile safeguards would jeopardize the entire ATC or lead to similar protectionist measures in other manufacturing sectors affected by low-wage competition is quite low (Beattie and Alden 2005).

The second caveat – which is partly related to China's ambiguous economic status within the WTO – centres on the wider impact of textiles liberalization on the developing world. Although many commentators interpreted the imposition of quotas not just as a threat to China but to the South as a whole, the truth is that many developing countries have adopted a highly

ambivalent position vis-à-vis trade liberalization, especially in relation to China (Kaplinsky 2005). This is due to the fact that, while the MFA undoubtedly truncated the export growth of the developing countries as a whole, it also created 'niche' opportunities for generally smaller states (see Chapter 4) which were able to take advantage of the restrictions imposed on more competitive producers. As we saw in the previous chapter, in the absence of the MFA, producers in these smaller developing economies are therefore now as exposed to competition from China – arguably more so – as their counterparts in the developed world.

From this point of view, it would seem illogical to describe 'bra wars' as a straightforward 'North–South' trade issue, when a number of developing countries arguably had more to gain from quantitative restrictions against China than T&C producers in either the EU or the USA. All the same, this still does not alter the fact that by introducing textile safeguards the EU reneged on a key pledge made at the time of the Uruguay Round, namely, to end all discriminatory practices in the T&C sector by 2005. Moreover, irrespective of whether or not China is formally classified as a developing country, the fact remains that by invoking WTO safeguards the EU was, at the very least, guilty of discriminating against a country which still accounts for a disproportionate share of the world's poor (Oxfam 2004). Hence the broader analytical question raised by 'bra wars' centred on the apparent contradiction between the theory and practice of the EU in relation to wider aspects of global economic development. It is to this issue that we now turn.

EU external trade policy and the politics of global development

On the face of it the 'bra wars' controversy would seem to lend credence to the arguments of those critics who have over the years caricatured the EU as an inward-oriented, protectionist trade bloc (Wolf 1995). But, as the work of Hanson and others has shown, the 'deepening' of European integration following the completion of the internal market in 1992 has made it far more difficult for sectoral interests groups to 'capture' the

supranational policy-making process in the way they arguably did in the past. As a result, the ideological trajectory of the EU in the last decade or so can be said to have become progressively more liberal in matters of external trade and foreign economic policy more generally (Woolcock 2000). This being the case, one could conclude that the use of textile safeguards against China and other sporadic bouts of protectionism, while certainly newsworthy, are relatively insignificant in the overall scheme of things.

Although several points are relevant here, two are especially worth noting. First, there are strong grounds for arguing that the position of the EU with respect to multilateralism and wider economic development is not simply dictated by narrow self-interest, but is intimately connected to its entire institutional and normative *raison d'être*. Ben Rosamond (2004), for example, suggests that the EU has come to embody a particular model of post-Westphalian governance. As such, it has sought to articulate an almost unique discourse in relation to international diplomacy and the governance of the global political economy. At the same time, the EU has made a deliberate attempt to export a particular model of capitalist development beyond its shores. A not too dissimilar point has been made by Ian Manners (2002) in his work on the externalization of European norms and values. Drawing on the notion of the EU as a 'civilian power' (cf. Whitman 1998), Manners shows a close affinity between the normative underpinnings of the EU as a set of institutions and the types of external policies it tends to pursue. More specifically, he argues that the values that were integral to the formation and subsequent consolidation of the EU – including principles of democracy, the rule of law, social and economic justice, respect for human rights, and so on – have since become a cornerstone in the wider projection of European power. Although Manners illustrates this argument mainly in relation to the specific case of the international campaign against the death penalty, the broader point to be made is that because of the peculiar nature of the EU as a political entity its motivation and behaviour cannot realistically be likened to that of a nation-state. The essence of this complexity is well summarized by Rosamond as follows:

> The existence of deep integration among European states has had the effect of constituting 'Europe' as an actor in global development, but its power operates in ways conventional state-centric conceptions of world order have difficulty assimilating. While it acquires a unitary presence in some aspects of foreign economic policy (notably commercial policy), perhaps its most significant impacts are less the consequence of deliberate interventions as the product of external spillovers from the creation of an integrated space among the member states.
>
> (Rosamond 2004: 81)

The second point is more substantive and relates to the overall record of the EU in the provision of preferential trade and development assistance to poor countries. At the time of the 'bra wars' fiasco the EU accounted for over one-half of all official development assistance (ODA), approximately 22 per cent of which was managed at the supranational level. In more specific terms, by the mid-2000s the 15 wealthiest EU states spent, on average, approximately 0.44 per cent of Gross National Income (GNI) on ODA, while the target was set to raise this figure to 0.51 per cent by 2010. The EU has also traditionally offered a myriad of preferential trade agreements. These include the Generalised System of Preferences (GSP) and the Everything But Arms (EBA) initiative, which offers duty- and quota-free treatment to all products (with the exception of arms and munitions), from the 48 or so LDCs. The EU also historically provided preferential market access and development assistance to those developing countries that collectively make up the African, Caribbean and Pacific (ACP) group of states. This was facilitated initially by the various Yaoundé (1964–1975) Lomé (1975–1999) Conventions, then by the Cotonou Agreement and now by so-called Economic Partnership Agreements (EPAs).

It has long been noted that the various preferential trade schemes offered by the EU sit rather uncomfortably alongside commitments to the GATT/WTO system. Furthermore, in recent times this tension has become much more pronounced and it is notable that the EU is now doing far more than in the past to bring its various trade and development policies into line

with existing WTO rules. This is most obvious in the case of the transition from Lomé to Cotonou to the EPAs characterized by the abandonment of the principle of non-reciprocity (Stevens 2008; Faber and Orbie 2009). The EU is of course not alone in having to come to terms with the strengthened multilateral trade system, which it was partly responsible for bringing into being. It is worth stressing, moreover, that, when all things are considered, the overall record of the EU with respect to issues of trade and aid still compares favourably with that of the USA and Japan. For this reason it is difficult to see how any of the above lends much credence to the argument that the use of textile safeguards against China constituted part of a wider protectionist trend against the developing countries. This conclusion is even more apposite when we take account of the other key aspects of this controversy and the central theme of the book – namely, the peculiar and path-dependent nature of the T&C trade regime, and the uniqueness of the Chinese case.

However, if we focus more specifically on the issue of preferential trade, then it is possible to argue, at the very least, that there is a marked inconsistency between the theory and practice of EU trade and aid policy. This is especially evident in the light of the most recent *impasse* in the WTO Doha 'development' trade talks (also see Chapter 7). As we noted previously, the EU justified the safeguard actions prosecuted against China in terms of offering a 'temporary' transition period so as to allow affected domestic producers further time to adjust to freer trade. At the same time, however, the Commission advanced a more controversial justification for these quotas. This centred on the likely impact of trade restrictions against China on those developing countries that – to a greater or lesser extent – prospered while the MFA was in operation. As Trade Commissioner Peter Mandelson put it on the eve of the MFA phase out:

> Huge pressures are building up to renege on this commitment [i.e. to abolish quotas], especially in the US. I have made clear that I would only resort to temporary safeguards if there were a massive surge of textile exports from China, which in particular threatened to cause economic and social mayhem

> in vulnerable developing countries losing the guaranteed access to our market that the disappearing quotas used to give them.
>
> (Mandelson 2004)

Of course, with the benefit of hindsight, it is possible to argue that the use of WTO safeguards against China – which effectively extended the MFA until 2008 for the export categories covered by the agreement – afforded a further adjustment period for European producers *and* provided a temporary fillip to those developing countries exposed most by textiles liberalization. Nevertheless, in order to show that this outcome was a deliberate part of EU strategic thinking, as opposed to a convenient excuse, it would be necessary to demonstrate a more consistent pattern of support for preferential trade in the wider context of economic liberalization.

As we have noted, the overall *historical* record of the EU in the area of preferential trade is relatively positive, at least to the extent that it is often compared favourably with the schemes offered by the USA and Japan. Despite this, the position of the EU with regard to preferential trade in the context of the current phase of the WTO trade talks is less straightforward. Although most of the analytical commentary regarding the EU role in the DDA has focused on the maintenance of agricultural tariffs and subsidies in the face of opposition from most other WTO members, for our more specific purposes the issue of so-called non-agricultural market access (NAMA) is more revealing. As set out by the 2001 Doha Ministerial Declaration, the basic objective of the NAMA agenda is to effect further liberalization of non-agricultural products – including T&C – and ultimately 'to reduce, or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries' (WTO 2001b: 3–4).

Despite the pro-development rhetoric, it is noticeable that the key advocates of the NAMA agenda are not, in the main, the developing countries but rather the developed countries. Indeed, it is worth noting that it is the EU and the USA are among the vanguard of states pushing the NAMA agenda most

aggressively, and both have on more than one occasion stated publicly their overriding aim to eliminate all non-agricultural tariffs by 2015 (Appelbaum 2004: 37). For its part, the EU clearly sees the liberalization of non-agricultural goods as in its own economic interest, not least because the elimination of so-called 'peak tariffs' in the developing countries would enable European exporters to tap into the emerging consumer markets of countries like China, Brazil and India.[5] It is therefore not surprising that the EU has sought to advance the NAMA agenda within the WTO and has made progress in this area a *quid pro quo* for the liberalization of agricultural trade (Mandelson 2005).

What is less clear, however, is the degree to which the reduction or elimination of industrial tariffs can be reconciled with the maintenance of the preferential trading schemes that we have just discussed. This issue is particularly relevant in our case because average import tariffs levied on T&C are still substantively higher than those for comparable industrial goods. For example, it has been estimated that even after the Uruguay Round the T&C industry benefited from a 12 per cent *ad valorem* trade-weighted rate of duty, compared to just 3.8 per cent for other comparable products (Oxfam 2004: 12). What this means is that eligible developing countries have historically benefited from a relatively healthy margin of preference – that is, the difference between preferential trade and most favoured nation rates of duty – which has enabled them to compete in export markets with more efficient producers. Not only this, but in quite a few cases these are precisely the same developing countries that have been exposed most by the removal of MFA quotas.

The NAMA agenda thus has the potential to cause considerable economic hardship in those developing countries that rely most on trade preferences. As things presently stand, we still do not know how far – if anywhere – the NAMA proposals will go in practice, or whether or not the Doha negotiations will actually lead to a new trade agreement. In the aftermath of the 2008 financial crisis such an outcome seems unlikely, to say the very least. Added to this, even in the (albeit now very unlikely) circumstances that a deal is struck it may be the case that any multilateral agreement to liberalize non-agricultural trade may

be done in a way that takes sufficient account of the predicament of states dependent on preferential trade (see Chapter 7). But any tariff harmonization formula that serves to erode – albeit indirectly – current preference levels will have unavoidable consequences for these developing countries. As a result, the very fact that the EU is seeking to achieve tariff harmonization – not only multilaterally but also through regional and bilateral free-trade agreements – has the potential to be more damaging for the most vulnerable developing countries than even the ATC.

Conclusion

This chapter has provided a critical analysis of the trade and development policies of the EU, both in terms of the specific case of the T&C sector and broader issues of global economic development. We have argued that, in spite of the gloomy predictions surrounding 'bra wars', the imposition of WTO safeguards against China does not presage a broader protectionist trend; nor in itself does it reflect a hardening of the EU position regarding favourable market access for developing countries. Even so, when this issue is placed within the wider analytical context, there are a number of grounds for thinking that the traditional European approach to global development has reached something of a turning point. This is especially evident in the case of the DDA. Not only does the EU advocacy of the NAMA agenda seem to be at odds with one of the principal arguments used to justify trade restrictions against China – namely, the need to protect the most vulnerable economies from the vagaries of economic liberalization – but it threatens to undermine the entire preferential trading system that has been the mainstay of European trade and aid policy since the 1950s.

However, it is important not to overstate the overall coherency of the EU approach towards the developing world. This is because, as we have shown, the EU is neither a nation-state nor an international organization, but rather is a very particular form of post-Westphalian governance. Hence, while it may be tempting to draw superficial parallels between the EU and the USA in respect of textile quotas, the key point to note is that the decision-making structures – and arguably the normative

underpinnings – in these two cases are quite different. This does not mean that substantive policies are necessarily any better or that the overall approach of the EU towards global development is somehow more benevolent (although, clearly, this argument could be made). At the very least, though, it does help to account for the marked inconsistency between the theory and the manifestly uneven practice of the EU in respect of its overall external trade and development agenda.

6 The WTO Agreement on Textiles and Clothing and the Caribbean 'offshore' development model

As we discovered in Chapter 4, one of the most important distributive questions raised by the abolition of the MFA in 2004 centred on the fate of those generally smaller, preference-dependent developing countries that, to lesser or greater degrees, prospered when quotas were in place. In this and in the subsequent chapter, we consider this question in more detail by examining the specific developmental consequences of trade liberalization for production sharing and garment assembly in the Caribbean Basin and sub-Saharan Africa respectively. In this chapter we focus on the former case. The Caribbean Basin was one of the earliest beneficiaries of production sharing under the MFA but also one of the first casualties of trade liberalization. During the 1980s and 1990s, garment assembly constituted one of the region's few economic 'success stories' (alongside tourism) against the backdrop of collapsing export revenues and declining terms of trade associated with traditional commodities like coffee and sugar. During the 1980s garment exports to the USA from the Dominican Republic, Haiti and Jamaica grew annually by more than 20 per cent, whereas in the 1990s and early 2000s this trade also spread to the Central American isthmus, with Guatemala, Honduras and El Salvador witnessing even more spectacular growth rates. In sum, garment assembly came to represent a vital source of manufacturing employment and foreign exchange for many of the weak and vulnerable economies of the Caribbean Basin.

With the ending of the MFA, however, the viability of garment assembly in the Caribbean Basin was immediately thrown into

doubt. The main reason for this, as we have already made clear, rested on the restrictions that the MFA placed on competitive exporters, creating what amounted to a 'supply gap' in terms of the major markets of the USA and the EU. This gap was one that less competitive and generally smaller developing countries benefiting from preferential trade schemes were – with the active encouragement of otherwise 'import-competing' firms located in preference-granting countries – only too happy to fill. After the MFA, therefore, these smaller developing countries (including those residing within the Caribbean Basin) had to face up to more or less direct competition with the world's most dynamic exporters. To make matters worse, these countries were also threatened with the loss of tariff preferences (we can recall from Chapter 3 that the MFA constituted a quota as opposed to a tariff preference but it coexisted with a system of relatively high MFN tariffs that provided an additional advantage to preference-receiving counties) as a result of further liberalization.

This chapter thus seeks to assess the continued viability of garment production in the Caribbean Basin against the backdrop of these developments. What follows is divided into two main sections. In the first section we trace the origins and subsequent growth of garment assembly in the Caribbean Basin, focusing particularly on the importance of the Caribbean Basin Economic Recovery Act (CBERA but known more commonly as the Caribbean Basin Initiative (CBI)) and, later, the Caribbean Basin Trade Partnership Act (CBTPA) in facilitating this economic activity. In the second section we look specifically at the impact of the ending of the MFA on garment production in the Caribbean Basin. This section will argue that, due to its geographical proximity to the US, garment assembly may – perhaps – remain a viable economic strategy for some countries in the Caribbean Basin even in the absence of the protection afforded by the MFA. At the same time, however, we conclude by suggesting that the post-quota environment will ultimately heighten the fierce competitive pressures already found in the global T&C industry. As a result, over the longer term freer trade in the T&C industry will distort even more the (already dubious) economic benefits that are derived from garment assembly in the Caribbean Basin.

