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**TEXTILES TRADE REGULATIONS:
PASSAGE TO NON-DISCRIMINATION**

By

KHAN SOHAIL AHMAD

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
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ABSTRACT

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GATT 1947 was aimed at multilateral trade on non-discrimination basis. Due to abundant raw material, cheap labour and access to relevant technology, developing countries had comparative advantage over developed countries in the trade in textile and clothing. This led to the introduction of restricted and discriminatory arrangements for trade in textile and clothing, parallel to GATT 1947, over a long period of time. It took many shapes like Short Term Arrangement (STA), 1961 for trade in cotton textiles; Long Term Arrangement (LTA), 1962 for trade in cotton textiles; Multi-Fiber Arrangements (MFA), 1974. Integration of trade in textiles and clothing into GATT was included in multilateral trade negotiations of Uruguay Round, which resulted in the Agreement on Textiles and Clothing (ATC) in 1994. Under ATC, which came into force on January 1, 1995, all quota restrictions were to be eliminated and trade in textiles and clothing had to be fully integrated into WTO/GATT, 1994 by January 1, 2005. This implies that the trade in textiles and clothing will ultimately enter into the era of non-discrimination and non-restriction on January 1, 2005.

Besides, Korean textile and clothing industry has also passed through many stages since the establishment of its first textile mill in 1917. From simply producing and exporting semi-manufactured cotton textiles, it advanced to the production and exports of valued added textile products made of all natural and artificial fibers. Furthermore, textile and clothing industry played an important role in foreign exchange earnings and the overall economic development of Korea by substantially contributing to production, income, employment and foreign exchange reserves.

The various aspect of development of both, textile trade regulations and Korean textile and clothing industry, have been examined in following chapters.

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Dedicated to Abbu and Ammi

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ABBREVIATIONS

ATC	Agreement On Textiles And Clothing
CTC	Cotton Textiles Committee
CP	Contracting Parties
ERA	Export Restraint Agreement
ECOSOC	Economic and Social Council of UN
EC	European Communities
EEC	European Economic Communities
GATT	General Agreement On Tariffs And Trade
IMF	International Monetary Fund
ITO	International Trade Organization
IBRD	International Bank for Reconstructions and Development
LTA	Long Term Textiles Arrangement
MFA	Multi-Fiber Arrangement
MFN	Most Favored Nation
NT	National Treatment
OMA	Orderly Marketing Arrangement
OECD	Organization of Economic Cooperation and Development
QR	Quota Restrictions
STA	Short Term Textiles Arrangement
TSB	Textiles Surveillance Body

TC	Textiles Committee
UK	United Kingdom
US/USA	United States of America
UR	Uruguay round
VER	Voluntary Export Restraint
WTO	World Trade Organization

INTRODUCTION

As the basic necessity of human being, the production as well as trade of textiles and clothing has always been of great interest for all countries particularly the developing countries. Due to abundant raw material, cheap labour and access to relevant technology, developing countries have comparative advantage over developed countries in the trade in textile and clothing. This led to the introduction of highly restricted and discriminatory arrangements for trade in textile and clothing over a long period of time. It took many shapes like non-arrangement period, Short Term Arrangement (STA), 1961 for trade in cotton textiles; Long Term Arrangement (LTA), 1962 for trade in cotton textiles; Multi-Fibre Arrangements (MFA), 1974.

Trade in textiles and clothing was included in multilateral trade negotiations of Uruguay Round (UR) in 1986. UR resulted in, besides other agreements, the Agreement on Textiles and Clothing (ATC) in 1994, which came into force on January 1, 1995. Under ATC, all quota restrictions will be eliminated and trade in textiles and clothing will be fully integrated into WTO/GATT, 1994 on January 1, 2005. This implied that the restricted and discriminatory trade in textiles and clothing was to continue for further ten years even after the establishment of WTO. Therefore, it can be expected that the trade in textiles and clothing will ultimately enter into the era of non-discrimination and non-restriction on January 1, 2005.

