

Post-Multifibre Arrangement Adjustments and China: After all, the Emperor is wearing no new clothes?

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The trade regime in textile and apparel appears to be emerging in ways which are quite different from what had been widely anticipated before the termination of the Agreement on Textiles and Clothing (ATC). Since the end of ATC, there has been growing and spreading set of trade restrictions targeted primarily at China, the largest shipper of textile and apparel, through a series of adjustment resisting agreements. This policy brief discusses the evolution of these agreements and draws parallels to those under the older Multifibre Arrangement (MFA). It is argued that there is potential for these restrictions to be prolonged and grow, as well as spread to other products through the product-specific safeguards mechanism included in the conditions of China's World Trade Organization (WTO) accession. The brief draws from a longer paper by Dayaratna-Banda and Whalley (2007).

BACKGROUND

For 33 years following the negotiation of a one year short-term agreement on cotton textiles by the United States of America with Japan and four other Asian suppliers, the global trading system

generated a spreading entanglement of trade restrictions on textile and apparel exports from developing countries whose main purpose was to show the adjustments in the Organisation of Economic Co-operation and Development (OECD) labour markets from growing imports. The resulting MFA of 1974 grew to oversee export growth rate quotas in OECD markets for an ever expanding group of developing country suppliers. Under the successive MFAs, country and product coverage expanded as did rules to deal with trans-shipment and other responses to the quotas. A wider range of unintended effects of the quota regime emerged including quota-hopping foreign investment, quality upgrading, distorting effects of internal quota allocation schemes within exporting countries, and others.

The MFA was dismantled at the end of 2004, after a 10-year implementation period following the conclusion of ATC as part of the Uruguay Round. Much speculation had surrounded what its demise might bring, ranging from extensive use of anti-dumping duties in developed countries to negotiated market sharing agreements for exporters in each key import market, following the precedents set for steel imports in the 1980s.

Table 1. United States apparel imports: volume (sq metres) change and volume share

Shipper	2005 volume change (%)	2006 volume change (%)	2004 volume share (%)	2005 volume share (%)	2006 volume share (%)
World	10.32	2.41	100.00	100.00	100.00
China	97.93	10.58	14.90	26.73	28.86
Mexico	-10.17	-13.29	9.50	7.74	6.55
Bangladesh	19.59	16.19	4.72	5.11	5.80
Honduras	4.03	-8.88	6.01	5.66	5.04
Indonesia	17.07	23.04	3.53	3.74	4.49
Viet Nam	3.13	18.22	3.89	3.64	4.20
Cambodia	11.87	18.69	3.18	3.23	3.74
India	29.68	6.34	3.05	3.59	3.73
El Salvador	1.57	-16.66	4.27	3.93	3.20
Pakistan	11.28	16.42	2.60	2.63	2.98
Philippines	1.00	13.55	2.57	2.36	2.61
Dominican Republic	-6.04	-18.39	3.82	3.25	2.59
Thailand	0.69	5.54	2.67	2.44	2.51
Hong Kong, China	-19.27	-12.27	3.70	2.71	2.32
Sri Lanka	9.32	-0.71	2.08	2.06	2.00
Guatemala	-6.58	-8.91	2.50	2.12	1.89

Source: Dayaratna-Banda and Whalley (2007).

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CHINA AND THE POST-MFA

The post-MFA regime seems to be emerging in ways which are quite different from what had been widely anticipated. While there has been some increase in the use of anti-dumping measures in the textile and apparel area, the unanticipated twist has been a growing and spreading set of trade restrictions primarily targeted at China, the largest shipper. These arrangements have each been implemented under China's WTO accession agreements of 2001. Under the latter, China agrees to the trading partners' use of measures which constrain import surges until 2013. Presently, these involve higher growth rate quotas than the MFA quotas they replace, but their product coverage is in some cases more restrictive, and the number of countries using them against China is growing.