The rise of the 'offshore' development strategy: garment assembly in the Caribbean Basin, 1984–2005

Although, as we have suggested, the emergence of garment assembly in the Caribbean Basin was closely associated with the peculiar market environment created by the MFA, the actual ideas underpinning offshore production as a development strategy were already deeply embedded within the region. This is particularly so in the case of the insular Caribbean. As early as 1950 the St. Lucian-born economist W. Arthur Lewis advocated a type of 'offshore' development strategy – what was later referred to, somewhat disdainfully, as 'industrialization by invitation' (Girvan and Jefferson 1971: 1). Industrialization by invitation was based on the premise that in order for the (in this case English-speaking) Caribbean to overcome its longstanding dependence on the production and export of primary commodities, it would be first necessary for national elites to persuade – through fiscal incentives and other economic inducements – foreign manufacturers already selling in overseas markets actually to locate their plants in the Caribbean (Payne and Sutton 2001: 3–4). In practical terms, this manifested itself initially in a series of attempts by Caribbean governments to persuade foreign firms to use the region as a platform for penetrating major exports markets, particularly the USA. For example, Jamaica enacted the Export Industry Encouragement Act (EIEA) in 1956, which allowed approved firms a tax holiday on profits and dividends for a ten-year period as well as granting duty exemption on capital goods and imported raw materials. Subsequently, with the formation of the Caribbean Community and Common Market (CARICOM) in 1973, similar measures were applied throughout the English-speaking Caribbean, with member states offering exemption from all income taxes for anywhere from 10 to 15 years to firms exporting their products outside of the customs union (Schoepfle and Pérez-López 1992: 126–27). Likewise, in the Dominican Republic the Industrial Incentives Act (more commonly known as Law 69) was passed in 1979 and offered similar fiscal incentives and duty exemptions to that of Jamaica's EIEA. Haiti implemented comparable measures in the early 1960s and was the first independent Caribbean territory to establish specially designated export processing zones (EPZs).

Although the initial impetus for the construction of EPZs in the Caribbean emerged mainly in the 1960s and 1970s, it was not until the 1980s that these zones became economically significant. As Buitelaar *et al.* (1999: 143) have argued, during this period EPZs in the Caribbean changed from 'being an exception in an otherwise inward-orientated policy framework', and 'became a spearhead in the change towards an export-led development model'. By the mid-1980s the cumulative pressures exercised by the USA and an array of international agencies, notably the United States Agency for International Development (USAID), the International Monetary Fund (IMF) and the World Bank, coupled with the perceived lack of realistic development alternatives in the region, led most Caribbean elites to the conclusion that neoliberal, export-led growth offered the best means of economic survival in an increasingly competitive global economy. From this perspective, the further promotion of the Caribbean as an export platform for labour-intensive and import-intensive industries provided a means by which elites could put the principles of neoliberalism into practice (Pantojas-García 2001).

At the same time, these objectives were assisted greatly by the passage of the CBERA, which came into effect on 1 January 1984. The CBERA represented the economic corollary to the Reagan Doctrine, which had manifested itself in the early 1980s with the militarization of much of the Central American isthmus and the eventual invasion of tiny Grenada in the Caribbean (Pantojas-García 1991). In essence, the rationale behind the CBERA was built on securing political stability in the region through closer economic integration with the US. In the process, the CBERA also sought to improve the international competitive position of US industries facing deteriorating world market share through the encouragement of production sharing operations (Newfarmer 1985). In practice, however, the means for achieving these ends were severely compromised by a series of exemptions from the duty-free treatment that the CBERA was supposed to offer – including, most notably, T&C. Despite this, in the 1980s garment manufactures in the Caribbean Basin took substantial advantage of provisions contained within section 807 of the US tariff code (later replaced by HTS 9802.00), permitting

duty exemption to the value of US-made components that were returned as part of articles assembled abroad. Although the HTS 9802.00 tariff regime was initially developed outside of, and prior to, the CBERA, the two schemes were later linked through the Special Access Programme (SAP, but also known as 807A), which was established in 1986. The SAP regime created relatively generous textiles quotas for CBERA beneficiaries, in addition to the – generally underutilized – quotas provided by the MFA, to encourage production sharing between US clothing firms and Caribbean Basin assembly operations.

The initial impact of these measures on Caribbean Basin garment exports to the US was impressive: during the 1980s the export of clothing and other apparel items from the Dominican Republic, Haiti and Jamaica grew annually by more than 20 per cent (Deere *et al.* 1990: 167). In the Dominican Republic itself (the region's leading exporter of garments to the USA during the 1990s) this growth was even more spectacular: in 1988 apparel constituted no less than 78 per cent of all manufacturing exports, worth a total of US$183.8 million and representing an increase of 333.4 per cent since 1981 (Safa 1994: 251). Still, on closer inspection these gains were not as impressive as initially appeared to be the case. In fact, despite undeniable benefits in terms of employment and increased foreign exchange earnings, the growth of offshore garment assembly in the Caribbean Basin during the late 1980s and 1990s brought with it significant costs. A number of these are especially worth highlighting. First, because the 9802.00 production sharing regime provided tariff- and duty-free treatment *only* for US-made components it effectively penalized all of the value added outside of the US and thus discouraged the use of local inputs in the production process. As a consequence, this scheme – which accounted for almost *all* Caribbean Basin garment exports to the USA – had the effect on limiting the use of local resources to that of labour costs, for, as Michael Mortimore (1999: 130) aptly put it, Caribbean Basin inputs were neither 'needed or desired by manufacturer or buyer'. The consequences of this for limiting the growth of economic linkages between the EPZs and the various domestic economies of the region were considerable: Raphael Kaplinsky (1993: 1857) cites a study of over 60 EPZs firms

in the Dominican Republic carried out by the World Bank in 1990 which could not report a single linkage. Similarly, research conducted in the Dominican Republic by Dale Matthews (1994) in the early 1990s found little evidence of the use of local inputs by assembly firms located in the island's EPZs.

Peter Steele (1988) argued, moreover, that the historical low level of backward linkages between EPZs firms and Caribbean Basin suppliers was not so much an unintended consequence of the 9802.00 tariff system, but rather a deliberate result of US policy. Thus, in the case of the T&C industry, he argued that the strategy was to 'curb and, in the longer term, effectively to discourage the emergence in the Caribbean [Basin] of more highly integrated garment enterprises capable of producing items with a higher local added value' (Steele 1988: 3). Whether or not this was a deliberate aspect of US policy, what remains clear is that production sharing did not make full use of local resources in garment assembly operations. What is more, as this trade began to account for an ever-increasing share of export activity in the Caribbean Basin during the late 1980s and early 1990s, it had the additional effect of distorting the evolution of domestic industry by attracting firms which were previously involved in higher value added production for the domestic market (Kaplinsky 1995). Winston Griffith (1990: 48) cites the example of Jamaica whose retreat into production sharing during the late 1980s resulted in a dramatic reduction of the value added in the region, while also limiting the capacity of Jamaican firms to play a decisive role in coordinating the entire garment production chain. At the same time, Jamaica's relatively liberal tariff regime made its own garment industry increasingly vulnerable to competition from cheap US imports, to the extent that by the mid-1990s local industry was only supplying an estimated 20 per cent of all the clothing purchased by Jamaicans (Willmore 1994).

A further problem associated with the garment export boom that took place in the region during the 1980s and 1990s related specifically to the various incentives that Caribbean Basin government offered foreign investors in order to persuade them to locate in their particular assembly sites. For critics, this type of competitive strategy wherein neighbouring economies competed

for foreign investment through 'bidding wars' represented a fallacy of composition similar to the self-defeating policies that blighted primary-exporting countries that used currency devaluations in order to remain export competitive (Kaplinsky 1993). In other words, while it made sense for a single EPZ economy to adopt investor-friendly policies, such as tax holidays and duty-free entitlements, the effectiveness of such measures was immediately eroded once neighbouring countries chose – as they did in the Caribbean Basin – to implement similar policies.[1] Ultimately, this led to a spiralling competitive 'race to the bottom' as each EPZ economy attempted to out-bid its neighbours by offering increasingly generous incentives to prospective foreign investors. One manifestation of this competitive logic within the Caribbean Basin was for governments to transform temporary (10–15 years) fiscal incentives, such as limited-time authorizations to operate under the temporary admissions or EPZ regimes, into permanent ones, whenever a competitor allowed for automatic renewal (Mortimore and Peres 1998: 61). In the Dominican Republic, for instance, the provision of increasingly generous tax holidays for investors choosing to locate in its EPZs led to a situation in the mid-1990s where over 40 per cent of the country's total exports provided virtually no fiscal income for the government (Mortimore 1999: 131). Another manifestation of the competitive logic of garment assembly in the Caribbean Basin in this period was the tendency for EPZ economies to enter into 'competitive devaluations' as a means to increase, albeit temporarily, export competitiveness. In the case of the Dominican Republic, Kaplinsky (1993: 1816) argues that the spectacular growth in EPZ employment during the 1980s was directly attributable to a significant decline in real wages caused by a series of dramatic currency devaluations: in this period real wages in the Dominican Republic paid by foreign investors more than halved at the same time as they rose by 15 per cent in the USA. Nevertheless, such a strategy worked only insofar as it offered a temporary advantage until neighbouring EPZs realigned their currencies; after which, such wage depressing tactics became highly contingent upon a continuing fall in local purchasing power for Caribbean Basin workers and a corresponding lowering in their standard of living.

Despite the numerous costs associated with offshore garment assembly in the 1990s – and they were considerable – it was not long before the economies of the Central American isthmus started to get in on the act. During the 1980s, just four countries – Jamaica, Haiti, the Dominican Republic and Costa Rica – dominated the US-Caribbean Basin garment trade, to the extent that they were jointly responsible for more 80 per cent of 9802.00 exports from the CBERA region (Steele 1988: 68). As Table 6.1 shows, however, during the course of the 1990s states such as Honduras and El Salvador established themselves rapidly as major players in the North American garment supply chain. What is also revealed from Table 6.1 is the degree to which these advances came at the expense of the more established assembly sites, e.g. Jamaica and Haiti. The Dominican Republic, for its part, remained a major source of garment exports within the CBERA region in this period, accounting for US$2 billion (21 per cent of the CBERA total although down from 28 per cent in 1998) of garment exports to the US in 2004. Significantly, however, it was among the newer entrants from Central America that the highest growth rates were to be found: Honduras increased its garment exports by 632 per cent from US$365 million to almost

Table 6.1 US garment imports from selected CBERA countries in US$ million, 1992–2004

	1992	*1994*	*1996*	*1998*	*2000*	*2002*	*2004*	*Growth 1992–2004 (%)*
Dominican Republic	1203	1572	1753	2342	2425	2162	2059	71
Honduras	365	645	1219	1873	2323	2440	2673	632
El Salvador	166	398	721	1171	1583	1675	1720	937
Costa Rica	589	685	704	821	819	725	516	–12
Guatemala	451	591	796	1136	1487	1658	1947	331
Jamaica	293	454	505	422	268	124	85	–71
Haiti	61	29	98	218	251	217	324	428
All other	117	115	212	289	385	471	628	438
CBERA total	3245	4489	6009	8270	9541	9471	9952	207

Source: OTEXA

US$2.7 billion (27 per cent of the CBERA total) between 1992 and 2004; while El Salvador increased its garment exports by 937 per cent from US$166 million to US$1.7 billion (17 per cent of the CBERA total) in the same period. In contrast, Jamaica – which was second only to the Dominican Republic in terms of 9802.00 garment exports for much the 1980s and early 1990s – saw its relative share of US garment imports decline precipitously by 71 per cent from US$293 million to US$85 million (just 0.9 per cent of the CBERA total) between 1992 and 2004. Finally, although Haiti enjoyed an increase in garment exports during the 1990s and early 2000s from US$61 million to US$324 million (in part due to the lifting of the UN trade embargo in 1994 which had been imposed following a violent coup in September 1991 which overthrew President Jean-Bertrand Aristide), this still represented a somewhat modest performance in comparison with the spectacular growth of the isthmus states.

The economic challenge posed by the isthmus states to the more established garment assembly sites of the insular Caribbean, though significant, paled when compared with the other major change of the 1990s: namely, the creation and subsequent operation of the North American Free Trade Agreement (NAFTA). In the same way that the CBERA – and 9802.00 more specifically – fuelled the growth of Caribbean Basin garment exports to the US in the 1980s and early 1990s, Mexico enjoyed comparable market access through separate preferential trading arrangements (known as the 'special regime'). With the implementation of NAFTA in 1994, however, Mexico was granted an even more competitive and integrated base in the North American garment supply chain. This was due to two separate aspects of the NAFTA treaty (OTEXA 2001). First, NAFTA provided tariff- and quota-free treatment for trade among member states in T&C goods originating from within the NAFTA trade area. In the case of Mexico, virtually all US tariffs on T&C had been phased out by 1 January 1999. The US eliminated import quotas for originating apparel from Mexico upon NAFTA's implementation, while those for non-originating apparel were phased out on 1 January 2004. Second, the Mexican garment sector also benefited from the NAFTA rules of origin, which were designed specifically to encourage the use

of regional yarns and fabrics in all garment production as means of consolidating the North American supply chain. In addition to this, Mexico's relatively privileged position within the North American supply chain was enhanced considerably as a result of the devaluation of the peso that took place between December 1994 and January 1995. Although this was not directly related to NAFTA or even to the promotion of Mexico's *maquila* exports, it nevertheless had the effect of heightening its economic advantage over the Caribbean Basin, which experienced steady increases in the value of local currencies vis-à-vis the US dollar after the dramatic devaluations of the 1980s. Specifically, the Mexican devaluation amounted to a 50 per cent drop in the value of the peso against the US dollar; in relation to the garment industry, this manifested itself in a reduction in hourly labour costs for local assembly workers from approximately US$2.47 in 1994 to US$1.23 in 1996. According to some estimates, the reduction in local labour costs caused by the devaluation of the peso was sufficient to effect a threefold increase in the cost-competitiveness of the Mexican garment industry in relation to the higher cost countries of the Caribbean Basin, e.g. Costa Rica and Jamaica (USITC 1997: 4–5).