Given the importance and special treatment textile trade received after the world war-II, it will be appropriate to examine various arrangements for it, review the current status of the implementation of the WTO Agreement on Textiles and Clothing and prospects of its ultimate passage to non-discrimination on January 1, 2005.

The thesis is divided into four parts. First part relates to textile trade regulations at various point of time. It examines the emergence of discriminatory textile trade regulations from non-discriminatory GATT 1947, objectives and provisions of these regulations and important developments taken place during the period of their implementation. Chapters 1 to 6 are included in Part-1.

The second part examines the implementation of first three stages of integration of textile and clothing sector into WTO/GATT 1947 under the Agreement on Textile and Clothing (ATC). It also examines the attitude and strategy adopted by the four restraining countries for liberalisation of quotas they carried over into ATC. Chapters 7 to 9 are included in part-2.

Third part of the thesis looks into Korean textile and clothing industry since 1922 during the implementation of various trade regulations, its transformation from cotton textile to all-fibre textile industry. With the help of statistical data, the impact of development of textile industry on employment, trade, production units, workers and their wages have also been identified. This

part concludes with the examination of development taken place during the implementation of ATC for Korea. Chapters 10 to 15 are included in part-3.

Fourth part relates to summary and conclusions. Conclusions of the thesis are discussed in chapter 16, which includes, besides summarizing major developments, details of the efforts made in USA to save their textile and clothing industry and possibility of deferment of full implementation of ATC beyond January 1, 2005.

PART-I

TEXTILES TRADE REGULATIONS

1.

GATT 1947

During the World War-II, US took the initiative for creating an international trade organization (ITO). It was believed that the mistakes, concerning the economic policy, made during the period between world wars I and II (1920-1940) had been the major cause of World War- II. It was the period during which policies of beggar-thy-neighbour, competitive devaluation and highly discriminatory trade barriers were practiced frequently¹. In 1934, USA enacted its Reciprocal Trade Agreements Act and signed 32 bilateral reciprocal trade agreements with different countries. Many clauses of this Act '*foreshadowed*' the clauses of GATT in 1947².

US initiative resulted in Bretton-Woods Conference in 1944, which culminated in the birth of IMF and IBRD³. It was believed that multilateral institutions would increase the cooperation and interdependence among countries, which will reduce the risk of war⁴. In 1945, US congress passed the Renewal of the Reciprocal Trade Agreements for a three years period. Subsequently, US invited a number of nations for negotiating a multilateral agreement for mutual tariff reduction⁵. As a matter of fact, US was of the opinion

¹ Hoekman and Kostechi, p-2

² Jackson, p-35-36

³ Ahn, Institutional evolution of GATT/WTO system

⁴ Hoekman and Kostechi, p-12

⁵ Jackson, p-35-36

that free and non-discriminating trade was not only needed for durable world peace but also for its own self-economic interests⁶.

With the creation of UN in 1945 and ECOSOC in 1946, Preparatory Committee for International Trade Organisation (ITO) held four meetings. Its third meeting was held in Geneva in 1947 which was divided into three parts⁷:

1. ITO charter preparation;
2. Multilateral agreement on reciprocal tariff reduction;
3. Drafting general clauses of obligations relating to the tariff obligations.

Part 2 and 3 were jointly called General Agreement on Tariffs and Trade (GATT). It was merely aimed at to be a treaty on tariff reductions to operate under the ITO⁸. GATT 1947 was not intended to be an organization. After US congress took a serious view of this development, US negotiators returned to Geneva, redrafted the general GATT clauses in a way that multilateral decisions under GATT were to be taken by "*Contracting Parties*" (CP) acting jointly and not by an organization body⁹.

