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Konrad Neundörfer\*

## Textiles and Clothing in the Uruguay Round: Current Situation and Future Perspectives

*The success of the entire Uruguay Round of the GATT depends considerably upon the success of the negotiations on the liberalization of world trade in textiles and clothing, since a number of developing countries have made their support for progress in the negotiations on services or safeguards contingent upon progress in this field. What are the present controversies? And what are the chances of resolving them in time?*

There can be no doubt that the Uruguay Round of the GATT, that is due to be terminated by a ministerial conference in December 1990 in Brussels, is currently approaching the "hot" phase of the negotiations. Thus, the 15 negotiation groups are to develop "a complete profile of the final Uruguay Round package" by the next meeting of the Trade Negotiations Committee (TNC) in the week of 23 July 1990. This objective was agreed at the TNC meeting of April 1990 with the intention of ensuring a punctual conclusion of the Uruguay Round by the end of the year. Whether this ambitious goal will actually be attained is recently becoming more and more a matter of conjecture as the politically motivated sabre-rattling is presently very much on the increase. Thus, the US Administration has threatened to walk away from the Uruguay Round talks, preferring no agreement to a bad one, especially as regards one of the main contentious issues, agricultural trade, and in particular what it views as the intransigent position of the European Community in this connection.

A number of developing countries, for their part, have let it be known that they will not be prepared to support tangible progress in the negotiations on services or safeguards if their demands for a quick liberalization of world trade in textiles and clothing are not fulfilled. In the currently prevailing negotiation climate, every sector is suspicious that, in the subsequent course of the deliberations, its own interests will be sacrificed via undue concessions in the generally expected last-

minute horse-trading sessions in order to obtain progress in areas that the respective governments regard as having a higher political priority.

Thus, in spite of repeated appeals and inducements from various government representatives urging a success of the Uruguay Round, influential circles such as the international "Eminent Persons Group" formed earlier this year and chaired by Dr. Otto Lambsdorff have recently warned that the future of the world trading system could be seriously at risk if trading nations fail to reach a framework agreement by the end of July 1990.<sup>1</sup>

### Textile Negotiations Deadlock

The negotiating group on textiles and clothing in the Uruguay Round (NG 4) presently seems to be in something of a deadlock. Quite a number of papers have been submitted by various members of the negotiating group, each containing more or less explicitly formulated demands. However, as might well be expected in such a highly contentious issue as international trade in textiles and clothing, the papers presented by the developing countries vary so widely as regards the demands contained that they have heretofore been generally rejected by the addressees of the demands. To complicate matters further, the USA tabled its proposals at a fairly late stage of the negotiations and these are completely incompatible with the EC approach.

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<sup>1</sup> Cf. Financial Times of 4. 7. 1990, p. 4.

Before briefly describing the salient points of the respective position papers submitted by the various government representatives, Community officials or semi-official developing country groupings, it seems appropriate to recall the mandate given to NG 4 subsequent to the ministerial declaration in Punta del Este in September of 1986 on the occasion of the beginning of the Uruguay Round:

“Negotiations in the area of textiles and clothing 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.”

Not surprisingly, this rather vague wording – which is, moreover, hardly ever correctly or fully quoted in the different position papers for tactical reasons – left ample room for widely diverging interpretations as to the precise meaning of this mandate. In particular, the passage “... on the basis of strengthened GATT rules and disciplines ...” has led to very controversial debates with regard to how it should be understood. Thus, the developed countries and, in particular, the EC tended to regard this as an indication that, for example, the anti-subsidy code of the GATT should be altered in order to make it stricter and give countries suffering from subsidized imports stronger defensive measures. The same goes for a more stringent application of anti-dumping measures or the general safeguard clause of the GATT (Art. XIX) etc. The developing countries, on the whole, question this approach.

#### **Quick Phasing Out of the MFA**

The different positions of the “major players” in the negotiating group on textiles and clothing can easily be summarized. The developing countries are generally in favour of a (more or less) quick abolition of the restrictions of their textile and clothing exports to the developed countries that are currently still subjected to the quota and growth-rate stipulations of the Multi-Fibre Arrangement (MFA). This arrangement, as a legal aberration from the normal GATT rules, has been the basis on which the developed countries have restricted imports from the developing countries since 1974, as a flank protection against the widespread distortions of competition in world textile trade.

