NC STATE UNIVERSITY

JTATM

JOURNAL OF TEXTILE AND APPAREL, TECHNOLOGY AND MANAGEMENT

Volume 2, Issue 1, Fall 2001

THE WORLD TRADE ORGANIZATION: GLOBALIZATION AND THE LEGACY OF THE MFA

Robert P. Antoshak, Chief Information Officer
Globecot, Inc.

In a last-ditch, eleventh-hour effort, delegates to the World Trade Organization (WTO) on November 14 agreed to start a new round of global trade negotiations despite a lack of consensus concerning textiles. The agreement was made at the WTO Ministerial Meeting held in Doha, Qatar, and sets the stage for global trade negotiations much like the Uruguay Round of negotiations that created the WTO in the 1990's.

After nearly a week of hard bargaining, delegates from the 142 member countries of the WTO announced a deal that was heralded by many of the participants as a much-needed boost to the flagging global economy. At the same time, the deal restored some credibility to the WTO, which has had to endure two years of embarrassment since the failure of the last Ministerial Meeting in Seattle two years ago. That meeting ended in disarray after protesters disrupted the city of Seattle and made the prospects of a deal to proceed with global talks doubtful.

At the Doha meeting, textiles emerged as a key stumbling block to future global trade talks and importing and exporting countries locked horns over textile quota and tariff liberalization. Importing countries, such as the U.S., refused to agree to accelerated quota growth and tariff reductions sought by exporting countries, such as India. Because of this stalemate, trade negotiators agreed to put the textile issue aside in order to not derail overall agreement on proceeding with a new round of global trade talks. Thus, the stage is set for textiles to be a highly contentious issue when the global talks are formally convened sometime in 2004. Informally, discussions have already begun between the major trading countries.

Issues Facing Textiles.

Textiles and apparel became a deal-breaker for many of the participants as the U.S. and E.U. -- the two major textile importers -- signaled an unwillingness to agree to an acceleration of quota growth under the terms of the Uruguay Round Agreement on Textiles and Clothing (ATC). The U.S. and E.U. maintained that they have lived up to the terms of the ATC and have also lowered tariffs as agreed in the Uruguay Round.

U.S. negotiators made the point that the American textile industry had borne the brunt of the ATC quota liberalization and tariff cuts as stated in the Uruguay Round. Over the past two years, the American textile industry has slashed more than 100,000 jobs in an effort to compete with a flood of low-cost imports. Further, both the

U.S. and E.U. insisted that exporting nations have done very little to open up their markets to competition. For example, U.S. and E.U. negotiators explained that under the terms of the Uruguay Round agreement, developing countries were afforded much higher tariff rates than developed countries.

In turn, exporting nations -- led by India -- continue to push for greater market access for textiles. Exporting countries maintain that the ATC has not been implemented by importing countries as set forth in the Uruguay Round. These countries explain that most of the quota liberalization has been put off by importing countries until the last stages of the ATC quota phase-out. They maintain that most quotas will not be eliminated until the end of the transition period in 2005.

For many developing countries, concern has arisen that the way in which developed countries have implemented the ATC has in fact been misleading. At the same time, these countries express outrage that textile tariffs in importing countries remain higher than that for other manufactured products. When confronted by what appears to developing countries as a non-transparent quota and tariff system in developed countries, coupled with sharply declining export sales this year, anxiety runs high in the ranks of exporting nations these days.

Summing Up the Dilemma.

Opposing industry groups at the WTO Ministerial circulated two key position papers that sum up the wide chasm that has emerged between the importing and exporting countries. It is this chasm that will pose what is perhaps the greatest dilemma facing the WTO going forward: developing world expectations versus developed world realities.

One paper was a statement drafted by the International Textiles and Clothing Bureau (ITCB), the key representative group of textile exporting countries based in Geneva. The ITCB statement encapsulates the developing world's angst over textile trade right from the opening paragraph: "We remain deeply disappointed and concerned that major developed countries have not yet delivered on their commitment to liberalize trade in textiles and clothing in any meaningful manner, for developing countries to benefit from."