Draft ITO charter was finalised at Havana Conference in 1948 but it could not come into being as US congress failed to approve it¹⁰. In 1950, President Truman announced not to make any further efforts to seek congress approval¹¹, thereby, eliminating the chances of establishment of ITO once forever. This made

⁶ Blokker, p-43

⁷ Jackson, p-36-37

⁸ Ahn, Institutional evolution of GATT/WTO system

⁹ Jackson, p-37-38

¹⁰ Ahn, Institutional evolution of GATT/WTO system

¹¹ Jackson, 38

GATT, 1947 as '*provisional arrangement*' for multilateral world trade and a '*de-facto international organization*'¹², which lacked the institutional structure¹³.

OBJECTIVES OF GATT 1947:

The objectives of GATT 1947 were 'raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods'. Thus the role of GATT 1947 was to facilitate the reduction of trade barriers, greater market access for CP, etc¹⁴.

OBLIGATIONS UNDER GATT 1947:

The major obligations of GATT were tariff concessions for Contracting Parties (CP) (article II and the schedules), most favoured nation (MFN) (article 1), national treatment (NT) (article III), anti dumping and countervailing duties (articles VI), quantitative restrictions (articles XI), subsidies (article XVI) safeguard measures (article XIX), etc¹⁵.

It was evident from MFN and NT obligations of CP that GATT 1947 was built for multilateral non-discriminatory international trade. Although, there were exceptions from MFN treatment but they were only for discrimination by quotas based on balance of payment problems (article XIV) and trade within customs union and free trade areas (article XXIV)¹⁶.

¹² *ibid*, p-42

¹³ Hoekman and Kostechi, p-13

¹⁴ *ibid*, p-12- 13

¹⁵ Jackson, p-51-52

¹⁶ Ahn, fundamental principles: MFN & NT,

There had been balance of payment problem in the immediate post world war-II period. This exception was utilized by US and other developed countries to block the textiles exports from developing countries and Japan, despite the fact that European trading nations established the external convertibility in 1958 which had weakened the balance of payment excuse¹⁷.

QUANTITATIVE RESTRICTIONS:

Article XI of GATT 1947 prohibited the use of quotas or measures other than duties to restrict either imports or exports¹⁸. But efforts to totally eliminate the use of quotas partially succeeded due to various reasons particularly with respect to agriculture products. This partial success was made possible mainly due to easing of balance of payment difficulties in the developed countries. Simultaneously, Japan re-established itself in the textiles trade. Besides, some developing countries emerged as exporters of textiles and clothing. They had the advantage of cheap raw material, labour and low production costs. As such, they succeeded in increasing their exports of textiles products to developed countries¹⁹.

VOLUNTARY EXPORT RESTRAINT:

¹⁷ Jackson, p-153

¹⁸ *ibid*, p-153

¹⁹ WTO, ATC

With reduced tariffs, abundant raw material, cheap labour and provisions of non-discriminatory trade under GATT 1947, Japan and developing countries succeeded in enhancing their exports of cotton and textile products to developed countries substantially. On the other hand, developed countries were facing pressure on their local production, employment and investment in textiles sector. Under the pressure from textile lobby, US enforced Agricultural Act in 1956. Article 204 of this Act, empowered the US President to negotiate agreements, which would limit textiles exports to US. He could also restrict the imports in unilateral manner. Despite the fact that this Act was in contravention of GATT 1947, US used this Act to reach agreements with Japan and Italy in 1957 to restrict their exports of textiles and velvet to US respectively²⁰.

Following the precedent set by US, some other developed countries also negotiated agreements with individual countries to limit their quantities of exports of textiles products to developed countries²¹. These agreements were later known as Voluntary Exports Restraint (VER), which were reached between Japan and other textile exporting countries with US, UK and other developed countries during fifties²².