The cumulative effect of these changes represented a significant challenge to the viability of garment production in the Caribbean Basin. Even so, during the 1990s many still questioned whether or not NAFTA actually had a negative effect on the Caribbean Basin. Clearly, it is difficult to look back and say that NAFTA inhibited garment exports from *all* Caribbean Basin countries in the 1990s, given the spectacular growth rates noted above. Nevertheless, comparing Mexico's post-NAFTA garment export growth with the CBERA region as a whole, we get some measure of the extent to which the former's competitive position was enhanced at the expense of the latter. Between 1992 and 2004, Mexico's garment exports grew by approximately 642 per cent, while in the same period the CBERA total increased by 207 per cent. An even more impressive measure of Mexico's export success can be gained by looking back at its overall volume of garment exports and its increasing share of the US market: in 2004 Mexico exported nearly US$7 billion of garments to the US, which accounted for roughly 10 per cent of the total value

of US sectoral imports in that year. By way of comparison, even though the cumulative total for the Caribbean Basin region was somewhat higher than this at close to US$10 billion, or 15.4 per cent of the total value of US garment imports, no single CBERA beneficiary exported more than US$2.6 billion or 4 per cent of the total of US garment imports (ECLAC 2000: 184).

Whatever the true extent of the impact of NAFTA on garment assembly in the Caribbean Basin, it was sufficient to convince the US Congress – albeit belatedly and against considerable domestic opposition (see Heron 2002) – to take action in the form of 'parity' legislation. This came when President Clinton signed into law the CBTPA in May 2000. The CBTPA was intended to provide a level playing between the Caribbean Basin and Mexico in terms of market access for T&C goods. In practice, this translated into extending the duty-free provisions of the 9802.00 regime to cover the local value added in the Caribbean Basin (it can be recalled that previously 9802.00 offered duty-free treatment *only* to the value of US-made components). This change did not represent genuine 'parity' between Mexico and the Caribbean Basin in any meaningful sense; if truth be told, the provisions of the CBTPA were far inferior to NAFTA not only in terms of issues of market access but also in terms of rules of origin to be applied, which were much more restrictive (Heron 2004). Nonetheless, it is undeniable that the CBTPA offered Caribbean Basin garment exporters considerably better access to the US market than was permitted under the 9802.00 regime. The problem with the CBTPA, however, was not so much with its content – although this was significant – but its timing. That is to say, by the time the CBTPA had been implemented fully the real concern for Caribbean Basin exporters was no longer primarily competition with Mexico, but rather the more fundamental threat posed by the fast approaching elimination of the MFA.

Garment production in the Caribbean Basin under the ATC

In Chapter 4, we encountered some of the methodological and practical problems associated with the use of econometric modelling in mapping out the distributive consequences of trade liberalization in T&C. At this point, we shall revisit some of

these issues as they apply specifically to the case of the Caribbean Basin. The first and most obvious point to make is that the backloading of the ATC, not only meant that the accumulated costs of economic adjustment were met more or less all at the same time, but also that a clear picture of the precise impact of liberalization had to wait until after the bulk of the quotas were removed at the end of 2004. In addition, the economic modelling that dominated the MFA debate in the 1990s and early 2000s – notwithstanding a consistent faith in the benevolence of free trade – produced wildly differing estimates of the likely economic consequences of the ATC: while some initial studies placed welfare increases in the region of US$324 billion or around two-thirds of all the economic gains from the Uruguay Round, others predicted a more modest US$6.5 billion or just 5 per cent of the total gains (OECD 2003: 4).

Finally, to the extent that economists were in agreement about the general impact, if not the precise scale, of the ATC, we need to be cognizant of the specific ways in which Caribbean Basin exporters were enmeshed in global and regional supply chains and how this shaped the local distributive effects of trade liberalization. This is because the type of garment production that fuelled the region's export boom in the 1980s, 1990s and early 2000s – which we have already described – constituted what is best described as an 'enclave' economic activity. In other words, garment assembly in the Caribbean Basin was a strictly export-orientated endeavour with very few economic linkages to the various domestic economies of the region. In fact, one of the most bizarre aspects of the Caribbean Basin offshore development strategy in the past was that assembly firms were prohibited from selling a significant proportion of their goods on the domestic market.[2] As a result, domestic clothing demand in the Caribbean Basin was often satisfied by foreign (predominantly from the USA) imports. Another peculiarity of the Caribbean Basin garment industry was the acute reliance on the USA for the provision of raw materials and intermediate inputs. Much of the economic modelling mentioned above was based on the assumption that, once liberalization took place, garment exporters such as those found in the Caribbean Basin would enhance their competitiveness by securing access to more

competitively priced yarns and fabrics. But since the CBERA and the other preferential trading schemes described earlier required the use of US inputs, local firms would first have to forego tariff relief if they were to adopt this strategy and still target the US market.

Even so, it can be argued that the high degree of dependency of Caribbean Basin garment exporters on preferential access to the USA market did at least mean that the MFA phase-out would not affect the region directly. Although, like countries such as China and India, Caribbean Basin garment exporters were subject to quantitative restrictions on T&C exports during the MFA, in most cases these proved to be more theoretical than real, due to the additional market access provided by the 9802.00 regime. In the light of this, the actual impact of the MFA phase-out was always likely to be more indirect, albeit still obviously very significant. In the worst-case scenario, what this meant is that, with the artificial ceiling on US clothing imports from Asia lifted, market penetration would prove to be so overwhelming as to render intraregional production sharing – upon which Caribbean Basin garment exporters depended – redundant. In other words, in the post-MFA environment US clothing retailers would exercise their newly acquired freedom to satisfy demand exclusively via direct imports from Asia, thus effectively ruling Caribbean Basin suppliers out of the North American garment supply chain. In this respect, China of course represented the most important case in point. As we described in Chapter 4, China is by some measure now the most important player in the global T&C industry and was thus expected to be *the* major beneficiary of trade liberalization. After all, it is worth recalling that, even before the ATC was complete in 2004, China already accounted for approximately 10 per cent and 20.6 per cent of global textile and clothing exports respectively (Appelbaum 2004). In early 2005, the (now defunct) American Textile Manufacturers Institute (cited in Women's Wear Daily 2005) claimed that China would ultimately be responsible for something in the order of two-thirds of the US T&C market, leading to the loss of an estimated 630,000 domestic jobs. Industry sources had by this stage already pointed to the fact that, of the 29 clothing categories for which MFA quotas were

removed in 2002, China increased its relevant share of the US market from 9 per cent to 65 per cent (Ellis 2004).

Writing in 2011, we are now in a position to re-evaluate these claims – as well as those derived from the econometric models described – in the light of what has actually happened since 2004. We begin this part of the chapter, however, by returning to the influential study produced by Hildegunn Kyvik Nordås of the WTO introduced in Chapter 4. To recall, although Nordås predicted dramatic trade gains for China and India in the post-quota environment, he provided grounds for thinking that liberalization might actually prove to be less damaging for regions like the Caribbean Basin than generally predicted. On the one hand, although Nordås's GTAP simulation pointed to a post-MFA increase in China's share of the US market from 11 per cent to 18 per cent for textiles and 16 per cent to 50 per cent for clothing, it also suggested that liberalization would increase the proportion of total domestic demand accounted for by imports from 20.9 per cent to 21.5 per cent for textiles and 33.8 per cent to 45 per cent for clothing (Nordås 2004: 26). In other words, liberalization may be to the detriment of the Caribbean Basin's relative but not its absolute export performance as the size of the US import market became progressively larger.

On the other hand, Nordås advanced two major reasons why trade gains for China and India would not necessarily jeopardize the type of production sharing taking place in the Caribbean Basin. First, because of the high degree of 'vertical specialization' – that is, disaggregated production across national boundaries – Nordås claimed that T&C would remain highly sensitive to differential tariff levels. Second, because of the fashion-sensitive nature of the clothing industry, Nordås argued that proximity of production to final markets had become a steadily more important consideration for retailers and buying chains. Hence, garment exporters such as those located in the Caribbean Basin, which benefit from low or zero tariffs *and* close proximity to the USA, were less likely to suffer competition from China and India than developing countries not in possession of these advantages. In order to test this, Nordås (2004: 31–33) relied on an econometric technique known as 'gravity' modelling, which is used to gauge the importance of factors such as the

size of import and export markets, geographical distance between trading partners (as a proxy for transportation costs), tariffs and other trade barriers. Specifically, Nordås found that geographical proximity to destination markets had a powerful effect on trade flows, multiplying them by a factor of nine in the clothing sector; conversely, he found trade flows declined by approximately 5 per cent for every 10 per cent increase in the distance between the exporter and final market. The gravity model used by Nordås also pointed to the importance of tariffs, binding quotas and surveillance mechanism in determining trade patterns. The key summative point is that the GTAP simulation initially adopted by Nordås essentially replicated the predictions of previous econometric studies but this was found to have underestimated the importance of other determining factors and thus probably exaggerated the scale of the losses facing less-efficient exporters benefitting from preferential trade and close proximity to final markets.

So how do Nordås's predictions stand up to the empirical data for the last four or five years? As is to be expected, the ATC had few visible effects on the Caribbean Basin's overall export profile prior to 2004. The more recent data summarized in Table 6.2 offers a more up-to-date snapshot of changing trade patterns in the post-MFA world. First, contrary to Nordås's predictions, it appears that the Caribbean Basin has suffered both a relative *and* an absolute decline in the post-MFA period, with garment exports shrinking by a third from US$9.9 billion to US$6.6 billion between 2004 and 2009. Second, even though the intraregional trend observed earlier in respect of higher-cost countries like Costa Rica and Jamaica has continued, the removal of quotas has arguably proven to be more significant for lower-cost countries including the Dominican Republic, Honduras and El Salvador. As noted, the relative decline of the Dominican Republic from its position as the region's most dynamic exporter began in the early 2000s. This was attributed initially to the slow enactment and costly bureaucratic procedures associated with the CBTPA, coupled with increased competition from Mexico and the isthmus states (Appelbaum 2004; USITC 2003). But recent data shows that the latter have actually experienced similar difficulties to the former under the ATC. Indeed, in Mexico the situation

Table 6.2 US garment imports from CBERA countries and major suppliers in US$ million, 2004–2009

	2004	*2005*	*2006*	*2007*	*2008*	*2009*	*Growth 2004–2009 (%)*
CBERA							
Dominican Republic	2059	1849	1548	1057	841	613	–70
Honduras	2673	2622	2440	2511	2604	2032	–24
El Salvador	1720	1619	1408	1486	1534	1298	–25
Costa Rica	516	482	465	423	303	206	–60
Guatemala	1947	1816	1666	1451	1388	1103	–43
Jamaica	85	56	49	36	16	1	–99
Haiti	324	406	450	452	412	513	58
All other	628	744	906	986	943	900	43
CBERA total	9952	9595	8932	8402	8041	6666	–33
Top US Suppliers							
Mexico	6685	6078	5297	4523	4015	3391	–49
China	8928	15143	18518	22745	22923	23503	163
India	2217	2976	3187	3170	3073	2846	28
Bangladesh	1978	2372	2914	3103	3442	3410	72
Vietnam	2562	2725	3222	4359	5223	5068	98
Indonesia	2403	2875	3670	3981	4028	3861	61
Pakistan	1138	1259	1412	1499	1490	1306	15
Cambodia	1429	1713	2136	2425	2376	1871	31
Thailand	1799	1808	1840	1766	1668	1219	–32

Source: OTEXA

appears to be even more severe with its garment exports to the USA shrinking by 50 per cent from US$6.6 billion to US$3.3 billion between 2004 and 2009; meanwhile Honduras and El Salvador suffered comparable losses – albeit on a smaller scale – with sectoral exports shrinking in the same period by 25 per cent and 24 per cent respectively. Finally, it almost goes without saying that these losses have gone hand in hand with huge gains for China, which increased its share of US garment imports by 163 per cent from US$8.9 billion to US$23 billion between 2004

Table 6.3 US import penetration in T&C, 2003–2008

	2003	*2004*	*2005*	*2006*	*2007*	*2008*	*Growth (%)*
Clothing	61.9	66.8	69.0	71.1	71.4	71.5	15.5
Textiles	18.2	20.2	21.2	23.3	26.0	27.2	49.2

Sources: author's calculation using data from OTEXA and Bureau of Economic Analysis

Note: *Import penetration is calculated as a percentage as follows:

$$\text{Import penetration} = \left(\frac{\text{Total imports}}{\text{Domestic consumption}}\right) \times 100\%$$

where Domestic consumption = Domestic production + Total imports

and 2009. It should be noted also that the removal of quotas appears not only to have benefited China and other previously restricted countries, e.g. India, Bangladesh and Indonesia, but has encouraged other lower-cost countries like Vietnam and Cambodia to enter the market.

In sum, while offering a plausible characterization of China's post-MFA trade performance (a point also noted in Chapter 4) Nordås appears to have rather overstated the resilience of less-competitive exporters such as those located in the Caribbean Basin. Since Nordås's case rests on two *caveats* – the first regarding the growing proportion of domestic consumption accounted for by foreign imports and the second the mitigating effects of geographical proximity and differential tariff levels – it is worth reconsidering these in turn in the light of recent trade data. On the first point, Table 6.3 suggests that Nordås's significantly underestimated the level of import penetration both before and after the removal of quotas (one possible explanation for this is that Nordås, rather confusingly, combines the USA and Canada in a single simulation exercise); most significantly, our data suggests a relatively small increase in import penetration between 2004 (when the bulk of quotas were removed) and 2005. Even though China's clothing imports to the USA almost doubled between 2004 and 2005, the level of import penetration showed only a modest increase from 66.8 per cent to 69 per cent. This is clearly at odds with Nordås expectation – and seems to confirm Kaplinksy's contrary prediction encountered in Chapter 4 – that trade gains for China and India would to some degree come

from the displacement of domestic production rather than at the expense of other developing country exporters. Clearly, the statistics are open to a different interpretation and further disaggregation is required to understand the full implications of this for the Caribbean Basin – a task that unfortunately goes beyond the scope of the present chapter. But on the basis of the changing composition of US garment imports described above, a reasonable inference to make is that, while the displacement of local production may have had some mitigating effect, it has demonstrably not been sufficient to offset the negative impacts of trade liberalization.

On the second point, a methodological weaknesses of Nordås's study that is worth comment is that his gravity model relies entirely on the EU case, extrapolating from this to reach a more general set of conclusions (although, in fairness, Nordås does refer to other econometric studies based on the USA case that are generally supportive of his conclusions, e.g. Evans and Harrigan 2004). Even so, the general thrust of Nordås's argument does chime with a widely held view among policy-makers and industry insiders that close geographical proximity to the US market would be the saving grace for Mexico and the Caribbean Basin.[3] While this may or may not be the case, the rapidly changing map of the US T&C supply chain does, to say the least, raise serious questions about the sustainability of the economic model underpinning production sharing in the Caribbean Basin – irrespective of any advantages bestowed on the region due to its close proximity to the USA. Two key points serve to illustrate the argument. First, the sheer scale of the trade losses encountered by Caribbean Basin exporters since the abolition of quotas portends a future scenario – hinted at earlier – in which US domestic demand will be, in most probability, satisfied exclusively by direct imports from Asia, effectively ruling Caribbean Basin suppliers out of the supply chain. One proxy measure of this trend can be found in Table 6.3 in relation to the proportion of US domestic consumption of textiles accounted for by foreign imports. Although the level of import penetration of 27.2 per cent for textiles in 2008 was not nearly as dramatic as the 71.5 per cent for clothing, a more significant metric is the actual rate of growth (since 2003) of 49.2 per cent compared to

15.5 per cent for clothing. In normal circumstances this might hint at positive developmental consequences, since trade gains for China and other highly competitive exporters would come from the displacement of domestic production rather than at the expense of other developing country exporters. In our case, however, because of the peculiar market conditions created by the CBERA production-sharing regime – wherein garment exporters are to all intents and purposes forced to source all yarns and fabrics from US suppliers – one can say that the fate of Caribbean Basin exporters is tied inextricably to that of an increasingly uncompetitive US textiles industry. Of course, in theory Caribbean Basin exporters do still possess the 'go-it-alone' option of eschewing the 9802.00 rules of origin in order to access more competitively priced, non-US yarns and fabrics. But they can only do this by abandoning the CBERA – which has hitherto underpinned the offshore development model and without quotas is regarded as the last pillar of preferential trade and thus crucial for the remaining viability of garment assembly – if they were to adopt this strategy and still target the US market.

