I. TRENDS

Introduction

1. We seek here to identify those trends which are most relevant from the standpoint of evaluating the effects of the Multifibre Arrangement (MFA). For developing country (ldc) exporters of textiles and garments, one key trend to monitor is that which establishes whether, in accordance with Article 1:3, the Arrangement has provided scope "for a greater share for them in world trade in these products". A more ambiguous index is one which measures whether the MFA has helped ldcs (also Article 1:3 and preamble) "to secure a substantial increase in their export earnings from textile products" "Substantial" is often equated with 6 per cent per annum real growth of ldc exports to importing participants though Annex B makes it clear that the 6 per cent is applicable to restrained categories only, rather than to trade overall.

2. Developed country (dc) importers will be concerned to establish trends which establish the success of the MFA in "avoidance of disruptive effects in individual markets and on individual lines of production" (in both importing and exporting countries). 'Market disruption' has never been scientifically defined for use, in MFA bilateral negotiations but is taken (Annex A) to refer primarily to "sharp and substantial increases in imports...." and cases of "countries with small markets an exceptionally high level of imports and a correspondingly low level of domestic production". Suffice it to say here that dcs are looking for trends in the relationship between trade and domestic consumption and production and for evidence of the links between these and other indicators of the state of their domestic industry.

3. Even if appropriate trends can be identified, measurement is also a problem, often serious. First, statistical information is only satisfactory for the first half of the period known as MFA II, negotiated to run for four years from 1977-81 (end-year to end-year), and for the first two years of the five year EEC bilateral agreements (1977-82). The period over which the MFA should be judged will vary, moreover, from country to country. The main US restrictions were imposed in 1973 with some tightening of quotas in 1975 and 1979/80 while the EEC MFA restrictions were not felt in their full force until 1976 and 1977 and until renegotiated more stringently as from 1978.

4. Second, aggregate data is bound to be approximate. Textile trends based on SITC 65 will include jute goods, and other non-MFA items, while categories such as 'developed' (dc) and 'developing' (ldc) country members of the MFA include some dc members which do not impose quotas (such as Switzerland), and exclude some ldcs dealt with outside the MFA (e.g Taiwan). The definition of ldcs is notoriously elastic. On some definitions this includes Southern European countries amongst ldcs (Greece, Portugal, Spain, Turkey, Cyprus, Malta, Yugoslavia and Romania). Naturally this considerably inflates the figures of ldcs more narrowly (and perhaps more meaningfully) defined, and also recent growth of ldc exports since these countries are a rapidly expanding source of supply. Individual ldc exporters are, furthermore, dealt with differently under different arrangements and some are affected more severely than others. Some trade flows are not adequately captured in the trade statistics, such as goods processed 'offshore' or the substantial East West, inter-German, trade.

5. Third, the monitoring of a system of quantitative controls ideally requires quantitative data, but except for a few narrowly defined homogenous categories - say, cotton cloth - trade data are available in value terms and can be reduced to volume changes only with the aid of questionable price indices. And even in apparently homogeneous categories there are subtle changes in quality, and composition, from 'trading up' for example, which crude quantity data mask. Despite these difficulties several features of recent trade in textiles and clothing can be discerned.

Importance of Trade in Textiles and Clothing

6. Several broad trends can be discerned from a general overview of the role of trade in textiles and clothing items. First, (Table 1) it is becoming less important in relation to manufactures as a whole: 8.9 per cent of world manufacturing trade in 1979 as against 10.4 per cent in 1973 and 11.3 per cent in 1955. This would partly be due to relative price movements and also to slower income elasticity of demand, but the more rapid decline after 1973 is probably attributable to the effect of quotas on reducing the growth of world trade in these items. Second, within the sector there has been a marked and continuing shift from textiles to clothing. Fibres figure very much less prominently in trade measured by value reflecting both the relative decline of the traditionally exported natural fibres and the tendency towards downstream processing in former commodity exporters. Third Table 2

brings out the considerable importance of exports of textiles and clothing to ldcs in relation both to overall manufactured exports and to non-oil exports generally.