Apart from the concession of some transitional safeguard measures, the papers presented by the developing countries typically omit any reference to the second part of the Punta del Este mandate, namely the strengthening of the GATT rules and disciplines. This

omission is frequently justified by the indication that one cannot expect the developing countries to pay twice in world textile trade; firstly by a curtailment of their textile exports subsequent to the imposition of the MFA and secondly by strengthening the GATT rules in connection with the abolition of the MFA. Nevertheless, this argument overlooks the fact that ever since the appearance of the so-called low-cost suppliers, their only preoccupation was to sell as much as possible on the markets of the developed countries while not admitting textile imports from the industrialized countries in return. Subsidization of textile production and/or exports was and still is widespread in these countries.<sup>2</sup>

Thus, very much in this vein, on the part of the developing countries, suggestions for a quick “phasing out” of the MFA were submitted by Pakistan, and in a more moderate form, by a group of developing countries who are members of the so-called International Textile and Clothing Bureau (ITCB) as well as from the ASEAN states. The suggested duration of the transitional regime varied between five years (Pakistan) and ten years (ASEAN countries).

The original text of the suggestion put forward by the negotiating bureau of the developing countries was developed further in the course of the negotiations. Its most important elements are:

- Transitional regime with the objective of a final and irrevocable return of world textile trade to within the framework of the normal GATT rules.
- Preferential treatment of smaller supplier countries, newcomers, and cotton and wool producing countries, as well as the least developed countries.
- At the beginning of the liberalization phase, the restrictions should be abolished, *inter alia* for outward processing traffic, for products not covered by the three main fibres – man-made fibres, cotton and wool –, products not manufactured domestically, handloom products, children's clothing, baggage, etc.
- The remaining restrictions should be gradually suppressed, whereby the fibre type and the production phase should be utilized as decision criteria.
- The growth rates are to be gradually increased and flexibility provisions are also to be enlarged.

<sup>2</sup> See Gesamttextil: Distortions of Competition in World Textile Trade, Volume 7, in: K. Neundörfer, E.-H. Stahr (eds.): Publications on Textile Policy, Volume 7, Frankfurt 1989. For further literature on the topic covered in this article see also L. Gass, K. Neundörfer, E.-H. Stahr: Forward Strategy for World Textile Trade, Volume 8, in: *ibid.*, Frankfurt 1990, as well as K. Neundörfer: The Multi-Fibre Arrangement, in: *ibid.*, Frankfurt 1987.

The transitional phase shall begin on the 1st of August 1991.

### **Strengthening GATT Rules and Disciplines**

The industrialized countries remained defensive at first and continually stressed the connection between the process of liberalization of the Multi-Fibre Arrangement and the strengthening of the GATT rules and disciplines. However, the fact that negotiations on these latter subjects were being dealt with by other negotiating groups, as the subject matter involved was not specific to the area of textiles, soon turned out to be a difficulty for the adequate representation of the position of the industrialized countries.

Shortly before the summer recess in 1989, namely on July 20th, the EC, after protracted internal discussions, finally succeeded in presenting a first concrete negotiation suggestion. In the opinion of the Community, the transition to integration of the textile sector into the general GATT rules must encompass a dismantling of the existing restraints on the one hand and the application of strengthened rules and disciplines on the other. This transition should, for one thing, be progressive and, for another, gradual, i.e. it should "consist of intermediate steps". The date of expiry of this process would be one of the most difficult points of the negotiations. The transition from one stage to the next should be subject to multilateral surveillance. The Community hinted that it was not in favour of converting the restrictions during the transitional period into tariffs, tariff quotas or global quotas. It indicated that the creation of a single market in the EC would be an important contribution to the liberalization process. During the transitional period the textile-specific safeguard clause must be maintained. This clause ought to be developed in connection with the experience gained in the application of Art. 3 and Art. 4 of the present Multi-Fibre Arrangement. The Community also illustrated what it meant by a strengthening of the GATT rules and disciplines, namely

an opening of markets by all participants (taking into consideration non-tariff measures as well as special regulations in the form of the balance of payments clause and the developing-country clause);

the creation of homogeneous competitive conditions, in particular by means of measures in the area of subsidies, anti-dumping, access to raw materials and the protection of intellectual property;

an improved discipline in the area of the safeguard clauses.

