

Schmidt, Paul-Günther

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## The Multi-Fibre Arrangement — A Hydra of Protectionism?

by Paul-Günther Schmidt, Mainz\*

Talks are at present in progress in Geneva among 51 industrialised and developing countries on a renewal of the Multi-Fibre Arrangement (MFA) which expires at the end of 1981. The preliminaries of the negotiations have already revealed the existence of massive conflicts of interest not only between the industrialised countries on the one hand and the developing countries on the other but also within the two groups. The talks are moreover overshadowed by threats from individual industrialised countries to resort to unilateral protectionist measures unless a result satisfactory to them is achieved. This situation is the more explosive as the outcome of the negotiations is regarded worldwide as a "landmark for future trade relations between developing countries and industrialised countries"<sup>1</sup>. What is it all about?

It was at the beginning of the sixties that, in particular, Japan, Hong Kong, India and Pakistan expanded their domestic cotton textile industry and began, on an increasing scale, to offer cotton textiles at low prices in the North American and West European markets. The governments of a number of industrialised countries thereupon found themselves under increasing pressure from the manufacturers threatened by these imports who called for protectionist measures. Although GATT provides for the possibility of applying protective tariffs against dumping (Art. VI GATT), to prove that the imports of cotton textiles were in fact a case of dumping would have been a prolonged and often difficult procedure, since the anti-dumping clause demands proof, among other things, that imports are actually priced below the costs of the supplying country. The exporters of these textiles, however, are for the most part typical low-wage countries, so that Art. VI GATT would probably not apply.

Art. XIX of GATT moreover permits emergency measures (customs duties and import restrictions) in the event of impending damage to domestic manufacturers through imports. This safeguard clause, however, has been invoked exceedingly rarely, mainly because it prohibits discriminatory application of protective measures against individual supplying

countries (i.e. such measures invariably affect all countries supplying the product groups in question) and because it permits the exporting countries concerned to revoke equivalent concessions.

Because of a general fear of recourse to unilateral protective measures the GATT representatives initiated multilateral negotiations which, towards the end of 1962, resulted in the conclusion of the *Long-Term Arrangement regarding international trade in cotton textiles (LTA)*. Soon, however, the nature of the problem changed fundamentally. Towards the end of the sixties it was no longer predominantly industrialised Japan that threatened the market shares of Western manufacturers, and it was no longer predominantly cotton textiles that caused the market disruptions. By then it was the developing countries which were increasingly stepping up their production and exports of those textiles which were not covered by the agreement.

From fear of a worldwide relapse into protectionism multilateral negotiations eventually took place, again on the initiative of GATT; thus the *Multi-Fibre Arrangement* of 1973 (MFA I) also regulated non-cotton textiles. This agreement was due to expire in 1977 but, in spite of considerable conflicts of interest and under massive external pressure, was extended at the end of 1977 in

\* Johannes Gutenberg University.

<sup>1</sup> Frankfurter Allgemeine Zeitung, July 1, 1981, p. 14.

the original wording (MFA II)<sup>2</sup>. Admittedly the European delegation succeeded in having a supplementary protocol added which permitted, under special circumstances, temporary, so-called "reasonable departures" from the stipulations of the agreement.

### Aims and Provisions

The MFA represents the only industry-related exception to GATT so far and allows the participating countries certain departures, in their trade in textiles, from the strict principles of free trade. The aim of the agreement is to ensure an orderly development of international trade in textiles, a progressive opening of export markets, in particular to the developing countries, and the avoidance of market disruptions in the importing countries.

The agreement grants member countries the right to resort, under exceptional circumstances, to protective measures against other signatories. These measures, however, it is expressly stated, must not be used for the preservation of outdated structures; they are designed merely to provide temporary relief so that the necessary structural changes in the buyer countries can take place. A prerequisite for the application of protective measures is the causing, by the imports concerned, of a *market disruption*; this is regarded as being the case if the domestic producers have suffered, or are in danger of suffering, an appreciable loss as a result of the imports.

For the determination of a loss, either suffered or expected, a differentiated checklist of market disruption criteria, laid down in the MFA, is used.