LDC Share of DC Imports

7. One of the most striking trends, and one of most concern to ldcs, given the objectives of the MFA, is that after a long period in which the relative competitiveness of ldc exporters was reflected in an expanding share of world exports and of dc imports, the share of ldcs has stagnated since 1976 and, for ldc members of the MFA, has fallen (Table 3). GATT figures (Table 4) excluding intra EEC trade (a large and rapidly growing component of world trade) show the ldc share of world exports of textiles and clothing to have stabilised at around 42-43 per cent in the four years 1976-79, having risen from 36 per cent in 1973. Their share of world clothing exports has fallen over the four year period from 58 per cent to 56 per cent while that of textiles has risen from 32 to 34 per cent. The share of ldcs in the imports of dc members of the MFA (of textiles and clothing) has similarly stabilised at around 55-56 per cent overall after a rise from 48 per cent in 1976. Preliminary data for 1980 suggest that the ldc share has again stagnated. But these figures include non-members of the MFA, particularly Southern European 'low cost' suppliers. The share of developing country MFA members in imports of dc members has fallen, each year, from 40 per cent in 1976 to 37 per cent in mid-1980 and of clothing from 54 per cent to 47 per cent. The deterioration has occurred mainly in the EEC and the smaller importing countries.

8. These trends are thrown into sharper relief when we consider incremental shares of imports by developed members (Table 5). Ldc members achieved 62 per cent of the incremental share of clothing imports and 36 per cent of textiles' imports in the 1973-76 period but only 43 per cent and 24 per cent respectively in the 1976-79 period. They lost mainly at the expense of developed countries (even excluding intra EEC trade) - and to a lesser extent to ldc and Eastern trading area non members. Even if we take the whole 1973-79 period, the import share of ldc members is actually less in 1979 than 1973 (52.9 per cent from 56.5 per cent) and barely more for textiles and clothing (41.1 per cent from 39.5 per cent). The most obvious explanation for the trends observed is that a tightening of quotas on MFA ldc members in the late 1970s has led to process of export substitution,

a switching from restrained ldc to non-restrained dc or ldc suppliers (mainly the former). Thus whatever else may be claimed for the MFA, at least in its later-MFA II years, it has failed to realise a greater share of world trade for those ldcs which have adhered to it.

Real Growth

9. We turn now to the question of how successful the Arrangement has been in obtaining for ldcs a "substantial increase" in export earnings. This is an area where it is easy to get lost in the statistical and semantic undergrowth. But the arguments are important since dcs are seeking cuts in the growth provision. They will argue, and be able to show, that ldc MFA members as a whole have been able to achieve 6 per cent export growth at constant prices since 1973, and close to 6 per cent for the more restrictive MFA II. To this, ldcs will need to be able to demonstrate that constant price growth is not the same as volume growth, and that neither adequately reflects the unsatisfactory position for ldc textile and clothing exporters in terms of the real value of their earnings. Let us take each point in turn.

10. It is extremely difficult to obtain price indices which accurately 'deflate' the current values of traded textiles and clothing for various reasons: the products are extremely heterogeneous; product composition varies over time; data on unit values of imports and exports are very patchy and rarely differentiate between sources of supply or between quality and price changes. GATT has tried to deflate world trade in these products to constant 1973 prices and concluded that it increased by 6 per cent p.a. on average in the 1973-76 period and 5 per cent in the 1976-79 period (albeit with very substantial variations from year to year). Imports into dc markets were calculated at 8 per cent and 7 per cent p.a. growth respectively. Ldc member imports to dcs grew by an estimated 12 per cent p.a. in the 1973-76 period, greater than imports as a whole, but by roughly 5 per cent in the 1976-79 period, less than for imports as a whole, a tendency apparently sustained in 1980 so far as current data extend (Table 6).

11. There are however three reasons for believing that the constant price figures overstate volume increases for ldc exports. First, as GATT acknowledges, the crude unit value indices have the effect of over-estimating the constant price values of ldc exports since "the recent price increases (on dc trade flows) appear to be, on average, higher than those.....

(in ldc flows)". Second, the price indices show increases not only because of inflation but because of monopoly rents from VER quota control in exporting countries. This cost, to consumers, from protection also leads to an overestimation of import volumes. Third, over time, suppliers try to upgrade their products from lower to higher priced items in order to maximise gains under quotas as well as generally to improve unit values. Not, of course, that this upgrading, or the monopoly rents, are in themselves unwelcome to ldc exporters - on the contrary - but nonetheless they do have the effect of inflating 'constant price' data. Statistics now available from both the European Commission and the USA bear out what we might have expected from the above: that volume import growth from ldcs is considerably less than the constant price indicators might suggest. The EEC data show that, in the period 1976-79, "low cost suppliers" achieved only 4 per cent annual volume export growth to the EEC, while MFA exporters under bilateral agreements achieved only 2.4 per cent. Total imports grew 5.7 per cent by volume and those from industrial countries by 9.9 per cent. The US data are more difficult to interpret since there are major discontinuities from one year to another, but textile and clothing volume growth over the period 1971-79 was an estimated 3.8 per cent p.a. for all ldcs and volumes imported actually fell between 1976 and 1979 (see Tables 7 and 8).