Although the improvement of the GATT rules and

disciplines were of a general nature above and beyond the specific area of textiles and had thus to be discussed in the various other negotiating groups it was, nonetheless, important that the textile group should observe these negotiations closely and draw the respective conclusions from the results of these negotiations for its own sector. The objective was to develop a timetable foreseeing the synchronization of balanced commitments by all negotiating parties.

### **Sharp Reactions**

At the same time as the EC, Switzerland also presented a negotiation suggestion which approached the EC position quite closely in a number of important points. Nevertheless, in contrast to the EC position, Switzerland was of the opinion that the importing countries should be able to adopt differing systems with regard to the dismantling of the MFA (stepwise abolition of the quantitative restrictions, introduction of global quotas, replacement of the quantitative restrictions by means of tariffs or tariff quotas).

The developing countries reacted to the propositions submitted by the Community and Switzerland in the September meeting of the negotiating group on textiles and clothing. They again questioned the link between the abolition of the MFA and the strengthening of GATT rules and disciplines as well as the opening of markets on the part of the exporting countries. Any kind of parallelism or synchronization between these two complexes should be rejected. Moreover, the developing countries also clearly rejected the idea that the various importing countries should apply differing systems in connection with a return to the GATT rules or a conversion of quantitative restrictions into tariffs. The EC, for its part, reacted very sharply to the rejection of this link. This was indeed a fundamental element of the EC negotiating position. It was seen as being in agreement with the declaration of Punta del Este and with the conclusions of the mid-term review of the Uruguay Round in Montreal. The outspoken position of the EC in this question did not remain without effect on the developing countries that hinted, in informal contacts, that they were indeed prepared to discuss all aspects mentioned by the Community.

At the end of October 1989, India submitted a very radical proposal for a transitional regime that would already expire on 31 July 1996. Already at the beginning of the transitional phase, it was not to be allowed to introduce new restrictions of any kind. The still existing restrictions were to be gradually dismantled between 1 August 1991 and 31 July 1996, whereby every importing country had to abolish 20% of its restrictions

for each year of the transitional period. For the goods covered by restrictions that have not yet been abolished, there were to be growth rates amounting to 15% in the first year and 35% in the fifth year.

The radical proposal submitted by the Indian delegation naturally did not contain any kind of a link, and was met with a certain reservation on the part of the majority of the developing countries.

### The Global Quota Suggestion

Practically for the whole year of 1989, the USA abstained from presenting suggestions of its own. It was at the end of the year that rumours of an American proposal in the direction of the introduction of a global quota system began to take shape. In the December meeting, position papers were presented, among others, by the Nordic countries (end of the transitional period on 31 December 1999, increase of growth rates from 7% in the first year to 20% in the eighth year) and by Bangladesh (suppression of the restraints for the poorest developing countries).

In the meeting of the negotiating group on textiles on 5 February 1990 the USA finally came up with their "global quota suggestion". During a 10-year transitional period due to begin in 1992 a system of global quotas

that were to have a worldwide effect should be established with gradually increasing growth rates. In the first year, the previous bilateral negotiating partners were to be guaranteed their existing import volume. Besides this, a so-called basket was to be created that was to be at the disposal of all supplier countries. This basket was to be based on the system of import controls. The importers were to be free to obtain their imports from any country in the world they wanted. A system of license auctioning was to be made possible. The basket was to be enlarged annually by means of gradually increasing growth rates or one tenth of the import access previously granted to the single MFA countries, which would be correspondingly reduced.

For the first time, the Japanese also submitted their concept, that contained elements of all previously submitted suggestions.