In the event of a disruption of the market through imports, within the meaning of the MFA, the textile-importing countries may sign *bilateral export self-restraint pacts* with the supplying countries concerned – a procedure basically incompatible with the principles of GATT<sup>3</sup>. To ensure that the interests of the supplying countries are also adequately taken into account the annual ceilings laid down by such bilateral arrangements should not be less than the level of imports actually achieved in the past and should be increased annually by a certain incremental rate (not less than 6 % unless especially grave circumstances prevail). If, however, appropriate inter-governmental

consultations have yielded no results in spite of the threat of market disruption then *unilateral import restrictions* may be imposed. These may, moreover, – in divergence from Art. XIX GATT – be imposed selectively against specific supplying countries; in that case these countries may not derive from these measures any right to retaliation.

Observation and application of the terms of the MFA are watched over by a *Textiles Surveillance Body* appointed and controlled by the GATT Textiles Committee.

### The EC's Textile Trade Policy

One of the most interesting examples of the practical application of the MFA, and one of the most significant for the export possibilities of the developing countries, is the system of self-restraint agreements negotiated by the EC since 1977 for its member states with 28 supplying countries.

The textile and clothing products imported by the EC member states were divided into six product categories according to their *sensitivity* (EC imports as a percentage of total EC consumption) according to the figures for 1976. Only for highly sensitive products (goods of category 1)<sup>4</sup> does the EC in principle agree fixed ceilings with the supplying countries concerned<sup>5</sup>. To this end the EC has estimated the consumption trend to be expected for the period 1978 to 1982 and derived therefrom certain import volumes for the totality of low-cost countries, volumes which it regards as politically and economically bearable for the EC as a whole (*global ceilings*). These global ceilings perform a dual function. First, these overall import quantities are shared out within the Community in accordance with a definite formula, the so-called *burden-sharing*, in the form of member state quotas. Second, maximum amounts for the individual low-cost countries are derived from the global ceilings. According to the supply capacity of the exporting country and the sensitivity of the product groups, differentiated annual growth rates (between 0.5 and 5 %) were laid down for the agreed ceilings.

The textile and clothing products of EC product categories 2 to 5 are subject to quantitative restrictions in bilateral agreements only if the supplies from the country concerned are regarded as exceptionally high. However, *safeguard clauses* apply to quantitatively

<sup>2</sup> Cf. Susan Strange: The management of surplus capacity: or how does theory stand up to protectionism 1970s style?, in: International Organization, Vol. 33 (1979), No. 3, p. 303 – 334; here p. 314 ff.

<sup>3</sup> Cf. Hans-Dieter Kuschel: Ein Modell für die Tokyo-Runde (A Model for the Tokyo Round), in: WIRTSCHAFTSDIENST, Vol. 55 (1975), No. 1, p. 42 – 45; here p. 44.

<sup>4</sup> These are products with an import percentage in consumption of over 20 %, viz. cotton yarns, cotton fabrics, synthetic fabrics, T-shirts, pullovers, trousers, ladies' blouses and shirts.

<sup>5</sup> Goods of this category alone accounted for over 60 % of EC textiles imports in 1976.

unlimited, relatively sensitive products. If certain threshold values are exceeded for the EC as a whole, or for individual countries, the supplying countries may be requested to impose self-restraint on their exports.

### Demands of the Developing Countries

Representatives of the developing countries almost unanimously regard the MFA as offending against the spirit of a largely liberalised international trade. It was only in the face of the threat of unilateral and intensified restrictions of the international trade in textiles that they yielded to the demands of the industrialised countries in 1973 and 1977. The MFA, and above all its restrictive application since 1977, they argue, has obstructed the appropriate participation of the developing countries in international trade and at the same time prevented an efficient international division of labour. In the textile sector, in particular, they maintain, a large number of products can be produced at much lower cost in the developing countries than in the industrialised countries. Thus the conference of 21 textile-exporting developing countries, concluded in Hong Kong in June 1981, demanded, almost in the form of an ultimatum, the liberalisation of the world textile market and a return to the principles of GATT with a view not only to increasing the urgently needed foreign exchange earnings of the developing countries but also to improving the efficiency of the international division of labour.