Voluntary Exports Restraint (VER) was a kind of safeguard measure adopted by developed countries to limit the volumes of trade with developing

²⁰ Cortes, p-49

²¹ WTO, ATC

²² Cortes, p-34

countries²³. It means that it was the textile trade where the safeguard clause of GATT 1947 was applied for the first time to limit the export of textiles products from Japan and developing countries to developed countries. This was also the first violation of non-discrimination principal of GATT 1947, which was made in textiles trade²⁴. Therefore, many and probably most of the so-called VER (commonly called Exports Restraint Agreement, ERA) were more than likely inconsistent with the obligations of GATT 1947²⁵.

SAFEGUARD UNDER ARTICLE XIX OF GATT 1947 (ESCAPE CLAUSE):

The term safeguard is generally used for those Government actions, which are taken in response to such imports that are deemed to harm the economy of importing country or domestic competing industries. Safeguard action can be in the form of import restraining either by increased tariffs or quantitative restrictions or voluntary exports restraints, etc²⁶.

The most important safeguard mechanism of the international trading system had been the article XIX of GATT 1947 that was commonly known as "ESCAPE CLAUSE"²⁷. Article XIX (a) states²⁸,

" if, as a result of unforeseen developments and the effect of the obligations incurred by a contracting party under this agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic

²³ Ahn, safeguard measures

²⁴ Cortes, p-34

²⁵ Jackson, p-205

²⁶ *ibid*, p-175

²⁷ Trebilcock and Howse, p-226

²⁸ Ahn, safeguard measures,

producers in that territory of like or directly competitive products, the contracting parties shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.”

It was evident from this clause that the importing country had vast scope and authority to restrict or limit import of a particular product if it's import were increasing and domestic producer of competitive products were seriously injured or threatened with serious injury. However, the language of article XIX (a) was '*quite ambiguous*' as well as '*difficult in interpretation and uncertain in application*'²⁹. That is why it raised more questions than answers pertaining to unforeseen developments, obligation and its types, time frame for increased imports, product definition, increase be absolute or relative³⁰.

Given the complexity of the clause, Jackson has summarized the provision of this clause as follows³¹:

- It must be shown that imports of a product are increasing with either absolutely or relatively, and such increase must be a casual result of unforeseen developments and GATT obligations;
- It must also be shown that domestic producers of competitive products are seriously injured or threatened with serious injury, and that this injury or threat is caused by the increased imports;
- If above two are shown, then an importing nation is entitled to suspend 'such' GATT obligations in respect of such product for such time as necessary to prevent or remedy the injury;
- The importing nations must consult with contracting parties having a substantial interest as exporters. If agreement is not reached,

²⁹ Trebilcock and Howse, p-227

³⁰ Jackson, p-186

³¹ *ibid*, p-181-182

exporting CP has the right to suspend 'substantially equivalent concessions';

- Various procedures are defined under GATT or national laws.

VARIOUS EXPORTS RESTRAINT AGREEMENT/ARRANGEMENT (ERAs):

When developed countries faced with the situation of increased imports of textiles product from Japan and some developing countries, they heavily relied on safeguard or escape clause of GATT 1947. They argued to protect their domestic producers and employment. In order to limit the increasing import of textiles products from Japan and developing countries, developed countries under the Escape clause applied export restraint.

A number of terms had been used for this safeguard measure like Export Restraint Agreement (ERA), Orderly Marketing Arrangement (OMA), Voluntary Export Restraint (VER) and Voluntary Restraint Agreement (VRA). They can also be categorised in following three groups³²:

1. Govt to Govt Arrangement;
2. Private Exporting Industry to Private domestic competing industry;
3. Importing Government contact with private exporting industry.

Interestingly, an exporting country on behalf of importing country imposed these ERAs. This might be so because it had received some *signals* from importing government or competing industry about '*the risk*' in continuing to export at the existing or potential level. But the quantitative restrictions were

³² *ibid*, p-203

prohibited under article XI of GATT. However, this article did not cover those quotas resulted because of private firms arrangements³³.