The other illustrative point is directly related to this and concerns the possibility – albeit, it has to be said, not now a very strong one – that the liberalization of T&C will ultimately go beyond the implementation of the ATC to embrace tariff harmonization as well. As we discovered in the last two chapters, as part of the DDA, the WTO is already committed, at least in theory, to taking steps in this direction. Although Doha was dubbed as a 'development' round, a number of Caribbean Basin countries have been among those WTO members which have voiced concerns that the inclusion of T&C within the NAMA agenda will erode the margins of preference that have enabled schemes like the CBERA to (so far) withstand the removal of quotas (ICTSD 2004). As we have mentioned already, the US T&C industry is shielded by import tariffs well above those for other manufacturing sectors. Not surprisingly, this has provided a relatively healthy margin of preference for Caribbean Basin garment exporters taking advantage of the CBERA, the CBTPA and (more recently) the Central America Free Trade Agreement (CAFTA). Admittedly progress has been slow to non-existent

in recent years but one proposal put forward by the United States Trade Representative (USTR) during the early stages of the Doha negotiations even mentioned a possible zero per cent tariff![4] In a separate development, at the fifth WTO Ministerial held in Hong Kong in December 2005, the USA along with other developed countries pledged to provide 49 LDCs – including extremely poor but very dynamic exporters like Bangladesh and Cambodia – with so-called 'duty-free, quota-free' (DFQF) for approximately 97 per cent of tariff lines (see Chapter 7). Although in the case of the USTR this commitment is conditional on the full implementation of the Doha Round, in late 2009 a bill was introduced to Congress by Jim McDermott promising to grant DFQF to all non-African LDCs (African LDCs benefit from similar provisions under AGOA – more of which in the next chapter) on a unilateral basis. Writing in 2011, however, it has to be said that there is little sign of either a successful conclusion to the DDA or the imminent passage of unilateral DFQF measures. But since we have established that without quotas tariff preferences constitute the last source of competitive advantage for the Caribbean Basin – and since there is at least a rhetorical commitment to reduce, albeit indirectly, the value for these preference margins – we can at least speculate that tariff harmonization cannot be ruled out and that any formula that serves to erode current preference levels will have very serious consequences for the Caribbean Basin garment sector.

Conclusion

The purpose of this chapter has been to assess the viability of continued garment production in the Caribbean Basin in the light of the ending of the MFA quota system. As we have shown, even though the MFA was not conceived with the Caribbean Basin in mind, it did, in conjunction with the CBERA preferential trading system, nevertheless provide a degree of protection for local firms engaged in production sharing operations with their US counterparts. In the post-MFA environment, it looks increasingly likely that this type of production sharing will be rendered less viable – if not obsolete – in the not too distant

future. If we accept the assurances provided by Nordås (although as we have just seen there are plenty reasons for not doing so), much will still depend on the outcome of the Doha trade talks and the degree to which a NAMA settlement – if indeed one is ever reached – allows sufficient room for preferential trading systems to remain viable in the future. Similarly, the possibility that the erosion of CBERA preferences will come not from multilateral but from bilateral or unilateral liberalization cannot be ruled out. Whatever the outcome of this, it seems that the thrust of global T&C trade policy is still moving – albeit in the aftermath of the 2008 global financial crisis unevenly and with much uncertainty – towards freer trade. In this context, the future prospects for the Caribbean Basin are bleak.

In the last analysis, however, this conclusion should not be taken necessarily as a rejection of economic liberalization – either in respect of the ATC or the DDA or other modes of liberalization. Rather, what this chapter has attempted to show is that the current predicament of garment producers in the Caribbean Basin stems, not so much from the ATC (although aspects of this have clearly not helped, e.g. the backloading of quota removal), but from the flawed economic model that underpins production sharing in the region. There are actually two aspects to this. On the one hand, it needs to be borne in mind that production sharing in the Caribbean Basin rests on a series of unilateral trade preferences – the origins and motivation for which rest as much with protecting US industry as advancing economic development in the Caribbean Basin – that can be withdrawn unilaterally at any point. On the other hand, as we have argued, Caribbean Basin political elites have for their part built an entire economic strategy on a notoriously ‘footloose’ sector that, *inter alia*, offers very few linkages to the various domestic economies of the region and is also associated with often dubious employment practices and costly ‘bidding wars’ for assembly related investment. It is important to stress, moreover, that these problems are not simply due to the peculiarities of the garment industry, but are an essential part of a broader economic philosophy – what we have referred to as the ‘offshore’ development strategy. To sum up, then, we conclude that, while the immediate problem for the Caribbean

Basin centres on dealing with the economic costs of adjusting to the post-MFA trade environment, the longer-term (and more fundamental) problem is to find a more economically sustainable development model on the basis of which the region can find a new place in an increasingly competitive global political economy.

7 The African Growth and Opportunity Act and the politics of preference erosion in the WTO Doha 'Development' Round

One of the central aims of this book has been to chart the effect of multilateral trade liberalization on the value of preferences schemes – both 'direct' and 'indirect' – that have historically provided favourable access to Organisation for Economic Co-operation and Development (OECD) markets for a range of developing countries. In this penultimate chapter, we continue in this vein by looking at the case of sub-Saharan Africa (SSA). As with the Caribbean Basin, SSA has been a major beneficiary of preferential trade in T&C (albeit only after the passage of the African Growth and Opportunity Act (AGOA) at the midpoint of the MFA phase out) but also a casualty of liberalization. In the two years following the implementation of AGOA in 2000, the five leading African garment exporters – Kenya, Lesotho, Madagascar, Mauritius and South Africa – reportedly increased their exports to the USA by approximately 85.3 per cent (Gibbon 2003b). For Lesotho – a tiny, landlocked kingdom entirely surrounded by South Africa regularly cited as among the countries most highly exposed to preference erosion and a central focus of this chapter – the introduction of AGOA had an especially dramatic effect: between 1999 and 2003, garment exports to the USA grew from US$111 million to US$393 million, yielding an annual increase of some 37.2 per cent, which was sufficient to sustain some 54,000 jobs, accounting for half the country's formal sector and virtually all manufacturing employment, approximately 75 per cent of its exports and 50 per cent of Gross Domestic Product (GDP) (Gibbon 2003b; Lall 2005). By the same token, the abolition of the MFA, coupled with China's accession to the

WTO in 2001, reversed a substantial proportion of these trade gains as Lesotho witnessed the closure of 12 of its 47 garment factories with the loss of some 14,000 jobs within a year of the removal of quotas (Kaplinsky and Morris 2008). Although the situation stabilized somewhat after 2006, with China and other low-income countries like Cambodia and Vietnam continuing to make inroads into the US import market – and with further trade reforms likely and the renewal of AGOA beyond 2015 uncertain – the longer-term prospects for garment assembly in Lesotho and the rest of SSA appear, to say the least, uncertain.

The experience of Lesotho under AGOA raises obvious and important questions about the appropriateness of unilateral trade preferences and low-skilled export-oriented manufacturing in the context of SSA – a conclusion similar to the one reached in the previous chapter regarding the Caribbean Basin. But the case of AGOA is also significant because it feeds more directly into an emergent policy consensus in which preference erosion – the ostensible cause of AGOA's problems – is perceived to be not only unavoidable but also desirable. In the past preferential trade was seen as synonymous with the concept of 'special and differential treatment' (SDT), designed to gear the international trading system to the particular needs of developing countries (Hoekman and Özden 2005). In contrast, the emergent policy consensus argues that unilateral trade preferences rarely succeed in promoting either long-term economic growth or export diversification. The explanation provided for this is that preferences are, generally speaking, either characterized by low-utilization rates (because 'supply side' constraints or bureaucratic obstacles such as complicated rules of origin discourage the take-up of preferences) or the bulk of the economic rents fall to importing firms rather than preference-receiving countries (Mattoo *et al.* 2003; Brenton and Manchin 2003; Olarrweaga and Özden 2005). In addition, preferential trade is said to inhibit the process of internal policy reform, distort trade and constitute an impediment to multilateral liberalization, since preference-receiving countries have a vested interest in defending the status quo in order to protect preference margins (Panagariya 2002; Francois *et al.* 2006; Hoekman 2006). Finally, and most importantly, because multilateral liberalization is seen here as a

'global public good', the best means of supporting preference-dependent countries is through targeted financial assistance and compensatory schemes which serve to build 'supply side' capacity in these countries but in ways that are 'non-trade distorting' for third parties. This, in essence, is the emergent consensus that now dominates the policy debate around preference erosion in the DDA, including most specifically its so-called 'Aid for Trade' (AfT) programme.

In this chapter, we explore the impacts of the ending of the MFA on export-oriented garment assembly in SSA but with an eye on the wider global politics of preference erosion – and the emergent development consensus that underpins it. For this purpose, the chapter is divided into three sections. In the first we situate the present case within the context of the WTO's multilateral trade disciplines by describing, albeit rather briefly, the changing institutional and ideational parameters that now delineate the policy choices available to preference-granting countries; in so doing, we make note of the decline of 'traditional' forms of SDT associated with trade preferences and the emergence of an alternative, 'supply side' discourse centred on the WTO's AfT agenda. In the second section we introduce the AGOA trade programme before looking, in more specific detail, at the case of Lesotho. Here we provide a brief history and outline Lesotho's main economic characteristics; we then turn to explore the origins of export-oriented garment assembly in the kingdom and the impact of AGOA in facilitating trade and investment flows – both 'before' and 'after' the removal of quotas. In the third and final section of the chapter, we locate these effects within the context of the evolving politics of the DDA. The intention here is to tease out some of the internal tensions, ambiguities and contradictions that lie within the emergent policy consensus; and, more practically, consider how far, if at all, concrete measures currently being worked out in Geneva – the probable failure of the Doha Round notwithstanding – will serve to ameliorate the effects of preference erosion in SSA and other preference-dependent regions and countries. Hence the chapter is relevant not just for the immediate issues discussed here but for one of the central themes of this book – that is, resolving the tension between

the shift towards wider and deeper forms of multilateral trade regulation given the special and differential needs of developing countries.

The global politics of trade preference erosion

In situating the present case within the broader political context of the WTO's multilateral trade disciplines we begin by describing the changing institutional and ideational parameters that currently delineate the policy choices available to preference-granting as well as preference-receiving countries. As we have seen, in the past non-reciprocal trade preferences were associated with the principle of SDT, designed to gear the international trading system to the particular needs of developing countries. Drawing on the structural writings of Raúl Prebisch and Hans Singer and the early work of the United Nations Conference on Trade and Development (UNCTAD), SDT was seen originally as a corollary of import-substitution industrialization (ISI): whereas ISI was designed to promote the industrial capacity of indigenous manufacturing firms, SDT would provide further support through preferential access to overseas markets to enable infant-industries to capture the economies of scale associated with successful industrial expansion (Hoekman and Özden 2005). In practice, however, the role played by SDT – and preferential trade more specifically – in the post-war trade architecture was undercut for many of the same reasons that account for the exceptional character of the T&C regime (see, especially, Chapter 2). Despite the creation of the Committee on Trade and Development and Part IV of the GATT in 1968 (which enshrined the principles of SDT and asymmetrical reciprocity leading to the establishment of the GSP) and the 1979 Enabling Clause (prior to which the GSP rested on temporary waivers), disciplines governing SDT were never placed on a secure legal footing. As a consequence, trade preferences under the GATT were, to use Robert Hudec's (1987) telling phrase, 'permissive not mandatory', while all decisions regarding county eligibility, product coverage and preference margins were left entirely to the discretion of preference-granting countries (Hoekman and Özden 2005).

By far the most significant anomaly with SDT provisions under the GATT was the legal ambiguity surrounding the concept of a 'developing' country. Although the Enabling Clause provided legal grounds for preferential treatment in favour of developing countries – provided that such treatment did not discriminate between them – the logically prior task of defining a 'developing' country was never satisfactorily resolved. Although the narrower concept of 'least developed' was actually codified under the Enabling Clause (referring to those countries formally classified as such by the United Nations), developing country status under the GATT became a matter of self-declaration – a practice that continues under the WTO. In other words, aside from LDCs, the concept of a 'developing' county in relation to preferential trade has close to no legal standing within the multilateral trading system. The significance of this only became fully apparent following the conclusion of the Uruguay Round and the introduction of a much-strengthened, dispute-settlement mechanism (DSM) under the WTO. In other words, with the installation of a legally binding DSM trade preferences were much more likely to be – and indeed in the case of the EU's Lomé protocol, for instance, *were* – deemed in violation of the most favoured nation principle. The only exceptions to this were to be found in Article XXIV (dealing with customs unions and free trade areas covering 'substantially all trade'), legal waivers (a practice which itself became far less tolerated under the WTO[1]) or in accordance with the Enabling Clause.

The diminishing space for unilateral trade preferences within the multilateral trading system did not, however, simply rest on legal obstacles. The changes were in fact part of a wider intellectual movement, according to which the erosion of unilateral trade preferences was deemed to be not only unavoidable but also desirable. The starting point for this consensus was the belief that, as a development tool, unilateral trade preferences rarely – if ever – succeed in promoting either long-term economic growth or export diversification. Although the reasons for this are many and varied, advocates of reform generally focus on the low-utilization rates of these schemes (because 'supply side' constraints or bureaucratic obstacles such as complicated rules of origin discourage the take-up of

preferences) and on the tendency of the economic rents to fall predominantly to importing firms rather than preference-receiving countries. In the case of the EU's version of the GSP, for instance, Brenton and Manchin (2003: 757) claim that, even though 99 per cent of imports from developing countries of products subject to duty in the EU (over two-thirds of which were T&C products) were eligible for free trade in 1999, the actual utilization rate of these preferences (that is, the ratio of imports receiving preferences to eligible imports) was a mere 31 per cent. Meanwhile the assumption that once preferences are taken up all rents will accrue automatically to the exporting firm is questioned on the grounds that it ignores the way in which market imperfections allow the importing firm to capture the lion's share of the preference margin (Mattoo *et al.* 2003; Olarrweaga and Özden 2005). In the case of AGOA – which as we will shall see is characterized by relatively liberal rules of origin and therefore high rates of utilization – Olarrweaga and Özden (2005) claim that the export price brought about by duty-free access increased by an average of 6 per cent even though the preference margin for eligible products was some 20 per cent. Olarrweaga and Özden also observed a tendency for the rate of export price increase to shrink in accordance with the level of development of the exporting country: in the case of Malawi a mere 13 per cent of the preferences margin went to the exporting firm while in Mauritius the respective figure stood at some 53 per cent.