There can be little doubt that the arrangements made under the MFA have imposed certain limits on the growth-oriented export promotion strategy of the developing countries. It is also true that the safeguard clause in the supplementary protocol to the MFA of 1977 has resulted, at least within the EC, in the

conclusion of self-restraint agreements which are clearly more restrictive than the agreements of the preceding years. Development so far has moreover shown that the provision for agreement on self-restraint in exports<sup>6</sup>, originally (1973) envisaged as an exception – as under the cotton agreement in the sixties – has become the rule.

On the other hand – as Table 1 shows – the MFA permitted considerable stimulation of export and growth in the underdeveloped economies. Thus the growth rates of textile and clothing exports by the developing countries since 1973 have been perceptibly higher than the growth rates for textile and clothing exports by the industrialised countries. Although they did not quite reach the growth rates for total exports of manufactures by the Third World, exports to the industrialised countries trebled between 1973 and 1979. Since textile and clothing imports by the developing countries lagged clearly behind the corresponding exports, the developing countries in 1979 achieved, in their textile and clothing trade with the industrialised countries, a global export surplus of US \$ 10 bn following an export surplus of a mere US \$ 2.4 bn (1973) and an import surplus of US \$ 1 bn (1964)<sup>7</sup>.

There seems little point in speculating on how international trade, especially the textile and clothing exports of the developing countries, might have developed without the MFA. But, given the actual development of trade between 1973 and 1979, there can be no question of any outright protectionist effect of the MFA.

<sup>6</sup> Cf. Hans-Dieter Kuschel, *op.cit.*, p. 42, 44.

<sup>7</sup> Own calculations based on GATT: International Trade 1968, Geneva 1969, p. 114, and GATT: International Trade 1979/80, Geneva 1980, Appendix, Table 21.

**Table 1**  
**Development of International Trade by Commodity Groups<sup>a</sup>, 1964 - 1979**

	1964 <sup>b</sup>	In US \$ bn		1979	Average annual change in %		
		1973	1977		1964-73	1973-77	1977-79
<b>Total Exports</b>							
– World	172.2	574.3	1,125.0	1,625.0	14.3	18.3	20.2
– Non-oil developing countries	34.7	68.3	141.8	199.0	7.8	20.0	18.5
<b>Exports of manufactures</b>							
– World	98.1	347.5	647.8	941.0	15.1	16.8	20.5
– Non-oil developing countries	5.7	23.2	49.8	78.9	16.9	21.0	25.9
<b>Exports of textiles &amp; clothing</b>							
– World	10.4	35.9	57.7	83.7	14.8	12.6	20.4
– Non-oil developing countries	1.6	7.9	15.1	18.5 <sup>c</sup>	19.4	17.6	22.5 <sup>d</sup>
of these: to the industrialised countries	0.9	5.3	10.1	15.6 <sup>e</sup>	21.8	17.5	24.3 <sup>e</sup>

<sup>a</sup>According to Standard International Trade Classification (SITC), Revision 1 (UN Statistical Papers, Series M, No. 34), Textiles (SITC 65), Clothing (SITC 84); <sup>b</sup>incl. oil-producing developing countries; <sup>c</sup>1978; <sup>d</sup>1977-78; <sup>e</sup>estimated.

Sources: GATT: International Trade 1979/80, Geneva 1980, Appendix Table 21; GATT: International Trade 1968, Geneva 1969, p. 114 f.; own calculations.

### **Demands of the Industrialised Countries**

From the perspective of most industrialised countries the textile trade policy expressed in the MFA seems, if anything, too liberal. The fundamental justification of a limitation of low-priced imports and a further intensification of quantitative restrictions in a new MFA is argued mainly on two grounds. First, the fact that numerous textile and clothing products can be produced at relatively favourable costs in the Third World is said to be only partially the result of "natural" cost advantages. The competitiveness of the developing countries is said to be due to a considerable degree to the fact that most of these countries in the past greatly subsidised the development of appropriate export capacities and continue to subsidise them<sup>8</sup>. The most important factor, however, is said to be the low wage-level which, at least partially, reflects inadequate, state-dictated working and living conditions. To acknowledge this cost factor as a "natural" locational advantage of the developing countries would virtually be tantamount to discrimination against producers in the industrialised countries<sup>9</sup>. And secondly, it is objected by the industrialised countries, any structural change in those branches where greater participation of the developing countries in the international textile trade is justified on grounds of efficiency must take place over a politically and economically acceptable period of time. The limit of tolerable structural change, they argue, has been clearly exceeded since the mid-seventies because of the inadequate efficacy of the MFA.