It is clear from the above that these ERAs were in violation of GATT 1947. Then, why they were not challenged or resisted to? According to Jackson (p-205-206), it was impossible in the given situation, as the affected, the exporting country, had been imposing this restraint. Therefore, it could not complain against itself in GATT. On the other hand, the beneficiary of restraint action, the importing country, was also not supposed to complain as it was getting what it wanted, to limit the level of imports. Therefore, it can be concluded that the mutual convenience of importing and exporting countries resulted in violation of GATT 1947 for a long time in the form of ERAs and allowed the discriminatory trade to be practices un-interruptedly.

MARKET DISRUPTION:

The rising tendency of adopting the ERAs for textiles trade forced the GATT to carry out a study to find a multilateral solution to the problem of sharp increase in imports. Besides, some of the developing countries refused to enter into the VERs with US. As such, US brought the matter before the GATT in 1959³⁴. The main focus of developed countries was on 'market disruption' created by 'sharp rise' in import of textile products. In 1960, contracting parties accepted the concept of market disruption³⁵.

³³ *ibid*, 205-206

³⁴ Cortes, p-50

³⁵ WTO, ATC

By a decision on November 19, 1960, CP of GATT 1947 defined the concept of market disruption as a process caused due to³⁶:

1. a sharp and substantial increase or potential increase of imports of particular products from particular sources;
2. these products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the market of the importing country;
3. this price differential do not arise from governmental intervention in fixing or formation of prices or form dumping price;
4. there is serious damage to domestic producers or threat thereof because of this price differential.

It can be infer from above that textiles exporting countries had given the right to use of selective safeguard actions by importing countries if they (the importing country) find any market disruption. This was the fundamental departure from provisions of article XIX of GATT³⁷.

The developing countries had the comparative advantage in textile trade as they had cheap labour, abundant raw material and production process for textiles products. Thereby, they had been able to export their textiles goods at a price, which was less than the price of domestic textiles products in developed countries. But ERAs disallowed the developing countries to reap the benefits of low cost of production rather, they were forced to just export a certain quantity of textiles products. Thereby, they were deprived off the benefits of non-discriminating framework of GATT 1947.

³⁶ *ibid*, ATC

³⁷ *ibid*, ATC

Therefore, it can be said that these decisions and changes in textiles trade paved the way for signing of the Short Term Agreement (STA) for cotton textile trade. This agreement, as a matter of fact, institutionalised the restrictive trade of textile and 'began a series of anti-GATT agreements for textiles'³⁸.

³⁸ Cortes, p-52

2. SHORT TERM TEXTILE ARRANGEMENT (STA)

The acceptance of the concept of '*market disruption*' in 1960 by contracting parties of GATT 1947 paved the way for a special textiles trading arrangement under US influence and guidance. As mentioned earlier, textile lobby had been one of the most influential groups in US politics. (This lobby had great influence in southern states like Alabama, Mississippi, Georgia, Louisiana, and Massachusetts). As such, the presidential candidate Kennedy committed to support US textiles industry during his election campaign in 1960¹. Immediately after Kennedy came to power, US presented the proposal of creating an international system exclusively for textiles trade. Subsequently, US chalked out a seven-part programme for support of its textiles industry and asked contracting parties of GATT 1947 to hold an international conference on cotton products in 1961².

After the approval by the council of Contracting Parties of GATT, the conference was ultimately held in July 1961. It was attended by 16 countries, EC, OECD and observers from ten other countries. The conference considered a proposal from US for temporary special regulations for trade of cotton products and approved it. However, the parties reserved their right for negotiations regarding future definitive agreement for the textile trade. This approval led to

¹ Cortes, P-50

² *ibid*, P-51

the signing of Cotton Textiles Arrangement Regarding International Trade on July 21, 1961³. (This agreement is commonly known as Short Term Arrangement-STA).