12. Even if we treat real changes in ldc textile and clothing earnings as incorporating both volume changes and unit value changes arising in commodity composition and quota premia, these earnings need to be seen in the context of what they will buy. For this reason it has been argued that a proper measure of the real earnings of textile exporting ldcs needs to incorporate a price deflator for ldc imports; in short, to incorporate barter terms of trade effects. All non-oil ldcs have experienced substantial terms of trade deterioration because of higher oil prices but since we are here concerned only with dc-ldc trade a deflator which incorporates price changes for dc manufactured exports (or if obtainable specifically for dc manufactured exports to ldcs) would be appropriate. In general the unit values of textiles and clothing items in international trade have fallen conspiciously behind those of manufactures in general. If a deflator is applied which captures these effects, albeit approximately, ldcs are seen to have achieved 'real' growth of exports of clothing to dcs of 14.4 per cent p.a. in 1973-76 declining to 4.6 per cent p.a. in 1976-78. For textile the relevant figures are - 0.4 per cent increasing to 2.5 per cent. Thus,

the picture is one of import growth in the post-1976 period being well below 6 per cent on a meaningful measure of 'real' changes. A further point could be made which reinforces this conclusion. All analysis has been conducted so far in terms of constant US $ deflated with various indices. However the US $ depreciated significantly against other major currencies particularly between 1976 and 1979, thus a redefinition of the purchasing power of ldc exports in terms of a weighted basket of major Western currencies would be even less satisfactory, at least for this period.

Balance of Trade

13. We have considered, so far, textile and clothing exports from ldcs to dcs in isolation from other trade flows and from the balance of trade. But there are reciprocal flows, of textiles, fibres, machinery, chemical dyes and clothing. In the normal run of events it would be a desertion of elementary economic principles to compute 'gains' and 'losses' in trade from balances calculated from bilateral flows and for particular products arbitrarily defined. The benefits of trade are, after all, primarily those derived from its inter-industry and multilateral character. However, the MFA has little to do with economics and since it is based upon bilateral regulation of trade in particular products its own peculiar conventions of fairness call for some examination of trends in the narrow balance of transactions (though ldc critics of the Arrangement should never cease to point out the absurdity of this enforced bilateralism).

14. As is shown in table 10 there is a marked contrast between dc-ldc trade in textiles and clothing. Dc members of the MFA run a trade surplus in textiles half or more of which is accounted for by ldcs. By contrast dcs run an increasing deficit in clothing almost all with ldcs. The overall textiles and clothing deficit of dcs (mostly accounted for by ldc members of the MFA) has risen from $2.1 bn in 1973 to $5.0 bn in 1976 and $9.8bn in 1979. Various qualifications need however to be made of these figures. First, the trade balances are in current prices and the increase in the ldc-dc trade deficit between 1976 and 1979 is halved once we apply a deflator which gives us a better measure of the real purchasing power of the foreign exchange earned. Second, the aggregate figures for dcs (and ldcs) and for groups such as the EEC are misleading since they conceal considerable variations (Table 11). Two dcs, Japan and Italy, are substantial net exporters of textiles and clothing together. These two are major beneficiaries

of 'export substitution', from quotas imposed in a discriminatory way on ldc members of the MFA. By contrast, a large part of the total dc trade deficit in the sector is accounted for by two countries, Germany and the USA which run very large deficits (over $4 bn. each in 1978 and 1979) largely on the clothing side. The same broad pattern is common also to the UK, Austria, the Netherlands, and Switzerland. The picture is completed by those dcs which run large deficits in both textiles and clothing (Australia, Canada, New Zealand, Sweden, Norway, Denmark). A third point is that trade balances are rather arbitrarily computed on the basis of categories SITC 65 and 84. Not only do these include some ldc exports which are not MFA items (e.g. handknotted carpets, jute and sisal products) but, more important, they fail to incorporate inputs to the textile and clothing industries, some of which are directly consequential upon the exports of the final or intermediate products. In 1978 (Table 12) well over half of the ldc surplus on clothing was offset by deficits on textiles, dyes and textile machinery, the last named being a major item. Thus, the dcs 'deficit' in this sector is substantially offset by reciprocal flows, many of them excluded from a crude textiles and clothing 'balance'.