The emphasis placed by advocates of reform on the technical deficiencies and perverse effects of trade preferences has been buttressed by an additional set of arguments concerning the wider impact of these schemes on the collective action dynamics of the multilateral trading system. In other words, because unilateral trade preferences are by definition *non*-reciprocal it is alleged that they serve to inhibit the process of internal policy reform, distort trade and constitute an impediment to multilateral liberalization. The reason for this is that preference-receiving countries have a vested interest in defending the status quo in order to protect preference margins (Panagariya 2002; Francois *et al.* 2006; Hoekman 2006). This type of behaviour, so it is argued, is rarely warranted on the basis of straightforward

economic rationality because it ignores the general equilibrium effects of multilateral liberalization wherein the losses attributed to preference erosion are usually expected to be offset by the liberalization of third markets, increasing import demand and hence world prices for affected commodities (Francois *et al.* 2006). Finally, because further multilateral liberalization is deemed a 'global public good', even in the case of preference-dependent countries where the gains from freer trade do not fully make up for the losses incurred through preference erosion, it is argued that the best means of support is targeted financial assistance and compensatory schemes which serve to build 'supply side' capacity in these countries but only to the extent that such measures are 'non-trade distorting' for third parties (Alexandraki and Lankes, 2004; Hoekman and Prowse 2005).

Placed in wider theoretical terms, the emphasis which advocates of reform place on the perverse effects of unilateral trade preferences and, more especially, 'supply side' responses to preference erosion arguably reflects a deeper transformation in development thinking, which is captured best by the notion of a transition from a Washington Consensus to a post-Washington Consensus (PWC). Although the paradigmatic shift signified by this transition has been the subject of much analytical scepticism (Standing 2000; Fine 2001; Öniş and Şenses 2005; Craig and Porter 2003; Payne and Phillips 2010), the emergent policy consensus on preference erosion that we have just described arguably represents one instance where the influence of the economic ideas associated with the PWC have been keenly felt (see Stiglitz and Charlton 2005). In other words, where it was once asserted that growth and therefore poverty reduction was a more or less straightforward correlate of economic liberalization (Sachs and Warner 1995; Dollar and Kraay 2001), advocates of the recasting of preferences place more emphasis on the need for 'supply side' reforms in areas such as infrastructure, physical and human capital, and administrative capability alongside 'complementary' changes to investment and competition policy, financial regulation and so on (Stiglitz and Charlton 2005). From this perspective, supply side reforms are seen as important not just as a compensatory mechanism for the loss of preferences but also because they are deemed to offer the best means of

enabling developing countries to participate more effectively in world trade. In sum, the PWC and the advocacy of 'supply side' reforms now dominates the policy debate around preference erosion in the WTO and its 'development' agenda – a set of proposals and initiatives that will be analysed once we have learned more about our specific case study of AGOA.

The African Growth and Opportunity Act

According to Peter Gibbon (2003b: 1809) the launching of AGOA in 2000 arguably represented the 'most far reaching initiative both in the history of US–African relations, and more generally in relation to the claim that concessions in the area of trade provide better long-term prospects for developing countries' economic development than do ones in aid'. As we discovered in Chapter 6, the language of 'trade not aid' was precisely that used by President Reagan in the early 1980s to justify his original Caribbean Basin Economic Recovery Act – upon which important aspects of the AGOA are modelled. Like the CBERA, the T&C provisions of AGOA grant duty- and quota-free market access to beneficiary countries exporting garments assembled with locally or US-manufactured yarns and fabrics. In addition to this, AGOA also grants duty-free treatment to garments made from 'third country' (e.g. Chinese) yarns and fabrics, subject to an annual cap of approximately 3.5 per cent of total apparel imported into the USA in the preceding 12 months, until 30 September 2012.[2] For these purposes, AGOA makes a crucial distinction between 'Lesser Developed Beneficiary Countries' (LDBCs) – defined as countries whose per capita income did not exceed US$1500 in 1998 as measured by the World Bank – and other countries deemed ineligible for the 'third country' fabric provision. For the LDBCs, the relevant rules of origin stipulate only that the assembly and finishing must take place in the beneficiary country; whereas for non-LDBCs (e.g. South Africa) the rules require that yarn and fabric manufacture must also take place in the beneficiary country (or in the US or another AGOA-eligible country) in order to qualify for duty-free entitlements.[3] Finally, an overall quantitative limit of approximately 3 per cent of the volume of all US garment

Table 7.1 US garment imports from selected AGOA countries in US$ million, 1998–2009

	1998	*2000*	*2002*	*2004*	*Growth 1998–2004 (%)*	*2005*	*2007*	*2009*	*Growth 2005–2009 (%)*
Kenya	34	44	125	277	727	271	248	195	–28
South Africa	79	142	181	141	80	67	24	11	–84
Lesotho	100	140	321	456	355	391	384	278	–29
Mauritius	233	245	254	227	–3	167	115	101	–40
Swaziland	16	32	89	179	996	161	135	94	–41
Madagascar	22	110	89	323	1369	277	289	212	–24
All other*	29	18	30	150	411	129	98	31	–76
AGOA total	513	730	1090	1754	242	1462	1292	922	–37

Source: OTEXA

Note: *Imports from all other AGOA eligible countries under the current (2011) list. Includes those whose membership is suspended but which are otherwise eligible.

imports was placed on AGOA trade preferences, although this limit was increased to 7 per cent in 2002.

In the early 2000s, AGOA had a dramatic effect on garment production in SSA. Prior to its implementation, T&C imports from the region entered the USA at MFN rates of duty – which in 2003 amounted to an estimated 13 per cent of landed value for cotton goods and 25 per cent of landed value for synthetics (Gibbon 2003b: 1881; also see Table 7.2) – while imports from Mauritius and Kenya were also subject to MFA quotas. Table 7.1 provides a snapshot of the initial impact of AGOA on African garment exports to the USA, which was especially impressive between 1998 and 2004. As can be seen, total AGOA sectoral exports in this period grew by close to 242 per cent from US$513 million in 1998 to US$1.8 billion in 2004. Significantly, also, it is among the LDBCs – that is, excluding South Africa and, at least at this point, Mauritius – eligible for the 'third country' fabric provision that the most impressive performances were to be found. For example, Lesotho (arguably the major beneficiary of AGOA – to be discussed in more detail below) increased its exports by approximately 355 per cent from US$100 million in 1998 to US$456 million in 2004; meanwhile, albeit starting from a much lower base, Kenya, Madagascar and Swaziland experienced comparable, if not even more rapid, growth rates in this period. A number of inferences can be drawn from these figures. First, it seems obvious that the presence of relatively liberal rules or origin – arguably the major difference between AGOA and CBERA – for the LDBCs was the key to the initial success of the AGOA programme. Second, it appears that since its implementation AGOA has generated export growth from a greater number of sources than might have been expected – certainly when compared with the EU. Here, Gibbon (2003b: 1814) notes that traditionally EU garment imports from SSA have been dominated (i.e. in excess of 90 per cent of the total) by just three countries – South Africa, Mauritius and Madagascar – whereas in the US case the two leading suppliers – Mauritius and Lesotho – only accounted for about one-half of the total in 2003. Third, the initial evidence suggested that AGOA led only to a very limited amount of trade diversion from the EU to the USA. This implies that the major effect of AGOA was not, as

some feared, to consolidate the dominant position of traditional suppliers like Mauritius, but rather to facilitate the establishment of new sources of export-oriented garment production within the region. Fourth and linked to this, the establishment of AGOA-related export platforms in SSA appeared to be predicated on a model of industrial organization entirely different to that which typified traditional, export-oriented firms based in Mauritius or South Africa: whereas these firms typically targeted the EU market (or, in other cases, the South African domestic market) on the basis of semi-autonomous and domestically integrated manufacturing, new entrants came to be associated with a 'buyer-driven' (Gereffi 1999) business model characterized by tightly controlled, long runs of relatively undiversified products with local – but largely foreign-owned – firms engaged to assemble basic items (e.g. t-shirts, blouses, trousers et cetera) from imported yarns and fabrics to the strict specification of the buyer. These differences in industrial organization partially explain why AGOA did not lead straightforwardly to trade diversion from the EU to the US; it also points to the fact that Asian firms specializing in buyer-driven production were best placed to take advantage of AGOA – not least because the liberal rules of origin associated with the 'third fabric' provision suited this business model perfectly.

The case of Lesotho

As a key beneficiary, Lesotho offers a neat illustration of the politico-economic dynamics behind the initial success of the AGOA programme and the problems it subsequently encountered; it also provides a suitable test case for probing the wider global politics of preference erosion and gauging the significance of, among other things, the WTO's AfT initiative (an issue to be taken up in the second half of the chapter). At first glance, the tiny landlocked Kingdom of Lesotho, which is entirely surrounded by South Africa, with a population of approximately 2.1 million and a GDP per capita income in 2001 of just US$379 (compared to US$473 for SSA as a whole) would appear an unlikely candidate for the accolade of African equivalent of an Asian 'Tiger' (Lall 2005). As chronicled in James Ferguson's

(1990) anthropological *tour de force*, *The Anti-Politics Machine,* despite the dominant caricature as a land of subsistence, peasant agriculture most of Lesotho income traditionally came from remittances from Basotho working in the mines of neighbouring South Africa: even as long ago as 1970, reportedly only 36 of national income was derived from agriculture (and only 18 per cent by 1999) whereas 90 per cent came from remittances – although this had dropped to 18 per cent in 1999. By contrast, manufacturing in GDP doubled from 9.1 per cent in 1982 to 18 per cent in 2002, by which point Lesotho had emerged as the largest recipient of per capita FDI in SSA and the continent's largest overall recipient of foreign direct investment (FDI) in the T&C sector (Lall 2005).

Although a close affinity exists between Lesotho's manufacturing success and the establishment and subsequent operation of AGOA, it is possible to trace the origins of the country's garment export boom to an earlier period: during the early 1980s a number of South African firms opened factories close to Maseru, the country's capital – in some cases to service the South African domestic market, in others to avoid political sanctions on overseas exports and to take advantage of the temporary derogation of the rules of origin requirements of the EU's Lomé Convention. As in the case of the Caribbean Basin countries discussed in the previous chapter, the attractiveness of Lesotho as an export platform was due to a combination of low wages, fiscal incentives and other economic inducements provided by the host government, alongside good communications and infrastructure (in this case close proximity and relatively easy road access to South Africa and the major port of Durban). It was for much the same reason that ethnic Chinese – predominantly Taiwanese – firms began to flock to Lesotho from the mid-1980s onwards as industrial employment continued to grow, reaching approximately 19,000 by the end of the 1990s, by which point – and even before the implementation of AGOA – the balance of exports had already shifted to the USA on the basis of the 'buyer-driven' business model outlined earlier (Gibbon 2003a).

Despite a number of common features between AGOA and CBERA, the two programmes generated almost completely

different supply responses in terms of assembly related investment. In the case of the CBERA, as we have shown, the dominant source of foreign investment came from import-competing firms seeking to remain price-competitive in their own domestic market by outsourcing basic assembly operations while continuing to source yarns and fabrics exclusively from US textile mills; indeed, the expressed purpose of the strict rules of origin accompanying these production-sharing regimes was to restrict the 'benefits of location' (Chase 2003) to local firms as a means of consolidating the North American supply chain. By way of contrast, AGOA's 'third fabric' provision granted extra-regional firms preferential access to the US market – albeit according to specified quantitative limits – without the need to satisfy prohibitive rules of origin requirements. It is this difference which explains why Asian firms specializing in buyer-driven production were attracted to, and hence best placed to take advantage of production sharing in, SSA in the post-AGOA environment. In Lesotho's case, the number of export-oriented garment manufacturers operating out of the country's two main industrial districts (one close the capital Maseru and another at Maputsoe – a third industrial district was subsequently opened in Thetsane), increased from approximately 21 in 1999 to 54 by 2004. This, according to one study (Bennett 2006), was sufficient to support an estimated 53,087 jobs, accounting for half the country's formal sector and virtually all manufacturing employment, approximately 75 per cent of its exports and 50 per cent of GDP. All told, AGOA had a remarkable and transformative effect on Lesotho's export profile: as Table 7.1 shows, exports to the USA under AGOA grew from $US100 million in 1998 to US$140 million in 2000 to US$321 million in 2002 to US$456 million in 2004. This, it hardly needs adding, was no small feat for a tiny, mountainous, landlocked country blighted by HIV/AIDS with a declining population, falling incomes, few natural resources or much in the way of arable land.