In spite of the fact that the US proposal was subsequently sweetened by means of a later paper offering an even better access to the US market, the first reactions of the vast majority of the negotiating partners to the American proposal (including the EC, Hong Kong, India and the People's Republic of China) were negative. The worldwide expansion of the existing system of restraints proposed by the Americans was generally seen as being incompatible with the

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negotiating objectives of the Uruguay Round. In the disapproving stance of the EC, the concern of an encroachment on its own exports to the USA and to other industrialized countries naturally played a role, and on the part of a great deal of developing countries it was the dislike of an import control system that would be linked with the loss of the quota premiums that would be replaced by additional incomes to the treasuries of the industrialized countries.

Rather surprisingly, the link with the strengthening of the GATT rules, although mentioned in the US proposal, is not considered as a *conditio sine qua non*, as the US negotiators do not seem to be anything like as adamant on its realization as is the case for the EC negotiators.

Thus, all in all, this "link" is currently the most contentious point because the developing countries, although they seem to be in favour of tackling a liberalization of world textile and clothing trade by means of a dismantling of the MFA, have not yet irrevocably expressed their agreement to strengthen the GATT rules in the above-mentioned manner as envisaged by the EC Commission.

### July Stalemate

In order to prepare the discussions for the July meeting of the textile negotiating group the chairman elaborated a "non-paper" in which it was attempted to reconcile these very varying positions of the main trading partners. However, as the paper contained a great deal of alternative formulations, square brackets (i.e. passages on which an agreement had as yet not been achieved) and because it was largely inspired by the position of the developing countries this "non-paper" did not serve its purpose as a basis for the discussions on this matter.

Thus, the textile negotiations during the July meeting did not succeed in eliminating these square brackets and alternative formulations and led to a negotiating situation that can only be described as a stalemate.

To complicate the situation still further, the newly founded Federation of Large European Textile and Clothing Enterprises ELTAC recently agreed on a new plan with the American Apparel Manufacturing Association for the clothing companies and the American Textile Manufacturers Institute for the textile producers to phase out the MFA over a 15-year period. This plan would include the formation of an international body to regulate the liberalization of world textile trade. It is suggested phasing out the MFA in 5 stages, each lasting 3 years, whereby the new international body

would decide whether to proceed to the next phase. In other words, this body, which would be composed, *inter alia*, of representatives of the European and US textile industries would be in a position to veto a further liberalization of textile trade if it is of the opinion that an opening of markets on the part of developing countries and a general strengthening of the GATT rules has not proceeded far enough.

### Writing on the Wall

Moreover, subsequent to appropriate pressure by the American textile industry, a so-called "Textile and Apparel Trade Act" was recently introduced as a draft bill into Congress (meanwhile the third attempt of this kind) which, if enacted, would usher in a new ice-age in world textile trade and bring the liberalization process in this sector to an abrupt standstill. Contrary to the much more liberal approach favoured by the US Administration in its system of global quotas, the Textile and Apparel Trade Act merely foresees an annual quota growth rate of 1%.

Although the previous legislation of this kind has always been successfully vetoed by the US President, it is rather disconcerting to note that in a "white vote" (i.e. merely carried out in a non-obligatory manner in order to ascertain the majority position) the Senate voted 70% in favour of this draft bill, thus realizing a majority that would be in a position even to override a Presidential veto. Although it is not a foregone conclusion that a similar majority could be mustered up in the final and decisive vote in the House of Representatives of the US Congress, the writing is, nevertheless, clearly on the wall.

It surely cannot be in anyone's interest that the Textile and Apparel Trade Act of the US should become law. The US Administration has clearly expressed its opposition to this bill and it is obvious that it is in complete contradiction to the interests of both European and developing country producers of textiles and clothing.

As regards the future perspectives of the textile negotiations in the Uruguay Round the situation is at present completely open. One can only hope that, in the end, common sense will prevail and that the different contracting parties can be prevented from going it alone irrespective of the interests of the parties, as the US textile and apparel industry is presently trying to do.

In my opinion, the approach of the EC Commission based on a liberalization linked with a strengthening of the GATT rules is the most equitable approach that has as yet been presented and is clearly in line with the Punta del Este mandate given in the ministerial declaration in 1986.