This separate agreement was a blow to the GATT 1947 and its principles of non-discrimination. The signing of STA formally recognized the concept of market disruption and allowed quantitative restrictions thereof. It also created precedence for establishing international multilateral agreement parallel to GATT 1947. This was a temporary arrangement and established Provisional Committee on cotton textile to arrange negotiations for permanent agreement⁴.

OBJECTIVES AND PROVISIONS OF STA:

STA, which entered into force on July 21, 1961, comprised a preamble, Part-I (paragraphs A to G), Part-II (paragraphs A to C), and 2 appendices. The objectives of STA were⁵:

1. to significantly increase access to markets where imports are at present subject to restriction;
2. to maintain orderly access to markets where restrictions are not at present maintained; and
3. to secure from exporting countries, where necessary, a measure of restraint in their export policy so as to avoid disruptive effects in import markets.

Under the first objective, those countries, which had imposed quota restrictions on textiles imports, agreed to *significantly* increase the market access.

³ *ibid*, P-52

⁴ STA, part II, para A

⁵ *ibid*, Part-I

This implied that they committed to reduce the quota restrictions substantially and allowed more import of textiles products in their market. Second objective dealt with market access in those countries, which had no quota restrictions on textiles imports. However, 'orderly excess' needed more elaboration. Third objective called for restraint measure by exporting country if its exports were causing market disruption in importing countries. These objectives also highlighted the divergent interests of developing and developed countries⁶.

Interestingly, US, UK and EC were textiles exporting as well as importing countries. But they never entered into exports restraint measure with each other but always urged and pressurised only the developing counties for restraint to protect their domestic industries.

a) VALIDITY PERIOD:

This agreement was planned for 12 months only beginning from October 1, 1961⁷.

b) INCREASE IN MARKET ACCESS:

To provide increased market access to textile exporting countries, STA provided that "participating countries presently maintaining quantitative restrictions on cotton textile import shall, as from 1 January 1962, significantly increase access to their markets by countries the imports from which are now restricted. A specific statement of new access will be forthcoming"⁸.

⁶ Blokker, P-110

⁷ STA, Part-I, Para-F

⁸ *ibid*, Part-I, Para-E

The categorical and mandatory language of article was evident from the words underlined. Only statistical data of the following years could provide evidence whether the market access had increased significantly or not. This provision was primarily aimed at to meet the first two objectives of STA⁹.

c) EXPORTS RESTRAINT:

The detailed procedure for application of exports restraint in case of market disruption was given in Para A,

B and C of part-I. Para-A of part-I provided that:

"A participating country, if unrestricted imports of cotton textiles are causing or threatening to cause disruption of its domestic market, may request any participating country to restrain, at a specified level not lower than the level prevailing for the twelve month period ending 30 June 1961, its total exports of any category (see Appendix B) of cotton textiles causing or threatening to cause such disruption, and failing agreement within thirty days, the requesting country may decline to accept imports at a level higher than the specified level. In critical circumstances, action may be taken provisionally by either country involved while the request is under discussion. Nothing in this arrangement shall prevent the negotiation of mutually acceptable bilateral arrangements on other terms. It is intended by the participating countries that this procedure will be used sparingly, with full regard for their agreed objective of attaining and safeguarding freedom of trade, and only to avoid disruption of domestic industry resulting from an abnormal increase in imports"¹⁰

This provision gave all the powers of action in the hands of importing country. It was the importing country, which had to decide whether the import of any category of textiles were causing disruption, or even threatening to cause

⁹ Blokker, P-120

¹⁰ STA, Part-I, Para-A

disruption. Although, it gave 30 days for consultation and mutual agreement between both countries, but it was the importing country, which had the authority to freeze the imports at a specific level as defined in the provision. Interestingly, this multilateral agreement also provided for '*mutually acceptable bilateral arrangements on other terms*'. As such, it was the importing country, or developed countries in this case, which had all the powers to protect its domestic industry in the name of protecting it from market disruption. There was no provision in STA to prove the actual occurring of market disruption and abnormal increase.