By the same token, the abolition of the MFA, coupled with China's accession to the WTO in 2001, reversed a substantial proportion of these trade gains by the middle of the decade. Even though AGOA brought undeniable economic benefits to Lesotho with respect to employment and foreign exchange

Table 7.2 Lesotho's main garment exports under AGOA by US tariff line (top ten headings)

HTS heading	*Description of tariff heading*	*% of total apparel exports to US (2004)*	*% of total apparel exports to US (2009)*	*Top 8 exporters to US (in order of importance)*	*MFN duty rates*
61034315	Male trousers/breeches/shorts, knitted or crocheted, synthetic	3.8	3.9	Thailand, Honduras, China, Indonesia, Egypt, El Salvador, Bangladesh, Vietnam	28.2%
61046220	Female trousers/breeches/shorts, knitted or crocheted, cotton	5.3	7.8	China, Vietnam, Indonesia, Cambodia, Sri Lanka, Nicaragua, Honduras, El Salvador	14.9%
61051000	Male shirts, knitted or crocheted, cotton	2.1	7.1	India, China, Pakistan, Indonesia, Vietnam, Peru, Cambodia, Bangladesh	19.7%
61052020	Male shirts, knitted or crocheted, man-made fibres	0.2	3.0	Vietnam, China, Jordan, Thailand, Indonesia, Honduras, Peru, Mexico	32.0%
61091000	T-shirts and similar garments, knitted or crocheted, cotton	5.1	3.6	Mexico, Honduras, El Salvador, China, Haiti, Vietnam, India, Guatemala	16.5%
61102020	Sweaters/similar articles, knitted or crocheted, cotton	28.7	17.2	China, Vietnam, Indonesia, Honduras, Guatemala, India, Cambodia, Nicaragua	16.5%
61103030	Sweaters/similar articles, knitted or crocheted, synthetic	6.7	8.2	China, Vietnam, Honduras, Indonesia, Mexico, Jordan, Cambodia, Taiwan	32.0%
62034240	Male trousers/shorts, not knitted or crocheted, cotton	20.7	21.7	Mexico, Bangladesh, China, Vietnam, Egypt, Pakistan, Cambodia, India	16.6%
62046240	Female trousers/breeches/shorts, not knitted or crocheted, cotton	14.3	13.1	China, Bangladesh, Vietnam, Mexico, Indonesia, India, Cambodia, Sri Lanka	16.6%
62046335	Female trousers/breeches/shorts, not knitted or crocheted, cotton/synthetic	0.2	2.4	China, Vietnam, Guatemala, Indonesia, Jordan, Mexico, Sri Lanka, Cambodia	28.6%

Sources: OTEXA, HTS Tariff Schedule, USITC

earnings, one did not need to probe too deeply beneath the façade of the kingdom's much heralded 'manufacturing miracle' to see the reasons behind these losses – most of which were apparent even before MFA quotas were removed in 2004. First of all, despite the impressive nature of Lesotho's post-AGOA export performance, the kingdom's manufacturing success in the early 2000s – like that in other parts of SSA – rested on no more than a handful of tariff lines. As Table 7.2 shows, in 2004 approximately 63.7 per cent of Lesotho's exports were concentrated in just three tariff lines while approximately 87.1 per cent were covered by the top ten. This suggests that, not only was Lesotho completely dependent on AGOA preferences for its presence in the US market – which in the early 2000s absorbed an estimated 80 per cent of the country's entire exports of which approximately 98 per cent was reportedly made up of garments (Morris and Sedowski 2006) – but that this dependence rested precariously on only a handful of product categories. Even so, in the immediate aftermath of the removal quotas, the highly concentrated nature of Lesotho's garment exports turned out to be something of a 'blessing' since a number of these were covered under the textiles 'safeguards' agreement introduced by the US against China in late 2005. Although, as in the case of equivalent EU measures described in Chapter 5, the introduction of these safeguards was designed principally to shield domestic producers rather than preference-dependent countries (even though, as we saw in Chapter 5, this justification was, somewhat disingenuously, advanced at the time), in Lesotho's case it just so happened that its top ten tariff lines, accounting for the overwhelming majority of the kingdom's exports, were all either fully or partly covered by the agreement, which placed a ceiling cap on Chinese exports until the end of 2008 (US–China Memorandum of Understanding 2005). One can therefore speculate, had these safeguards not been in place, Lesotho may well have suffered a greater impact from the removal of quotas. Finally, and irrespective of this, we can see from Table 7.2 that the tariffs lines in which Lesotho's garment exports are concentrated are ones in which above average MFN rates of duty – ranging from 14.9 per cent to 32 per cent compared to just 3 per cent for US manufacturing imports as a whole – offered

sizeable preference margins vis-à-vis other developing countries which did not qualify for duty-free concessions. The important point to take note of at this stage is Lesotho's main competitors in each of its main export categories, since these are precisely those which stand to benefit from the implementation of the DDA or a separate duty-free and quota-free (DFQF) agreement that could be implemented even in the absence of a successful conclusion to the Doha Round.

Returning for now to the foundations of Lesotho's garment export boom, the supply response to AGOA has, as suggested, been markedly different to CBERA. However, the two programmes are nevertheless associated with very similar domestic correlates in that neither has generated much in the way of backward linkages to the domestic economy nor provided the host government with a fiscal income stream. In Lesotho's case, these problems are only to a small extent linked to the economic incentives offered to foreign firms – which do not appear to be especially generous by international standards – as the kingdom (along with the rest of SSA) appears to have largely escaped the costly 'bidding wars' that were such a prominent feature of the Caribbean 'offshore' development model. Equally, AGOA's 'third fabric' provision offers eligible countries far more prospects for establishing backward linkages via the creation of domestically integrated enterprises than is possible under CBERA. One could cite in this vein the example of the establishment of the Formosa textile mill by the Nein Hsing group in 2004, which brought a range of more complex 'upstream' manufacturing tasks to Lesotho – including the spinning, dyeing and weaving of yarns from imported cotton, including from elsewhere in SSA (Bennett 2006). Unfortunately, the Formosa denim plant has proven to be a somewhat isolated case with little, if any, prospect of additional productive investment in 'upstream' textiles manufacturing – certainly with regards to knit fabric which constitutes nearly four-fifths of Lesotho's AGOA garment exports.[4] Likewise, in other areas, despite ostensibly more generous market access the peculiar nature of the supply response to AGOA can be likened to the Caribbean experience insofar as garment-related investment has not generated much in the way of technology transfer or skill upgrading for Basotho assembly workers:

almost all management and supervisory positions continue to be occupied by ethnic Chinese émigrés, many of which possess only rudimentary English (and even less Sesotho, the main language spoken in Lesotho) – which is one of the reasons often given for Lesotho's generally poor industrial relations despite the decision in 2007 to adopt a national 'sweat-free' strategy (Salm *et al.* 2002; on the 'sweat-free' strategy see Seidman 2009; Gibbon 2003a). Taken together, all of these issues point to one unavoidable fact: namely, despite AGOA being in place for more than a decade, Lesotho's garment sector still relies on the same handful of tariff lines it has done since the early 2000s wherein its competitive advantage rests precariously on a combination of low wages, geographical proximity to South Africa and, most important of all, the tariffs margins it enjoys vis-à-vis other developing countries still subject to MFN rates of duty.

It is against this backdrop that we need to understand the changes brought about by the phasing out of the MFA in 2004. In Lesotho's case, as Table 7.1 reveals, garment exports under AGOA fell by approximately 29 per cent from US$446 million in 2004 to US$278 million in 2009. Most of the decline occurred immediately following the removal of quotas between 2004 and 2005 when Lesotho witnessed the closure of 12 of its 47 garment factories with the loss of some 14,000 jobs (Kaplinsky and Morris 2008). Meanwhile the other major beneficiaries of AGOA – Kenya, Mauritius, Swaziland and Madagascar – all experienced trade losses comparable with Lesotho, while AGOA garment exports as a whole shrank by 37 per cent from US$1462 million in 2005 to US$922 million in 2009. Interesting, though, the largest casualty of the removal of quotas was South Africa itself. As Table 7.1 shows, despite its ineligibility for AGOA's 'third fabric' provision South Africa's exports to the USA still reached a respectable US$141 million by 2004; yet by the end of the decade this trade had been decimated to the point that it was actually worth less than before AGOA was introduced. Further, unlike other AGOA beneficiaries, liberalization did not just affect South Africa's exports but domestic production also (Roberts and Thoburn 2004). The key summative point is that the problems that AGOA has encountered since the mid-2000s stem not just from the specific economic characteristics

of export-oriented garment assembly in SSA or modes of liberalization associated with the T&C trade regime. They also hinge on a more fundamental tension between the shift towards wider and deeper forms of multilateral trade regulation with the special and differential needs of developing countries and LDCs. In the next section, we examine these tensions more closely by situating our case within the broader political context of the WTO's 'development' agenda in order to assess the extent which initiatives currently being thrashed out in Geneva might serve to ameliorate the effects of preference erosion in SSA and elsewhere.

The WTO's 'development' agenda and the politics of preference erosion in the Doha Round

As chronicled by James Scott and Rorden Wilkinson (2011: 617), the story of the Doha negotiations, insofar as its 'development' agenda is concerned, is one in which 'the development content of the round has been whittled away from a concern with issues of implementation, less than full reciprocity and enhanced special and differential treatment, among other things, to one that concentrates primarily on agriculture'. The DDA was, of course, launched in the immediate aftermath of the terrorists attacks of 11 September 2001 – but an arguably more important backdrop to the round was the acrimonious failure of the 1999 Seattle ministerial, when mass civic mobilization and violent demonstrations on the streets mirrored deep divisions between developed and developing countries inside the meeting regarding the content and indeed the overall desirability of a further round of trade negotiations. The key to understanding this impasse was the belief among the majority of developing county delegations that the developed countries had failed to live up to their side of the 'grand bargain' of the Uruguay Round – what came to be known as the 'implementation issues' – but were now seeking to open up negotiations in new trade areas such as competition policy, investment, trade facilitation and government procurement – what came to be known as the 'Singapore issues' – without first addressing these grievances. Following the collapse of the Cancún ministerial in September 2003 – after which

the three most controversial 'Singapore issues' (competition policy, investment and government procurement) were dropped from the agenda but so, for that matter, was mention of the 'implementation' issues – there was a considerable lowering of expectations for what could be achieved by the round. It was within this setting that the Hong Kong ministerial meeting took place in November 2005, at which point the WTO announced its AfT initiative alongside a series of other policy commitments which, at least on the surface, appeared to speak directly to the issues raised in the chapter.

Aid for Trade

At the Hong Kong ministerial, ministers called for the creation of a task force to provide recommendations on how to operationalize AfT and how it could contribute to the development dimension of DDA. Although the concept was hardly a new one – the original Doha Ministerial Declaration had referred to AfT in all but name in the form of 'technical assistance' and 'capacity building' alongside a commitment to review exiting SDT provisions with a view to 'strengthening them and making them more precise, effective and operational' – the significance of the Hong Kong pledge was that it signalled that the WTO should assume a central role in coordinating, monitoring and evaluating bilateral and multilateral contributions to AfT. Insofar as AfT – that is, channelling development assistance towards projects aimed directly at enabling developing countries to participate more effectively in world trade – provided support for the multilateral trading system, one can discern an obvious rationale for why it would be deemed necessary for the WTO to play a role in supporting it. Yet this is insufficient in itself to explain why the WTO should play the *central* role. After all, the language of 'supply side' reform was hardly unique to the WTO, having dominated the strategies of numerous bilateral, regional and multilateral aid agencies from the mid-1990s; meanwhile a separate institutional mechanism for coordinating these activities had existed since 1997 through the Integrated Framework.

In order to fully understand why existing arrangements were deemed inadequate, and why it was deemed necessary for the

WTO to assume a more central role, it is worth considering further the politics behind the Doha Round. Although the Doha Ministerial Declaration did not mention AfT explicitly, by the mid-2000s the fallout from the Uruguay Round – especially the ATC – had come to weigh heavily on many developing countries in terms of their perceptions of the gains to be had from the further liberalization of trade. At the same time, the extension of international trade disciplines to new areas like services and intellectual property protection involving very high compliance costs fuelled the perception that the ultimate 'grand bargain' of the Uruguay Round had been one in which the developing countries had, to borrow Michael Finger and Philip Schuler's pithy characterization, exchanged 'bound commitments to implement in exchange for unbound commitments of assistance to implement' (Finger and Schuler 2000: 514; see also Page and te Velde 2007). Hence a key driver of the DDA, at least from the standpoint of the developing countries, was the need to redress the perceived imbalance of the Uruguay Round and, by implication, previous GATT rounds (Scott and Wilkinson 2011). This was to be achieved by addressing the 'implementation issues' left over from Uruguay and, moving forward, giving more weight to the specific interests of developing countries in the form of strengthened rules governing SDT. From this perspective, inserting the language of AfT within the Doha Round became a means of addressing these concerns and, in so doing, providing a firmer basis on which to secure a 'development round'.

In a deeper theoretical sense, inserting the language of AfT within the DDA also chimed with the intellectual zeitgeist of the late 1990s and 2000s associated with the PWC and the shift from 'first generation' market liberalization to 'second generation' institutional reform (Stiglitz and Charlton 2005). It is at this point that the politics of the DDA – and therefore its practical implications for our own case study – become easier to discern. Although a close intellectual affinity exists between the PWC and the policy agenda underpinning AfT, an arguably more important driver of the latter, at least initially, was the need to secure the support of preference-dependent countries for further and deeper MFN liberalization. Indeed, the advocacy for AfT was initially couched in specific terms of a 'compensation' clause

(Page 2005) rather than the longer-term goal of integrating developing and least-developed countries into the world trading system. This distinction is an important one because those developed countries most exposed by preference erosion were not necessarily the poorest or most marginal: Alexandraki and Lankes (2004), in fact, found that the bulk of the adjustment costs from the loss of preferences would fall not to LDCs but to small, 'middle income' countries with a per capita income of between US$736 and US$9075 as classified by the World Bank. Assuming a 40 per cent MFN tariff reduction (excluding the impact of the expiry of the ATC), Alexandraki and Lankes concluded the overall impact of multilateral liberalization on preference margins to be modest but for a handful of countries these costs would be significant, ranging from a loss of export revenue of 7.8 per cent for Fiji to 11.5 per cent for Mauritius. To the extent that the DDA was driven by the need to secure the support of preference-preference dependent countries for liberalization, then, AfT would need to mobilize resources to compensate for the losses incurred as a result of a successful outcome to the DDA – and to do so *explicitly*.

The WTO Task Force duly reported its findings in July 2006 and these were subsequently endorsed by the WTO General Council (see WTO 2006). Among other things, the Task Force reaffirmed the principles of the Paris Declaration on Aid Effectiveness (see OECD 2005) but noted that these needed to be tailored to the specific requirements of individual countries. In particular, the Task Force recommended strengthening the 'demand side', 'donor response' and closing the gap between 'demand' and 'response' at the country, regional and global levels. In addition, the Task Force recommended that the precise activities to be funded through AfT should rest largely with recipient governments in terms of those activities identified as trade-related development priorities in national development plans. The Task Force suggested that the WTO should play a key role in monitoring and evaluating AfT, assessing progress in trade-related capacity building and devising incentives to improve its effectiveness.

Returning now to the more specific concerns of the chapter, two issues are in need of further scrutiny. The first concerns

the financial implications of assisting preference-dependent countries though AfT: crudely put, how much money is needed and how much is available? Here a number of econometric simulations have calculated the likely impact of further liberalization on preference-dependent economies. These studies generally offer both 'optimistic' and 'pessimistic' scenarios, depending of the particular methods used and modelling assumption made. In a study conducted for the Commonwealth Secretariat, for instance, Grynberg and Silva (2004) estimated the annual losses to preference-dependent countries from the Doha Round, coupled with the ending of T&C quotas through the ATC, would amount to approximately US$1.7 billion, and that affected producers would require up to 20 years to come to terms with the changes. In another, widely cited study the IMF (2003) concluded that a 40 per cent MFN tariff cut on the part of Canada, the EU, Japan and the USA would create an annual income loss for preference-dependent countries of some US$530 million. In contrast, Francois *et al.* (2006) concluded that, in the EU case at least, liberalization by non-EU OECD countries would offset EU liberalization: assuming complete preference erosion (i.e. an MFN rate of zero), they concluded that liberalization would impose a welfare loss of approximately US$460 million on African LDCs and a further US$100 million on Bangladesh. Interestingly, though, they concluded that the potential for preference erosion under the Doha Round, even assuming a highly implausible zero per cent MFN rate of duty, would be only one-tenth of that caused by the abolition of T&C quotas under the ATC.