It is true that numerous developing countries did promote the development of their textiles industries by subsidies, while at the same time protecting their domestic markets against foreign competition. Such measures, however, are largely legitimated by GATT itself<sup>10</sup>. For one thing, the developing countries often had, and still have, to offset the consequences of distortions in international competition, distortions which, especially in the textile sector, originated in the past in the industrialised countries. For another, international textile and clothing trade continues to be characterised by the doctoring of competition, especially by non-tariff trade barriers on the part of the industrialised countries.

<sup>8</sup> Cf. Wilhelm Hardt: Interessen der Textilproduzenten der industrialisierten Länder an internationalen Textilübereinkommen, Rede in der Konferenz der Internationalen Handelskammer vom 27. bis 29. Mai 1980 in Brüssel (The interests of textiles producers in the industrialised countries in international textiles agreements, Address to the Conference of the International Chamber of Trade in Brussels from 27 to 29 May 1980), in: Gesamttextil (ed.): Einige Probleme des internationalen Textilhandels, special issue, p. 7 - 10; here p. 7 f.

<sup>9</sup> Cf. Konrad Neundörfer: Auf dem langen Marsch in den Freihandel (The long march to free trade), in: Gesamttextil (ed.): Einige Probleme des internationalen Textilhandels, op. cit., p. 3 - 5.

<sup>10</sup> Cf. especially Arts. XVIII and XXXVI to XXXVIII GATT.

Thirdly, the industrialised countries, too, had, at the beginning of their own economic development, claimed the right to protect their emerging industries against competition from countries already developed. Fourthly, and by no means last, the scale of direct and indirect state subsidies seems on the whole to be of comparatively slight significance in providing cost advantages for the developing countries. The decisive factor without any doubt is the — by international comparison — exceptionally low labour costs<sup>11</sup>. But to try to justify trade restrictions by the argument of "social dumping"<sup>12</sup> would virtually imply questioning the entire trade of the developing countries.

### **Right to Temporary Protection**

On the other hand, the argument that structural change requires time in order to be politically and economically acceptable cannot be readily dismissed. Western governments cannot simply give up their domestic textile industries within a short span of time. Production factors are simply not completely mobile, and the speed of reaction to adaptation requirements is very low. Hence any structural change invariably entails friction which can only be accepted and overcome both by the economy as a whole and by the political system provided it is spread over a prolonged period of time.

The MFA tries to take account of the purely temporary right to protection of the textile industries of the industrialised countries by the ruling that ceilings for the imports of sensitive products cannot simply be fixed once and for all but that annual increments of import contingents must be agreed. Interested parties in the industrialised countries, however, argue that because of too rigid an application of this regulation the supplemental agreements to the MFA had inadequately served the aim of mitigating and spreading out over time the burdens caused by restructuring.

The seventies did in fact witness in the industrialised countries an exceptionally marked structural change in the textile and clothing sector<sup>13</sup>. Textile and clothing imports by the EC from third countries rose by over 170 % between 1973 and 1979, and the textile and clothing trade, which in 1973 still exhibited an export surplus of US \$ 1.08 bn, showed a deficit of US \$ 4.09 bn at the end of 1979. As the increases in imports were clearly greater than the growth rate of consumption in

<sup>11</sup> Thus total hourly wages in Hong Kong, plus non-wage labour costs, amount to a mere 20 % of West German total labour costs, those of Taiwan to 12 % and those of South Korea to 9 %. Cf. Wilhelm Hardt, op.cit., p. 8.

<sup>12</sup> Cf. also the arguments in Konrad Neundörfer, op.cit., p. 3 f.

<sup>13</sup> Cf. Wilhelm Hardt, op.cit., p. 8 ff.; also GATT: International Trade 1979/80, Geneva 1980, passim.

the Community, the proportion of imports from third countries, compared with consumption, rose from 18.4 % (1973) to 38 % (1979).