d) FLEXIBILITY OF SPECIFIC LEVEL:

It also provided for setting specific level for a category 5 % above the required level with certain conditions¹¹.

e) DISPUTE SETTLEMENT:

The parties to this arrangement were to meet as necessary to consult and consider any problem arising out of the application of this arrangement. Such consultations were to be held particularly on the complaint from the country whose exports were under restraints¹². This provision only called for consideration of dispute by all parties to this arrangement but did not indicate as to how they would resolve the dispute and enforce the decision and what would

¹¹ *ibid*, Part-I, Para- B

¹² *ibid*, Part-I, Para-G

happen if all parties could not agree. To overcome this, a detailed procedure was needed to handle any dispute arising among the participating countries.

f) PROVISIONAL COTTON TEXTILES COMMITTEE:

STA created a Committee to prepare long-term agreement. It comprised of representatives of parties to the arrangement. It was to make recommendations for the long-term solution to the problems in the field of cotton textiles on the basis of the guiding principles set out in the preamble of the STA¹³. It had to start work from October 9, 1961¹⁴ and to make recommendations latest by April 30, 1962¹⁵. Its recommendations had to be based on concept of Market Disruption¹⁶.

g) INSTITUTIONAL SET-UP:

Only organ of STA was Provisional Cotton Textiles Committee, which was formally created by contracting parties of GATT 1947 as Cotton Textiles Committee (CTC) on November 22, 1961. This was due to the fact that STA was not an international organization but subsidiary organ of GATT 1947. CTC had to report its activities to GATT 1947¹⁷.

h) CIRCUMVENTION:

STA prohibited the circumvention by non-participating countries (in STA), trans-shipment or by substitution of directly competitive textile products¹⁸.

¹³ *ibid*, Part-II, Para-A

¹⁴ *ibid*, Part-II, Para-C

¹⁵ *ibid*, Part-II, Para-A

¹⁶ *ibid*, Part-II, Para-B

¹⁷ Blokker, 118

¹⁸ STA, Part-I, Para-D

i) PRODUCT COVERAGE:

STA had not specifically defined the products to be covered. However, it provided a list of 64 categories of cotton textile products in appendix B of the STA and referred to in paragraph A of part I.

j) MEMBERSHIP:

STA had no special provisions pertaining to membership or accession to agreement. However, 19 states¹⁹ were party to it²⁰.

k) APPNDIX A:

Contracting parties of GATT 1947 had made a decision by which they defined the concept of 'market disruption' on November 19, 1960. That decision was made part of STA as appendix 'A'. (Details of this decision have already been discussed in previous chapter).

DEVELOPMENT DURING STA:

US were the main beneficiaries of STA. It entered into exports restraint agreements with Spain, Taiwan, Columbia, Israel, Egypt, Portugal and Hong Kong under STA²¹.

¹⁹ Australia, Austria, Belgium, Canada, Denmark, France, FR of Germany, India, Japan, Luxemburg, Netherlands, Norway, Pakistan, Portugal, Spain, Sweden, UK (and also Hong Kong), US

²⁰ Blokker, P-111

²¹ ibid, P-128

3. LONG TERM TEXTILE ARRANGEMENT (LTA)

As was provided in part-II of STA, Provisional Cotton Textiles Committee (CTC) met on October 22-27, 1961. Along with members of STA, Denmark and Norway also participated. The meeting considered various proposals put forward by US, EC and Japan¹.

US, Japan and developing countries argued to obtain maximum benefit for them. US proposal had one new element, which was that export restraints should be laid down in a schedule, at pre-determined levels to be increased by a certain percentage².

On behalf of developing countries, Pakistan and India were of the view that Long Term Arrangement for Textile Trade (LTA) should not only address the need of developing countries in textiles trade but also the development and financing of the cotton textiles sector³.