In response, Euratex, the main European industry association based in Brussels, issued a statement saying, "The EU has scrupulously fulfilled each and every one of its obligations under the Agreement of Textiles and Clothing – ATC – which provides for the staged phasing out of quota restrictions over a ten-year period and which was agreed at the conclusion of the Uruguay Round."

It is this obvious fundamental disconnect in the position of both camps that has the potential of derailing any future world trade talks.

Developing World Expectations Versus Developed World Realities.

As concerns textiles, developing world expectations and developed world resistance to those expectations are strongly rooted in the Multifiber Arrangement, the precursor to the present-day ATC (which provides for the end of all textile quotas in 2005). How importing and exporting countries managed the MFA is key to understanding how textiles has become pivotal for the future of the WTO.

The MFA was originally established as a short-term quota program. It was designed to allow governments to control imports of specific products from specific countries for a temporary period of time. However, over time the MFA was expanded to include more and more countries and, correspondingly, more and more products.

As world trade in textiles and apparel soared beginning in the 1980's, importing country governments, responding to political pressure from their domestic textile and apparel industries, increasingly used the MFA as a means of slowing import growth and to provide those industries with time to re-tool and become more competitive.

But as these governments set more quotas on more products from more countries the result was that trade was scattered across the globe. As quotas were established, many importing firms chased sourcing opportunities to new, non-quota countries. Suppliers, seizing on the economic opportunities, flocked to build more plants to meet demand. This movement of sourcing had the net effect of creating more and more capacity worldwide as buyers sought out new quota-free sources of supply from nearly every corner of the world.

Yet there was an important cross current as well: Ironically, some sourcing companies actually preferred the security of quotas. Chasing non-quota suppliers was not part of their game plan. Instead they wanted the security of knowing that year-in and year-out there would be a guaranteed supply provided by the quotas. To this type of buyer, quotas were not a restriction as much as guaranteed access to a particular market.

However with the end of the MFA and with the beginning of the ATC, quotas for many products have been eliminated. And for those products that still have quotas, each quota grows at an accelerated rate thus making quotas less and less restrictive. Because of this, many of the firms looking for the security of quotas are today shopping the global markets looking for the best price. As a result, many countries have recently discovered that they were in the game only because they had quota – not because they were particularly efficient in producing products.

The Legacy of the MFA.

This, then, is the legacy of the MFA: There are more countries in the textile and clothing business than perhaps would have been the case were it not for the MFA. This has translated into far too much capacity globally which in turn means there are too many producers chasing too few customers. The result? Falling prices. Currency exchange fluctuations aside, global overcapacity is forcing less price competitive producers to exit the market. One look at the Korean or Taiwanese textile industries makes the point. These former juggernauts of the international textile industry are now in severe decline. No longer the low cost leaders and without the security of quotas to bolster them with many customers, these countries are losing market share to other more efficient, lower-cost suppliers – such as China.

For the forces of globalization, the question remaining is will the WTO globalization process have enough goodies for all of the participants? In textiles, at least, it appears it does not. There are a lot of unhappy people, with relatively few winners. Talk with the exporting countries and they are unhappy; talk with the importing countries and it is clear they are unhappy as well. Both sides appear to be dug in.

At the same time, a global shake-out in the international textile and apparel businesses is claiming a staggering number of firms with resulting bankruptcies, unemployment and hardship. This shake-out affects both importers and exporters, both developed and developing nations. The U.S. may have lost tens-of-thousands of textile jobs, but a similar number has been lost in Korea, Taiwan and Indonesia. In order for the WTO to be successful, and for globalization to be realized as a positive force, issues such as international trade in textiles and apparel needs to be settled once and for all.

AUTHOR'S INFORMATION:

Robert P. Antoshak
Chief Information Officer
Globecot, Inc.
Nashville TN 37203
USA
www.globecot.com