### Import-induced Restructuring

Because of this high import pressure, and because the weak growth of domestic consumption in the EC meant only modest quantitative increases, production in the Community declined correspondingly. Textile production still rose by an annual average of 2 % between 1963 and 1973, whereas from 1973 to 1979 it declined by 0.5 % annually. The garment industry, after an average annual production increase of 1.5 % from 1963 to 1973, exhibited zero growth from 1973 to 1979. Because the substantial growth of imports at the same time compelled the textile and clothing industries to achieve above-average advances in productivity, this trend was accompanied by a corresponding reduction in the number of factories and jobs. Since 1970 one in every five factories in the textile and clothing industry in the Community had to be closed down and the number of persons employed declined by approximately one million.

The cause of these striking structural changes cannot, however, be sought predominantly in low-priced imports under the MFA. For one thing, an appreciable part of the additional burden of restructuring imposed on the textile sector in the industrialised countries during the life of MFA I stemmed from the worldwide recession of 1974/75 resulting from the oil price shock. The textile and clothing industries felt the general decline in demand with especial force. For another, production of textiles and clothing has been marked in all industrialised countries by a stagnation of domestic consumption<sup>14</sup>, a circumstance which renders the position of producers in the industrialised countries more difficult quite regardless of import developments. Thirdly, and by no

means least, the greatly increased imports of textiles and clothing into the EC countries since the sixties has only partially been due to the growth of low-priced imports. Thus the increase in imports from low-cost countries (including state trading countries) between 1973 and 1978 accounted for only 42 % of the EC's overall import increases from all third countries. Hence the overwhelming part of the additional burden stems from imports from developed third countries, notably the USA and Japan.

### Discriminatory Regulation of Ceilings?

The import ceiling regulations calculated on the basis of past import volumes are bound to favour those developing countries whose import volumes were already relatively large at the time when the quotas were fixed (1976 for the agreements with the EC). Those countries, on the other hand, whose textile industry was then still being established are – unless some special regulation is made – granted a relatively small capacity for expansion because low imports are taken as the basis for the calculation.

Thus, for example, the textile and clothing exports of Hong Kong and South Korea in 1976 together accounted for 42 % of the total textile and clothing exports of the oil-importing developing countries. It is partly because of these unequal starting positions that only a few developing countries have in fact participated in the development, rendered possible by the MFA, of an appreciable though controlled expansion of exports. As Table 2 shows, the overwhelming majority of developing countries have not succeeded, under the MFA, in increasing their exports to a sufficient degree, by comparison with the major supplying countries, to secure for themselves a greater share in the textile and clothing imports of the industrialised countries.

It does not, however, seem justified to attribute the still unsatisfactory participation of most of the poorer developing countries in the international textile trade *solely* to the provisions of the MFA and its supplementary agreements. The EC, for instance, has

<sup>14</sup> Cf. James R. Kurth: The Political Consequences of the Product Cycle: Industrial History and Political Outcomes, in: International Organization, vol. 33 (1979), No. 1, p. 1 ff.

**Table 2**  
**Exports of Textiles and Clothing by Selected Developing Countries, 1973-1979**

	1973	In US \$ bn 1976	1979	Change in % 1973-79	Distribution in %	
					1973	1979
Hong Kong	1.85	3.48	4.80	159.5	23.4	21.6
South Korea	1.19	2.80	4.66	291.6	15.1	21.0
Pakistan	0.46	0.48	0.81	76.1	5.8	3.6
Brazil	0.32	0.38	0.73	128.1	4.1	3.3
Singapore	0.27	0.36	0.73	170.4	3.4	3.3
Other non-oil-producing countries <sup>a</sup>	3.81	7.60	10.47	174.8	48.2	47.2

<sup>a</sup>Estimated.

Sources: Own calculations according to GATT: International Trade 1979/80, Geneva 1980, Appendix, Table A6; also UN: 1978 Yearbook of International Trade Statistics, Volume I: Trade by Country, New York 1979.

yielded to the insistence of numerous developing countries on higher import quotas by granting them higher incremental rates. In order to make this restructuring of imports possible the EC in 1978 – referring to the supplementary protocol included in the 1977 MFA – froze the import ceilings for the biggest supplier countries (Hong Kong, Taiwan and South Korea) with regard to highly sensitive products or indeed lowered them below the 1976 level.