Revealingly, the Hong Kong pledge did not mandate the WTO Task Force to deal in detail with either the quantity or the nature of financing, leaving this to the WTO Director General. The Task Force nevertheless did reiterate the principle of 'additionality', that is, increased funding for AfT should be *in addition* to planned increases in general aid budgets. At the time of writing, the extent to which this principle can be maintained is still to be fully determined. But it seems scarcely credible to argue that increases in AfT will be in addition to the general increases in aid since the Gleneagles G8 Summit in 2005. According to the OECD, total multilateral and bilateral

AfT disbursements amounted to US$28.4 billion in 2009, but there still appears to be no agreed definition of what constitutes AfT.[5] Developing countries claim that, since the reporting of AfT spending is primarily the responsibility of aid donors, there is nothing to prevent the relabeling of existing funds – suspicions fuelled by the difficulties aid recipients have reportedly had in obtaining independent scrutiny of the OECD's Creditors Reporting System used to collate aid statistics.[6]

The second issue concerns the modalities for AfT or, to put it straightforwardly, assuming development finance is available how is it accessed and, more pertinently, is it 'complementary' or 'integral' to the DDA? The simple answer to this question is that, in the form of the so-called Enhanced Integrated Framework (EIF), there appears to be a direct relationship between the AfT and WTO but *not* the DDA. The EIF is a multi-donor AfT scheme for LDCs, set up to replace the Integrated Framework – the previous AfT scheme for LDCs set up in 1996, whose results were judged to be modest – on the basis of recommendations of a Task Force Report on an Enhanced Integrated Framework (2006). Although the EIF is invariably flagged up in WTO communiqués, it is best understood as part of the new global aid architecture designed to 'mainstream' trade in national development plans and to coordinate multilateral and bilateral trade assistance (Hoekman and Prowse 2008), rather than a response to specific issues raised in the WTO. In any case, given the EIF's relatively modest funding target of US$250 million over the next five years it is unlikely to have much of an impact on trade-related assistance, regardless of whether or not it is considered formally as part of the DDA.

Duty-free, quota-free

We can recall from our earlier discussion that much of the controversy surrounding preference erosion in the WTO stems from past failures to place disciplines governing SDT on a secure legal footing. It is this issue that the second aspect of the Hong Kong Ministerial Declaration – the commitment to offer DFQF market access to all products from LDCs – sought to address. The impetus for this commitment came from the EU, which had

by this point granted DFQF access to LDCs unilaterally through its 2001 EBA initiative. In practice, however, neither the EBA initiative nor the Hong Kong pledge was as impressive as first appearances suggested. On the one hand, despite offering DFQF treatment to all products from LDCs (apart from bananas, sugar and rice where full market access was delayed until 2009), the EBA stuck with the notoriously complex rules of origin that had discouraged eligible developing countries from taking advantage of free market access available previously through the GSP – a problem we have already encountered in previous chapters. On the other hand, the Hong Kong pledge stopped short of offering DFQF treatment to LDC for all products, with Japan, Canada and the US agreeing to extend market access to only 97 per cent of tariff lines. As Scott and Wilkinson (2011: 623) note, this means that in the case of the USA, for instance, something in the order of 300 tariffs lines would be excluded under these proposals – a fact not without relevance for our own case since non-AGOA LDCs like Bangladesh would effectively be deprived of the market access otherwise expected to come from a DFQF agreement.

Relating this to the issues explored in the first part of the chapter, the Hong Kong pledge was significant for another reason in that (despite its imperfections) it would legally bind preference-granting countries to the agreement (we can recall that similar measures under the GSP were offered previously on a voluntary basis and at the discretion of the importing country), but based on the principle that preferential trade should only be maintained in the case of those countries formally classified as LDCs. To underscore the significance on this, it is important to highlight that approximately two-thirds of the WTO's 152 members are classified as 'developing' countries but only 32 as LDCs. Put another way, although the DFQF proposal dealt with the legal ambiguity surrounding trade preferences for LDCs, it remained silent on preferences for non-LDCs, or cases like AGOA where preferential market access is offered to both LDCs *and* non-LDCs. In AGOA's case, its legal basis in the WTO currently rests entirely on a temporary waiver due to expire in 2015. And although there is currently no suggestion that AGOA is vulnerable to a legal challenge or that a further extension to

the waiver, if requested, would not be granted, it is at least worth taking note briefly of the parallels with the Lomé protocol – a trade preference scheme similar in principle to AGOA insofar as it offered discriminatory preferences to both LDCs and non-LDCs – which was ultimately renounced by the EU following a series of successful legal challenges under both the GATT and WTO.

For now, however, the more significant threat posed to SSA by the Hong Kong pledge comes not primarily because it challenges the legal standing of AGOA in the WTO (although in theory this could be one of its long-term effects), but rather because it extends DFQF treatment to non-African LDCs like Bangladesh and Cambodia. We can recall from Table 7.2 that these are precisely the countries that constitute the main competitors for Lesotho (and therefore AGOA as a whole) in each of its main export categories. It thus comes as no surprise to find that Africa's support for DFQF in the Doha Round has, to say the least, been equivocal.[7] Although the Africa Group in the WTO initially approved the Hong Kong Ministerial Declaration on DFQF (with the exception of Mauritius and Uganda which spoke out against it), AGOA beneficiaries have used every opportunity since then to lobby for the exclusion of 'all textile and apparel products from the DFQF initiative in order to nurture the textile and apparel industry in Africa to become a sustainable and competitive global industry' (ACTIF 2008). Most of this lobbying has been targeted at the USA, for obvious reasons;[8] and, to the extent that the US's DFQF proposal sought to exclude something in the order of 300 tariff lines, one can say that it has been receptive to AGOA's concerns. Moreover, AGOA's privileged access to the US market appears relatively secure because of the apparent reluctance of the latter even to offer its relatively modest DFQF proposal unilaterally as part of a so-called 'early harvest' before the rest of the DDA is completed.

Even so the longer-term prospects for AGOA are more difficult to predict. The key reason for this is that US reticence on DFQF has arguably been influenced less by the lobbying efforts of AGOA (although this has not been insignificant) than by the unravelling of bipartisan domestic support for US trade

policy more generally – an issue which can be traced back to the expiration of the US Trade Representative's (USTR) 'fast track' trading authority in July 2007. A good recent illustration of the degree of disunity in the USA over trade policy came in December 2010, when its version of GSP – which covers 4800 product categories from 131 developing countries – formally expired after its renewal was blocked by Republican Senator Jeff Sessions from Alabama who had objected to the inclusion of sleeping bags imported from Bangladesh (ICTSD 2011a). Even though the expiry of GSP does not affect AGOA directly, the domestic political climate in which this occurred (a similar fate has befallen the Andean trade preference scheme alongside free trade agreements with Korea, Colombia and Panama) hardly bodes well for a successful conclusion to the DDA or, perhaps more significantly, the renewal of the AGOA programme and its WTO waiver – both of which are due to expire in 2015 with the 'third country' provision due to expire even earlier in 2012.

Non-agricultural market access (NAMA)

A final aspect of the Doha negotiations relevant to our discussion is the NAMA agenda. The WTO Director-General Pascal Lamy has described NAMA as the single biggest obstacle in the way of a successful conclusion to the DDA, at the heart of which is the unwillingness of large developing countries like Brazil, China and India to accede to US and EU demands to eliminate or cut deeply tariffs across entire industrial sectors (ICTSD 2011b). The current impasse notwithstanding, the Chairman of the WTO Negotiating Group on NAMA's revised text, which was published in February 2008, does at least provide us with some scope for evaluating the extent to which an eventual NAMA deal, however unlikely, might affect AGOA and other unilateral preferences schemes. As we saw in Chapter 5, the basic objective of the NAMA agenda is to effect further liberalization of non-agricultural products – including T&C – and ultimately 'to reduce, or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries' (WTO 2001b). The

draft modalities for achieving these tariff reductions, as set out in the Chairman's revised text, are based largely on the so-called 'Swiss formula', designed to narrow the gap between high and low tariffs with an in-built maximum for final bound rates,[9] while containing a number of exemptions and flexibilities for different categories of developing countries.

The sections of the draft text most relevant to our discussion centre on the Swiss Formula coefficient for the developed countries – which will determine the actual reductions to US tariffs and hence AGOA preference margins – and safeguards for mitigating the effects of preference erosion. According to a report by the South Centre (2008) on the revised NAMA text, the application of the Swiss Formula (based the developed countries' interpretation of this) would imply an average NAMA tariff cut to US tariffs of approximately 28.5 per cent and 85.7 per cent for peak tariffs. The implementation of NAMA could thus be potentially more significant even than a DFQF agreement, since it would level the playing field not just with non-African LDCs but *all* developing countries which do not currently qualify for duty-free trade. It is for this reason that the draft text contains a number of flexibilities designed specifically to mitigate the effects of preference erosion – all of which have been shaped by the wider politics of the DDA. The first set of flexibilities build into the NAMA text offer a ten-year transition period (otherwise tariff reductions for the developed countries are to be implemented in four equally weighted stages over a four years) designed to provide preference-dependent countries with the necessary breathing space to adjust to freer trade. The specific tariff lines eligible for these longer transition periods are set out in Annexes 2 and 3 of the draft text, and in Lesotho's case all of its major clothing export categories are included. But the story does not end there. In order to accommodate the export interests of others deemed to be 'disproportionately affected' by discriminatory preferences, nominated developing and least-developing countries will benefit from shorter transition periods. However, the precise list of nominated countries has not been entirely straightforward, entailing a number of acute distributional squabbles among the developing countries about who should and should not be considered 'disproportionately

affected'.[10] Indeed some members of the LDC Group in the WTO group have even questioned the need for a list at all, on the grounds that the implementation of a comprehensive DFQF agreement would make it unnecessary. Meanwhile some of the larger developed countries such as Argentina have reportedly attacked the whole idea of a 'preference erosion' list as a cynical ploy to enable preference-granting countries to delay the liberalization of protected markets.[11]

Whatever the rights and wrongs of these debates, the key summative point from our perspective is that the first set of flexibilities contained in the draft NAMA text may postpone but will not ultimately prevent a drastic reduction in, if not the completion elimination of, the margins of preference that have enable schemes like AGOA to function. We have already seen in the case of the MFA that Lesotho was unable to take advantage of the window of opportunity for restructuring and diversification afforded by the backloading of the ATC, given that the kingdom's garment sector still relies on the same handful of tariff lines it has done since AGOA first came into effect in 2000 (a similar pattern can in fact be observed elsewhere in SSA). The logical inference to draw here would therefore be that longer transitions periods *alone* are unlikely to do much to prevent the collapse of the African garment sector in the event of the successful conclusion of the Doha Round. This brings us to the second set of flexibilities built into the NAMA text. Alongside the adoption of longer transition periods, the draft text also makes reference to 'non-trade' measures designed to combat preference erosion through additional financial assistance and non-financial capacity building measures. However, even though the language on these 'non-trade' measures has been strengthened under the revised draft text modalities, the document appears to stop short of binding language linking NAMA to trade adjustment and capacity building finance. Instead, it simply states that 'preference granting Members, and *other Members in a position to do so*, are urged to increase their assistance to these Members through mechanisms including the Enhanced Integrated Framework for Least Developed Countries and other Aid-for-Trade initiatives' (WTO 2008: 11, emphasis added). In other words, the draft text implies that the 'non-trade' component

of NAMA flexibilities designed to cushion the effect of MFN tariff reductions is primarily the responsibility and therefore presumably at the discretion of the preference-granting country. As such, NAMA reaffirms AfT as a 'best endeavour' commitment that is complementary rather than integral to the DDA.

Conclusion

The key purpose of this chapter has been to analyse the global political economy of trade liberalization in SSA, with specific reference to AGOA before and after the ATC. In doing so, we have focused not just on the immediate economic impacts of the removal of MFA quotas but, in addition, on the wider global politics of preference erosion leading up to, and including the WTO's Doha 'Development' Agenda. The case of AGOA – and the more specific example of Lesotho – illustrates the diminishing space for unilateral trade preferences in the face of the changing institutional and ideational parameters that have come to delineate the policy choices available to preference-granting as well as preference-receiving countries. The introduction of AGOA had an early and dramatic effect on SSA's export profile, but by the same token the abolition of the MFA, coupled with China's accession to the WTO in 2001, revealed the shaky foundations on which these trade gains rested.

It was on this basis that the chapter looked at the evolving politics of the DDA. The intention here was to tease out some of internal tensions, ambiguities and contradictions that lie within the emergent policy consensus underpinning AfT and other aspects of the DDA; and, more practically, to consider how far, if at all, concrete measures currently being worked out in Geneva might potentially ameliorate the effects of preference erosion in SSA and other preference-dependent regions and countries. The probable failure of the Doha Round notwithstanding, there is evidence that the influence of the 'supply side' discourse associated with the PWC has not been insignificant, at least at a rhetorical level. But in more substantive terms, it is far from clear that the DDA – in terms offering effective forms of SDT or, in our specific case, credible commitments on AfT or other compensatory mechanisms for dealing with the fallout

from preference erosion – is anymore 'development friendly' than previous GATT rounds. In fact, the institutional practices described elsewhere in the book probably offer a better guide to the future trajectory of multilateral trade regulation than any of the policy proposals and initiatives that we have examined in this chapter.

8 Conclusions

This book set out to trace and explain the seemingly unique character of the T&C sector with respect to the governance of world trade. In completing this task, the book tackled arguably the most perennial and deep-rooted of all questions in political economy – that is, given the widely accepted premise that free trade is the best available means for maximizing overall societal welfare, why has it proven historically to be so difficult to bring about? The orthodox response to this question rests on liberal theories of collective action, wherein trade policy is explained in terms of the political imbalance between protectionist forces and more disparate groups that are likely to benefit from free trade. The puzzle that these conventional accounts have always had difficulty solving, however, is that of why (assuming that similar collective action dynamics are at work) there has been historically such marked variation in the levels of protection afforded to different industries. After all, there are many industries sharing similar technological and economic characteristics – and therefore presumably similar collective action dynamics as well – but which have not been afforded anywhere near the same levels of protection. And when it comes to explaining the eventual liberalization of hitherto protected industries, what changes to alter these collective action dynamics so dramatically to enable the disparate beneficiaries of free trade to prevail?

It is precisely these sorts of questions that formed the backdrop to and initial starting point for our study of trade protectionism and liberalization in T&C. We began our study by describing the 'uniqueness' of our case not as an expression of collective action

politics, but a product of policy institutionalization and path dependency. What is meant by this, in more straightforward language, is that the best way to think about why the regulation of T&C took the peculiar form it did is to focus on an initial set of conditions and then to map out empirically how and in what ways these conditions served to shape and constrain – but not determine – future policy choices. Placed in less abstract terms, we argued in Chapter 1 that a series of policy steps (beginning with the introduction of voluntary export restraints against Japan after 1955 and ending with the creation of the STA in 1961) led, first, to the partial delinking of T&C from the GATT and, later, to the creation of what amounted to a separate subsystem for governing the sector, albeit one still embedded within the multilateral trade architecture. Although the creation of this separate subsystem did not make further or wider protectionism inevitable, it nevertheless made it more likely, especially in the harder economic times of the 1970s. Moreover, drawing attention to the initial set of conditions that gave rise to a separate subsystem also helps us to understand why sectoral protectionism took the *institutionalized* form that it did – and why this was, at least up to a certain point, so difficult to break.