After the termination of the MFA, exports of clothing initially surged substantially to both the United States (US) and the European Union (EU) markets and the largest percentage and absolute surges came from China. By late summer of 2005, the US, responding to pressures from domestic producers, used threats of import bans to force China to accept new growth rate quotas. While these were at growth rates higher than MFA quotas and covered fewer products, they were still restrictive and significantly slowed further trade growth. Early autumn 2005 saw similar agreement between the EU and China, and the list has since grown to include Mexico, Turkey, Brazil, Peru and Canada as other importers. The EU/China arrangement has become more complicated due to impounding of over quota China imports, and the counting of imports later released from warehouses against later year quotas.

There has already seemingly been behavioural response to these quota regimes reminiscent of what the MFA produced. The difference is that instead of a world divided by a quota wall between developed and developing countries, it is now a quota wall set to contain the largest shipper. Thus, trans-shipment is an issue. Also, internally within China quotas are allocated by a pricing scheme, and fear of bogus quotas forces Chinese shippers to ship quickly. The Chinese quota in the EU in 2006 was nearly fully used by mid-summer, and in 2007 the same applied. Quota hopping foreign investment by Chinese enterprises for effective shipment to the EU is also evident. In short, many responses to the forerunner MFA now present themselves but in a transformed guise.

The spread of these arrangements is seemingly restricted by the WTO process itself, but countries undergoing or with completed WTO accession seem likely to follow a similar course if their shipments grow.

THE NEW CHINA TEXTILES AGREEMENTS AND CHINA'S WTO ACCESSION

The new restraints on textile and apparel exports against China stem from the terms of China's accession to the WTO in 2001. No country acceding to the WTO had been asked to take on as many concessions as precondition for accession. China agreed to these tough accession terms seemingly to get WTO membership as a mechanism for speeding domestic policy reform; allowing reformers to cite international agreements as a way of countering domestic anti-reform political pressures. Under the

terms of China's WTO accession protocol, there were a series of provisions related to textile and clothing. These included:

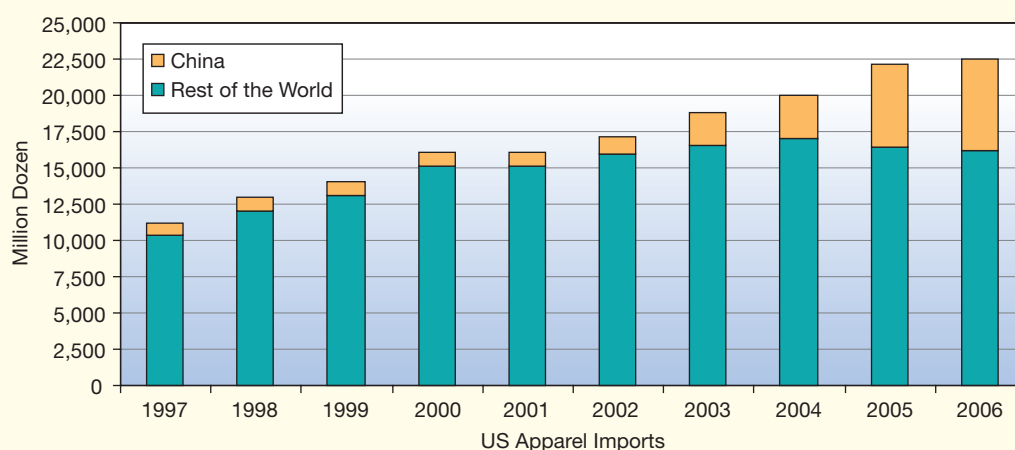
- a. Continuation of the provisions of the ATC signed in 1995 under which the MFA restrictions were to be phased out by 1 January 2005. The special safeguard mechanism included in the US-China agreement on China's WTO accession aimed to prevent a surge of imports from China was to remain in effect until 31 December 2008. In effect, the MFA safeguard restrictions remained in place against China even though the MFA had been abolished.
- b. Product-specific safeguards which allowed for restrictions to prevent market disruption caused by any specific products and were to remain in force for 12 years after Chinese accession. The determination of market disruption and resulting actions according to this provision is both unilateral and bilateral. In case of market disruption (actual or potential), the affected WTO member can request consultations with China to seek a mutually beneficial solution. If consultations do not lead to an agreement within 60 days of receipt of the request, the WTO member is free to impose unilateral restraints. In critical circumstances, where delay would cause irreparable damage, the affected WTO Member can take provisional safeguard actions, and request for consultation with China.
- c. China may be treated as a 'non-market economy' in anti-dumping and countervailing cases for 15 years after Chinese accession, a provision going much beyond textile and apparel, and the source of subsequent Chinese activity to reverse it. This provision allows discriminatory treatment in the case of countries, such as China, that have a complete or substantially complete government monopoly over international trade and where all domestic prices are fixed by the State. Authorities administering anti-dumping legislation and investigations can take advantage of this provision to reject information provided on costs and prices in China.