Developments so far, however, also show that numerous developing countries have, over many years, not fully taken up their quotas. As experience in particular with the Latin American countries shows<sup>15</sup>, an appropriate expansion of exports to the industrialised countries is often prevented by an inadequate exchange rate policy, by insufficient product quality, by import restrictions on necessary high-quality intermediate inputs for their own textile industries and by their inadequate ability or reliability with regard to deliveries. It is therefore difficult to judge whether, or to what extent, the MFA ceiling regulations have in fact over the past few years had a discriminatory effect on the group of poorest developing countries<sup>16</sup>. This problem, on the other hand, is likely to become more topical to the extent that the textile industries of these countries, too, are increasingly becoming competitive. Already the round of negotiations aiming at an MFA III will hardly be able to disregard their demands.

### Import Burden-sharing

Even within the group of industrialised countries there are conflicts of interest and considerable differences of opinion on whether liberalisation or regulation of the world market in textiles should be the aim for the future. These divergent points of view result both from differences in the past growth of low-priced imports and from differing trade policies and interpretations of the extent to which domestic textile and clothing industries are in need, or deserving, of protection.

The industrialised countries involved depend to very different degrees on foreign trade, especially with the developing countries. In consequence those countries which are largely dependent on imports and raw materials tend to be more cautious and reserved whenever trade restrictions are discussed. There are considerable differences also with regard to the redistribution of textile import burdens. Thus the EC in 1979 took up 45 % of the Third World's textile and clothing exports to the industrialised countries; the USA

alone imported 36 % and Japan a mere 14 % of these supplies. Contrary to frequently expressed opinions in the EC<sup>17</sup>, the USA likewise made a considerable contribution to a greater participation of the developing countries in the international textile trade, and between 1973 and 1977 absorbed 41 % of the exports of Third World textile-exporting countries. On the other hand, the proportion of such imports in domestic consumption within the EC is substantially greater than in the USA or Japan, so that there is greater scope in America for additional imports from the developing countries.

### Differences of Opinion within the EC

There are also considerable differences of opinion within the EC<sup>18</sup>. For one thing, the different application of EC self-restraint agreements and the varying readiness to accept imports from industrialised countries by the individual member states has resulted in an uneven development of import burdens and export opportunities on the part of the EC countries. Diverging interests are often based on differences in balance of payment positions. Thus, for example, in 1978 global balance of trade surpluses in textiles and clothing on the part of Belgium and Luxembourg (US \$ 0.42 bn) and Italy (US \$ 4.86 bn) went side by side with deficits on the part of Britain (US \$ -0.93 bn), the Netherlands (US \$ -1.57 bn) and the Federal Republic of Germany (US \$ -4.02 bn)<sup>19</sup>.

For another thing, under the principle of burden-sharing any total quantity accepted by the EC has to be shared out among the individual members. In this process those countries which – like the Federal Republic of Germany – already tolerated comparatively high imports at the time when the quotas were laid down – for example because of a largely liberalised trade in textiles – are systematically disadvantaged. And finally there are also differences of opinion between member states on the extent to which native industries are in need, or deserving, of protection. Italy, France and Britain in particular are now – in contrast to the governments of the Federal Republic of Germany, the Netherlands and Denmark – pleading for an intensification of import restrictions on

<sup>15</sup> Cf. David M o r a w e t z : Clothes for export: not Made in Colombia, in: Finance & Development, Vol. 18 (1981), No. 1, p. 29 - 32.

<sup>16</sup> Cf. *ibid.*, p. 32.

<sup>17</sup> Cf. in particular Wilhelm H a f e r k a m p : Die Situation in der Textilindustrie (The situation in the textiles industry), in: EG Magazin, May 1981, p. 5 f.

<sup>18</sup> Cf. Frankfurter Allgemeine Zeitung No. 58 of 10 March 1981, p. 11; No. 94 of 23 April 1981, p. 13; No. 141 of 23 June 1981, p. 11; also Heinz S t a d e l m a n n : Die Atempause, die zwei Jahrzehnte dauert. Vor einem neuen Welttextilabkommen (The two-decade breathing space. Before a new Multi-Fibre Arrangement), in: Frankfurter Allgemeine Zeitung No. 107 of 9 May 1981, p. 13.