Market Penetration

15. Although the level of market penetration is not in itself a satisfactory ground for justifying allegations of market disruption (rather than the rate of change of imports in relation to the home market) 'market penetration' rates have become a crucial ingredient in developed country arguments. Since the concept is so widely deployed it is important to understand its use.

16. Import penetration is usually measured by the extent to which apparent consumption (production less exports plus imports) is met by imports. Ratios are normally calculated in terms of value, but if possible in terms of volume since values may understate the effects of imports, if 'low cost', on output and employment. Ratios may also underestimate import penetration because of doublecounting in the figure for domestic production. But there are also reasons for believing that in some respects import penetration ratios exaggerate the problem. First, they deal with imports only. But open economies characteristically have high and growing import penetration ratios, and high and rising export sales ratios at the same time and for the same sectors and branches. It is not unknown to find industrial branches in which import penetration is close to 100 per cent (gloves in the UK) but which

have successful firms producing entirely for export. A great deal is often made of high penetration in particular subsectors, such as the UK's 60 per cent in woven men shirts, but this may mean little if other subsectors, let alone industries, have substantial exports in relation to sales. Second, imports, exports and production are assumed to be fully substitutable and competitive. Even at a very disaggregated level this is unlikely to be the case, because of specialised tastes and fashions in clothing and because of large discrepancies in prices between imports and home products. Some imports are necessary inputs to the next stage of processing. Thus, import penetration ratios can overstate true market penetration. Third, it is questionable whether the calculation should be carried out in terms of volumes of goods rather than values at all. Producers in Western economies are not concerned with quantity for quantity's sake, but also (or primarily) with value added, and this should be reflected in the overall estimation. By contrast, ratios calculated in value will underestimate the effects of import penetration on output and employment where imports are highly competive with domestic production of higher unit value.

17. An attempt is made, in Table 13, using World Bank data, to produce import penetration ratios for the main OECD countries, for a variety of subsectors. The ratios are calculated in value terms (which may lead to underestimation) but are also of large categories (which may incorporate a fair degree of non-competing trade). One comparison of particular interest is that between the EEC and the USA since the sense of grievance in the EEC - that the Community is carrying an 'unfair burden' - has been a potent force behind the demand for tighter controls in the Community. Over the period 1970-77 import penetration from ldcs to the EEC has risen from 3 per cent to 7 per cent for textiles and 5 per cent to 19 per cent for clothing (as against overall import penetration rates of 21 per cent increasing to 32 per cent - textiles - and 23 per cent to 47 per cent clothing. Import penetration levels, as regards ldcs, are lower in the USA, the increase being from 1.3 per cent to 2 per cent - textiles and 2 per cent to 7 per cent clothing. But this in part reflects a much lower level of import penetration overall; from 6 per cent to 5 per cent (i.e. a decrease) for textiles and 4 to 8 per cent for clothing. It also leaves exports out of the reckoning, and as we have already seen the EEC has very much larger exports in relation to imports than the US. There are, moreover, important differences within the EEC. Import penetration ratios for textiles and clothing (from ldcs) are significantly lower in France and Italy than the USA, while the

ratios in the UK and Germany are much higher (in 1977, import penetration in the UK by ldcs was 7 per cent for textiles and 19 per cent for clothing and in Germany 7.5 per cent and 25 per cent respectively). We can also see from Table 14 that if we take a crude overall measure of market penetration - $'s of imports per capita or per $1000 of GNP - that the US and several major Community members have relatively low 'burden' levels though Britain, Germany, Denmark and Holland, like Sweden, are well above average.

18. The trade ratios can also be used to tell us something about particular textile and clothing products in which ldcs have been successful and have demonstrated a strong comparative advantage. The most striking levels of import penetration by ldcs (Table 15) are in categories which are both obscure and/or comprise products which are normally regarded as non-competing, and fall outside the MFA: textile waste and fibres for textile use; clothing accessories; handknotted carpets; cordage and twine (incl. sisal items); leather clothes. Important textile categories in both the USA and the EEC enjoy low import penetration from ldcs and are exported: wool fabrics; machine made carpets; products of knitting mills; yarns in general; manmade fibre fabrics; miscellaneous textile items (industrial textiles, bonded fabrics etc). Major categories in which ldcs do have a significant market share are the main clothing items, cotton fabrics (mainly of greys), and some made-ups. It is in these areas that ldcs can meaningfully be said to have a significant comparative advantage, rather than, as is often more dramatically portrayed, in the whole of the textile and clothing industries.