This being the case, the obvious question in the light of the events detailed in Chapter 3 was: why did this highly institutionalized form of trade protectionism ultimately break down? Or, put in more theoretical terms, how does an approach that focuses on path dependency and policy continuity account for an eventuality – in our case the abandonment of the MFA and the liberalization of T&C – that, in the parlance of political science, appeared to be determined by explanatory factors 'exogenous' to the model? The most important of these exogenous factors was of course the wider bargaining dynamics of the Uruguay Round where it appeared that, for the first time, the collective political weight of the once formidable T&C coalition was neutralized by a disparate collection of interest groups, including exporting countries, retailers and consumer organizations in importing countries, which all believed they would prosper under a more a liberal regime. While not dismissing this interpretation entirely, it was noted that it nonetheless raises more questions than it answers – not least: why was it that trade negotiators

representing the developed countries were able to forego the interests of the T&C coalition during the Uruguay negotiations but not in previous multilateral trade rounds?

The approach that we took to this question was to begin from the premise that the dismantling of the MFA and the subsequent liberalization of T&C is understood best by referring to the *internal* dynamics of the regime and the not unrelated interest (which was largely independent from the bargaining context of the Uruguay Round) that the developed countries had in abandoning the MFA. We did not claim that these interests could be simply 'read off' from initial policy configurations present at the time of regime creation. Rather, in keeping with the approach outlined above, what we have done is to map out empirically how these initial conditions influenced how the regime evolved and changed over time. This technique allowed us to shed light on how the inner workings and internal contradictions of the regime provided the main catalyst for eventual liberalization. Indeed the important point to recall is that despite its longevity the MFA largely failed in its key objective of shielding domestic import-competing firms from low-wage competition. The reasons for this failure are of course many and varied – but the most important relate to the unintended consequences of the MFA itself, as we detailed in Chapter 3. The key summative point is that once attention was drawn to the inner workings of the MFA and shifting preferences of the developed countries vis-à-vis sectoral protectionism, it became easier to see how a historical institutionalist framing could make sense of why the MFA was ultimately abandoned *and* why it was abandoned during the Uruguay Round negotiations.

In the wider scheme of things, drawing attention to the constraining effects of policy institutionalization on the development pathway of the T&C regime offers a number of lessons for the wider political economy of international trade literature. The first concerns the 'voluntarism' frequently assumed of international trade politics – that is to say, the extent to which trade negotiators possess the autonomy necessary to exchange market access unencumbered by history or their immediate environment (Heron and Richardson 2008). The 'grand bargain' of the Uruguay Round is the obvious case in point. As we argued

in Chapter 3, there is a danger that accounts of the Uruguay Round (or any trade negotiation for that matter) that seek to explain the outcome of the negotiations mainly with reference to the bargaining dynamics of those negotiations conflate *trade politics* (how institutional, distributive and ideological conflicts are mediated through the state) and *trade diplomacy* (how states attempt to defend and further their interests in the international arena). This does not mean that trade diplomacy cannot account for patterns of liberalization. But what we have argued is that closer attention to internal regime dynamics and the constraining effect of pre-existing policy configurations can offer a fuller and more nuanced picture of why, when and how liberalization occurs.

A second lesson centres on the crucial link between political and economic configurations that accumulate around trade regimes and the distributive consequences of liberalization when it eventually arrives. In other words, the politics of who gets what, when and how does not begin with a blank sheet of paper. As we described in Chapter 4, a common theme in the commentary generated by the ATC was the contrast between the 'winners' and 'losers' of liberalization – a theme underpinned by a general presumption, even by those critical of the outcome, that the distributive effects of 'free trade' along with the attendant adjustment costs for less-efficient developing countries were, more or less, a true reflection of comparative advantage and the uneven distribution of factor endowments following the removal of 'artificial' trade barriers. What we argued here was that, in the same way embedded policy regimes accounted for the persistence of sectoral protectionism, the productive capacity of individual firms and countries – and therefore their ability to cope with freer trade – was heavily influenced (but obviously not determined) by the unique regulatory environment inherited from the MFA era – an issue we returned to in Chapters 6 and 7.

A third lesson to be drawn from our study concerns the (not unrelated) point that a focus on the constraining effects of policy institutionalization helps us to appreciate the continuities that often exist before and after trade reform takes place – a nuance that is frequently missed by voluntaristic rational actor models of trade politics. In other words, in our specific case it might

have been tempting to interpret the full implementation of the ATC and the resulting elimination of MFA import quotas as a genuine turning point or, to deploy the language of historical institutionalism, a 'rupture' in the regulation of the T&C sector. As such, it would be argued that while the policy institutions accumulated during the previous regulatory era were important in the period leading up to liberalization and its immediate aftermath, upon the full integration of T&C into the WTO system such sectoral idiosyncrasies are now redundant. But what is particularly striking about the ATC is that the reform of the T&C sector did not lead straightforwardly to the establishment of a free trade regime, as was made abundantly clear in Chapter 5. Rather, what has emerged in this case – and possibly in others cases of trade reform as well – is a mode of international trade that still resembles past, sector-specific patterns far more than the idealized versions of 'free trade' envisaged by the WTO and its supporters – a pattern, furthermore, frequently legitimized with similar concepts and discursive currents to those used previously.

Although these policy continuities were clearly evident in Chapter 5, it might be countered that they were far less evident in the two subsequent chapters – especially in the degree to which the ATC impacted on the policy space hitherto available to support preferential trade regimes such as those that enabled the Caribbean Basin and sub-Saharan Africa to prosper. Another way of reading this, however, is to think about the adjustment costs associated with the erosion of trade preferences not simply, or even in some cases predominantly, in terms of the consequences of liberalization. This process is also bound up with the unravelling of a series of policies regimes – which fostered a particular set of development strategies in preference-receiving countries – inextricably connected to the MFA system. In the case of the Caribbean Basin, this was true not just in the sense that the MFA produced a particular set of market conditions than enabled preferential trade to flourish. It was also true because of the way that garment assembly was integrated into the outsourcing strategies of US import-competing firms. Hence the adjustment costs facing Caribbean Basin garment manufacturers relate not just to the consequences of 'free trade'

but also to the dependencies that accumulated while the MFA was in place, which served to bind the region to an increasingly uncompetitive US industry.

But if this is true in the case of the Caribbean Basin does it also apply equally to SSA? After all, we can recall from the previous chapter that the latter did not benefit from AGOA until the midpoint of the MFA phase-out – and, in any case, most assembly related investment came from Asia rather than the US. To this extent, it can be argued that the African case is analogous to the Caribbean Basin only insofar as the initial presence of quotas (the bulk of which remained in place until the end of 2004) enabled AGOA to succeed. Yet the similarities do not end there. In Chapter 7, we encountered an additional layer of sectoral protectionism also present in the Caribbean Basin case – that is, the relatively high MFN tariffs that escaped from the Uruguay Round relatively unscathed. It is arguably these tariffs – or more accurately the preference margins that they generate – that have enabled garment assembly to remain, at least for the time being, viable.

As for the wider themes tackled in Chapter 7, it is tempting to conclude that the regulation of the T&C sector has now come circle. The Doha Round not only holds out the promise of removing the last vestiges of sectoral protectionism by targeting the high MFN tariffs typically found in T&C for substantial reduction through NAMA. It has also been accompanied by a 'development' agenda, the general thrust of which includes the abandonment of non-reciprocal trade preferences for all but the very poorest countries. For the time being, however, the realization of this vision still appears to be some way off. Indeed it now seems that even the WTO is close to throwing in the towel on the Doha Round. In late July 2011, the WTO Director General, Pascal Lamy, declared that 'what we are seeing today is the paralysis in the negotiating function of the WTO, whether it is on market access or on the rule-making. What we are facing is the inability of the WTO to adapt and adjust to emerging global trade priorities' (cited in ICTSD 2011c). The reasons for this failure are, of course, complex and may not even be related to the issues and controversies explored in this book. But throughout the Doha negotiations we have again seen glimpses

of just how the 'uniqueness' of the T&C sector has encroached on the politics of trade reform – whether it is in the case of the expiry of the US version of GSP or the failure to agree DFQF access for LDCs or obstacles in the way of a successful outcome to the NAMA talks. Now that it looks almost certain that the early promises of the Doha Round will go unfulfilled, we can expect to see further manifestations of this uniqueness for some time to come.

Notes

2 The Multi Fibre Arrangement

1 In 1958, for example, Germany, Austria, Belgium, the Netherlands, Italy, France, Switzerland and Norway concluded the Noordwijk Agreement. The sole purpose of this agreement was to prohibit the re-export to participating countries of finished goods processed from 'abnormally low priced' grey fabrics imported from Asia (see Patterson 1966: 308; Aggarwal 1985: 73).
2 In 1936 China and Korea accounted for approximately 40 per cent of the total of Japan's merchandise exports (see Patterson 1966: 273).
3 This understanding is advocated by a number of sources. Vinod Aggarwal refers to MFA I as 'liberal protectionism', while the GATT Secretariat describes it as 'relative liberalization'; in this view, it was only in the subsequent renewals, when importing countries (especially the EEC) insisted on stricter enforcement of bilateral agreements, that the MFA regime became truly protectionist. This interpretation rests heavily on the fact that the MFA offered more generous market access than the LTA (minimum growth rates increased from 5 per cent to 6 per cent while the definition of market disruption was made more precise) and that, at least initially, the importing countries were less protectionist. However, since better terms of trade were more than offset by greater product coverage (synthetic and woollen as well as cotton fibres), the overall thesis is open to question (see Aggarwal 1985: esp. 26; GATT 1984: 78; Cline 1990: 150, fn. 11).
4 The Trading with the Enemy Act was originally passed in 1917 to enable the US president to 'prohibit, restrict, licence or regulate' any transactions by citizens or corporations of 'enemy' countries operating within the US during the First World War. Despite the ensuring peace the Trading with the Enemy Act was never revoked and even today it is used to prevent US firms from trading with 'enemy' countries, e.g. Cuba.
5 In a series of confidential interviews conducted with industry sources in 2000, the vetoing of the Jenkins Bill was repeatedly cited as the key turning point in the political fortunes of the T&C lobby. The House of Representatives came within a mere eight votes of the two-thirds majority required to override the presidential veto and thus pass the Jenkins Bill

against the wishes of the president. After this point, the T&C lobby displayed an increasingly less influential – though still significant – role in the trade policy-making process.

3 The political economy of trade liberalization in textiles and clothing

1 Confidential interviews, Office of the United States Trade Representative (USTR), Geneva, October 2004.
2 On the eve of the MFA phase out in 2004, a coalition of protectionist forces, supposedly representing 47 developed and developing countries, called explicitly for the suspension of the ATC and the extension of quotas until at least 2008. Although the pressure for continued protectionism was resisted, it did show that even at this late stage many constituencies were still to be reconciled to the prospect of trade liberalization (see Global Alliance for Fair Textile Trade 2004).
3 The redistribution of income did not, however, automatically accrue to domestic producers. Because quotas increase the scarcity of imports, this often led to the generation of 'quota rents' for foreign firms which were able to take advantage of scarcity to demand artificially high prices in restricted markets. For example, Tarr and Morke (1984) allege that in the early 1980s the 'quota rent' accruing to Hong Kong due to US restrictions amounted to approximately US$218 million, equating to between one-half to two-thirds of the estimated cost to US consumers!
4 Confidential interviews with various industry informants, Washington, DC, September 2000.

4 The 'winners' and 'losers' of trade liberalization in textiles and clothing

1 Personal interviews, International Textile and Clothing Bureau (ITCB), Geneva, October 2004.

5 The EU, China and textiles diplomacy under the WTO

1 This anomaly was due, at least in part, to the delay between the signing of the Treaty of Rome in 1957 and the actual establishment of the Custom Union, which was not formally adopted until 1968. For more details, see Alasdair Young (2002: 21–27).
2 This section is based partly on discussions with Anja Lörcher, Trade Lawyer, Foreign Trade Association, Brussels, Belgium, 10 November 2005.
3 Confidential interviews, International Textiles and Clothing Bureau (ITCB), Geneva, October 2004.
4 Under Article Six of the ATC, all WTO members are permitted to use the 'transitional safeguard mechanism' in order to temporarily restrict imports from any source which may 'cause serious damage, or actual threat thereof, to the domestic industry producing like and/or directly

competitive products'. However, this trade sanction is limited in scope and far more difficult to invoke than either the 'product-specific' or the 'textile-specific' safeguard measures contained in China's accession agreement.

5 Confidential interviews, European Commission, Brussels, September–October 2003.

6 The WTO Agreement on Textiles and Clothing and the Caribbean 'offshore' development model

1 The operation of EPZs in the Caribbean Basin and elsewhere was affected significantly when the WTO ban on export subsidies was extended to developing countries on 1 January 2007. The prohibition on export subsidies was agreed to as part of the Uruguay Round and was supposed to come into force in 2003. At the Doha Ministerial meeting in 2001, however, a number of developing countries (including the majority of Caribbean Basin states) requested a four-year extension of export subsidies, which was duly granted. This temporary reprieve notwithstanding, the ban on export subsidies now means than many aspects of EPZ regimes, e.g. tax holidays granted exclusively to exporting firms, are now illegal (for more details, see Granados 2003).

2 The stipulation preventing EPZs firm from selling goods on the domestic market was rendered obsolete when the WTO prohibition on export subsidies came into force on 1 January 2007. See fn. 1.

3 Confidential interviews, various informants in Brussels and Washington, DC, various dates.

4 Confidential interviews, ITCB, Geneva, October 2004.

7 The African Growth and Opportunity Act and the politics of preference erosion in the WTO Doha 'Development' Round

1 Under the WTO the rules governing the granting of legal waivers were tightened up considerably, requiring a 77 per cent majority for approval as opposed to the 66 per cent that was the norm under the GATT 1947.

2 The original expiry date of the 'third country' provision was set at 30 September 2004 but this was extended under 'AGOA III' to 2007 and then again under 'AGOA IV' to 2012

3 AGOA was signed into law on 18 May 2000 as Title 1 of the Trade and Development Act (Title 2 of the Act was, in fact, the CBTPA – the subject of Chapter 6), and has since been renewed on three separate occasions (in 2002, 2004, 2006). Under 'AGOA II' (signed into law by President Bush on 6 August 2002), the 'third country' provision was extended to Namibia and Botswana, and under 'AGOA IV' it was extended to Mauritius also. Presently only Gabon, South Africa and the Seychelles are ineligible for the 'third country' provision.

4 Confidential interviews, industry informants, Maseru, Lesotho, April 2010.

5 Confidential interview, developing country delegation, WTO Geneva, 20 January 2011.
6 Confidential interview, developing country delegation, WTO Geneva, 21 January 2011.
7 Confidential interviews, various informants, WTO, Geneva, January 2011.
8 Confidential interview, informant, UNCTAD, Geneva 19 January 2011.
9 This is in contrast to the Uruguay Round which was based on average percentage reductions which granted members the flexibility to cut rates on sensitive products by a bare minimum – the key reason why T&C tariffs and hence preference margins escaped largely unscathed.
10 Confidential interviews, developing country delegations, WTO, Geneva, 19 and 21 January 2011; informant, UNCTAD, Geneva 19 January 2011.
11 Confidential interview, developing country delegation, WTO, Geneva, 19 January 2011.

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