<sup>19</sup> Cf. GATT: International Trade 1979/80, Geneva 1980, Appendix, Table A9.

low-priced imports. The increasingly protectionist attitude of certain countries has already had its repercussions on the intra-EC textile trade<sup>20</sup>.

This of course merely uncovers the symptoms of a short-sighted policy that has been going on for years. Contrary to the aims of the MFA numerous European countries have prevented rather than promoted any far-reaching structural change in their domestic textile and clothing industries under the (supposedly temporary) protection of import quotas<sup>21</sup>. Their present demand for the conclusion of a more restrictive MFA III with "cut-backs" and "negative growth rates" for imports, and their intention to protect this "breathing space" for their domestic producers by a 10-year term of the agreement, proves that in these countries there is still no sign, any more than in the past, of any serious will to carry out structural adjustment. The fact that these countries are, with good reason, shying away from any too obvious limitation of textile and clothing imports from the industrialised countries naturally makes them the more intransigent vis-à-vis the strategically weaker developing countries.

### **Burdens on the Federal Republic**

The problem would seem basically to consist in the fact that even the moderate increase of the market shares of the low-cost countries, aimed at by the MFA, in view of the overall stagnating market, is leading to a marked intensification of international competition among the industrialised countries. The effects of the MFA are therefore particularly marked in those countries which – as the Federal Republic of Germany – in the past permitted a relatively high growth of low-priced imports, have not introduced state subsidies for their own textile industries and in their trade with other industrialised countries decline to apply administrative restrictions. Countries with such a relatively liberal trade policy thus bear the burden not only of low-priced imports but increasingly also of imports from other industrialised countries without having appropriate export opportunities to offset these.

As experience with the agreements of 1962, 1973 and 1977 proves, it has been possible, within certain limits, over the past 20 years to involve the developing countries increasingly in the world trade in textiles and to avoid a spread of unilateral protectionist measures. Although this may be viewed as a success in itself, it

should not be forgotten that the regulation of the world market in textiles was originally thought of merely as an aid to structural adjustment by the industrialised countries and indeed can only thus be said to make economic sense.

### **Need for a Fairer Balance of Interests**

What was, however, omitted was the institution of incentives and constraints which would, if possible, induce all industrialised countries equally to effect structural changes. The artificial preservation of structures, which is instead being practised in many countries, and the general stagnation in domestic textile consumption in the industrialised countries have now greatly exacerbated the problems compared with the state of affairs in 1973 and 1977. The following, therefore, seem of particular urgency:

- A further "breathing space", limited to three to five years, for the textile and clothing industries of the developed countries,
- greater and appropriate participation also of the poorest developing countries in the international textile trade, as well as
- a more just distribution of adjustment burdens resulting from expected low-priced imports among the industrialised countries, and most of all
- progressive abolition of existing subsidies and other competition-distorting practices in the international trade in textiles, above all on the part of those industrialised countries which are increasingly trying to preserve uncompetitive structures.

It is of course doubtful whether the consensus necessary for such efforts can be achieved under present conditions. The strongest pressure for an agreement would probably come from the fact that all the participants realise what is at stake: a relapse into the age of protectionism. Thus it seems the more necessary that the present negotiations should be utilized – by way of an MFA III – to at long last agree upon and mandatorily lay down a strategy on how the necessary restructuring is to be ensured in the medium term on the part of the industrialised countries and how the burdens of restructuring are to be shared out. Such a plan of successive incremental steps, as has proved successful, for instance, in customs negotiations within the GATT framework and in the process of European integration, and as is indeed in rudiments already present in the growth rates for the ceilings in the MFA, should not only prove effective in terms of objectives but should, above all, (still) be capable of achieving political consensus.

<sup>20</sup> Cf. for instance Hans Hartwig: Brüssels Eurokraten züchten protektionistische Sumpfbüthen (Eurocrats in Brussels are growing protectionist swamp blooms), in: Handelsblatt No. 251 of 31 December 1980.

<sup>21</sup> Cf. Heinz Stadelmann, op.cit.