In the seven years since accession, China has been involved in a large number of trade disputes and more WTO anti-dumping suits have been filed against China than any other country. In 2002, 540 suits covering 4,000 products and involving 33 countries were filed against China. In 2005, 23 out of 105 new cases and, in 2006, 32 out of 87 new suits were filed against China.¹ This has led some to suggest that China's terms of accession to the WTO has created a difficult situation, as China has to cope with tough anti-dumping measures contemplated or imposed by importers, which are easier to obtain against a non-market economy (Yeung and Mok, 2004).

IMPACTS OF THE NEW CHINA AGREEMENTS

The impacts of the new China agreements parallel those of the MFA which preceded it. The large volume and share surges into the US and EU markets which occurred in 2005 have been much reduced in percentage terms in 2006 (see Figure 1). But, despite this slowing and restraint by quotas, the volume of US apparel

¹ See WTO Statistics Database; <<http://stat.wto.org/>>.

Figure 1: The Surge of US Apparel Imports from China, 1997-2006

Source: www.emergingtextiles.com

imports still increased in 2006 due in large part to surges in products not covered by the Agreement. Shipments in restricted categories were lower while still surging in unrestricted categories of products.² In index terms (2004 = 100), imports increased to 198 in 2005 and to 219 in 2006 reflecting only a slight increase in 2006 compared to 2005. In value terms, the same index increased to 170 in 2005 and to 207 in 2006, a 22 per cent increase in US apparel imports from China. Imports only increased by 2.41 per cent in 2006 in volume terms compared to 10.21 per cent in 2005. China accounted for about 17 per cent of growth in the US markets between 2004 and 2006, while shipments from rest of the world fell. Africa experienced double-digit decline of apparel exports to the US in volume terms. Central American countries recorded a significant decline of apparel exports to the US in 2006. Although other Asian countries such as Bangladesh, Indonesia, Viet Nam, Cambodia, Pakistan, and Philippines all saw double-digit growth, India only grew by 6.34 per cent (Table 1). In restricted categories, China's share in the US markets remained at 25 per cent in value terms and 28 per cent in volume terms in 2006, but shares in unrestricted categories of products rose from 26 per cent in 2005 to 46 per cent in 2006 reflecting a substantial growth.

Import surges from China in the first half of 2006 showed that the restrictions imposed by the September 2005 Agreement were largely ineffective to safeguard market disruptions by Chinese exports and the EU Commission accepted requests from domestic producers for reopening an investigation in order to lift anti-dumping restrictions in December 2006. Interest in further renegotiation of the September 2005 Agreement has been largely driven by EU countries.

A notable issue with these arrangements, as with the MFA, has been trans-shipment of textile and apparel products to the US and EU despite specific provisions to prevent circumvention by trans-shipment, falsification of documents, and any other means. Many different schemes appear to be used to evade duties or quotas for textiles exported to the US and EU. These include forging of country of origin documents, using of false documents or labels, and providing incorrect descriptions of merchandise.

Some US producers have suggested that Chinese manufacturers illegally trans-ship textile and apparel products, especially through Indonesia and African countries covered by the African Growth and Opportunity Act (AGOA).³ The Indonesian Government delivered a formal complaint on the issue of illegal trans-shipment to the Chinese Government while the US and the Philippines signed an agreement to prevent such trans-shipsments.⁴

The use of third countries to ship Chinese textile and apparel products to the EU has also been an issue. China's exports to Bulgaria and Romania increased by 648 per cent and 836 per cent respectively in 2006, in order to re-export products to the EU after quotas were re-imposed. Hong Kong, China adopted the modified control arrangements for its apparel exports to the EU on 15 March 2006 to prevent illegal trans-shipment (Xinhua, 2006).⁵

Another impact of these China containment agreements (CCAs) as of the MFA is emergence of quota-hopping overseas investment by Chinese companies. It is reported that some manufacturers have started overseas investment to face the new quota regime.⁶ Ningbo Shen Zhou Group, a larger apparel manufacturer in China, planned to invest about US\$33.8 million in Cambodia in 2006 to build plants that manufacture 230,000 pieces per day. Some producers have chosen Southeast Asian (Malaysia, Indonesia) or African (Nigeria) destinations for investment. China's Minister of Commerce also announced in March 2006 that the Government would offer assistance to domestic firms to establish Textile and Apparel Cooperation Zones (TACZ) in developing countries (China Daily, 2006), a move that would likely enhance quota-hopping overseas investment by Chinese companies.

CONCLUSION AND UNSOLVED ISSUES

The structure of the new China Agreements has thus shown many of the evolutionary features of the MFA it preceded. It has seen progressive expansion of country coverage generated unintended

³ See [Bilaterals.org](http://www.bilaterals.org): Everything that's Not Happening at the WTO: <<http://www.bilaterals.org>>; and <<http://www.emergingtextiles.com>>.

⁴ See <<http://www.emergingtextiles.com>>.

⁵ Ibid.

⁶ See Danmex China Business Resource; <<http://www.danmex.org>>.

² For comprehensive data, see <<http://www.emergingtextiles.com>>.

effects of trans-shipment, quota-hopping foreign investment, and quota rushes. These agreements can perhaps be interpreted as a symbolic political concession to protectionist interests in OECD.

On further reflection, however, other scenarios arise, such as the use of product specific safeguards against China and on products not limited to textiles and apparel, as this is allowed under the accession terms until 2013. The text of the accession terms of China gives little indication that there could be restraints on the use of the safeguards in this way. It would then be the threat of their use by key importers from China that would force negotiation of new quota and quota growth agreements. If such a scenario comes to pass, the prospects for more of the same in terms of the growth in arrangements and their unintended effects would seem likely. More importing countries would likely be added to the list of countries seeking such agreements, with more trans-shipment, quota-hopping investment and quota-rushes occurring than is currently the case.

Another scenario involves sharply elevated use of anti-dumping petitions in key importing markets, as had occurred over the years in product areas such as steel. These could be coordinated by industry groups in importing countries so that the volume of imports could cause major problems for administrative tribunals, and the offer of withdrawal of petitions could be used as negotiating leverage for a new restraint regime. In the past, some have gone so far as to suggest that such a mechanism could be a vehicle for a set of market-sharing arrangements under which the share of China in key import markets would be restrained. Once again this would generate incentives for trans-shipment and quota-hopping foreign investment, described above.

Because of the removal of restraints on exporting countries other than China and an initial surge in Chinese exports between the end of 2004 and the introduction of the mechanisms in mid/late 2005, the prospects for further adjustments may be reduced. However, whether the CCAs are merely a stepping stone towards a transmuted version of "more of the same", or a politically convenient "fig leaf" for a move to freer global trade will remain "the issue" until 2008 and beyond. This adds to concerns already raised on existence of a bias in the existing trading system under

the WTO which works against developing countries exporting to their potential. Even more worrisome for developing countries' policymakers should be a possibility that the same system of containment agreements/accessions conditions is followed in other sectors where their economies exhibit clear comparative advantages. Given the status of talks on Doha Development Agenda, it is unlikely answers to these concerns would be found soon.

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