Japan objected to the division of participating countries on the basis of '*importing and exporting*' countries. Japan also called for proposed LTA to be consistent with the basic objectives and principles of GATT 1947⁴. Sensing widespread disagreement, US warned that it would close its market to those states, which would not participate in the treaty⁵.

¹ Blokker, P-105

² *ibid*, P-105

³ Cortes, P-53

⁴ Blokker, P-105

⁵ Cortes, P-54

Despite these observations and reservations, the final text of LTA was largely based on US proposals that was agreed upon on February 9, 1962 in Geneva and came into force on October 1, 1962⁶.

OBJECTIVES AND PROVISIONS OF LTA:

LTA was comprised of a preamble, 15 articles, 5 annexes and 3 protocols. The objectives of STA were adopted in LTA with slight modification. It was aimed at to⁷:

'facilitate the economic expansion and favour the promotion of those less developed states which have the necessary resources..... in order to increase their incomes from the sale of products in the world markets'

The objective in a way is recognition of fact that developing countries have the necessary resources for textiles development; as such they should be given the larger opportunities to increase their exports⁸.

Recognizing the concerns of developed countries, the objective of LTA further stated⁹,

'... to deal with these problems in such a way as to provide growing opportunities for exports of these products, provided that the development of this trade proceeds in a reasonable and orderly manner so as to avoid disruptive effects in individual markets and on individual lines of production in both importing and exporting countries' .

This objective was in line with the stand of developed countries, which had wanted to ensure that exports expansion should not cause market disruption

⁶ ibid, P-53

⁷ LTA, preamble

⁸ GDI, P-2

⁹ LTA, preamble

for their domestic industries¹⁰. This also showed that LTA tried to accommodate point of views of both developed and developing countries, thereby made an attempt to strike a balance. The objectives reflected the different interests of the parties i.e; developed and developing countries¹¹.

a) PRODUCT COVERAGE:

Contrary to STA, LTA defined the "cotton textiles products" to be covered by it, which included cotton yarns and fabrics, cotton made up articles and special fabrics and cotton clothing¹². The term '*cotton textiles*' included yarns, piece goods, made-up articles, garments and other textiles manufactured products, which had more than 50 % of cotton by weight. However, it excluded handloom fabrics of cottage industry¹³. Annex 'D' explained the list of group or sub groups of products as mentioned in Standard International Trade Classification (SITC). Annex 'E' gave an alternative to the condition of 'more than 50 % cotton' whereby a country which was applying a criterion based on value, allowed to continue to use that criterion for the purpose of article 9¹⁴.

b) SPECIFICITY:

US wanted to have the facility of export restraints in all fields particularly steel. However, all participating countries agreed to confine LTA specifically to

¹⁰ GDI, P-2

¹¹ Blokker, P-110

¹² LTA, Annex-D

¹³ *ibid*, Article 9

¹⁴ *ibid*, Annex-D, Annex-E

cotton textiles trade only¹⁵.

c) VALIDITY PERIOD:

This arrangement came into force on October 1, 1962¹⁶ for a period of 5 years¹⁷. However, Cotton Textile Committee (CTC) could extend the period of five years¹⁸.

d) COTTON TEXTILES COMMITTEE (CTC):

The contracting parties of GATT 1947 had established CTC on November 22, 1961, which was given a central role in the implementation of LTA. It was composed of all participating countries of LTA. It was made responsible for undertaking studies on cotton textiles trade, collection of statistical data, report to GATT on performance of LTA, interpretation of arrangement and extension beyond its validity period, modification or discontinuation of LTA¹⁹.

e) QUANTITATIVE RESTRICTIONS:

US and Japan were of the opinion to eliminate quantitative restrictions *by the end of LTA*. But EEC was in favour of elimination of LTA *as soon as possible*. It was this background in which LTA and its article 2 was agreed to²⁰.

Those countries which were maintaining import restriction on cotton textiles inconsistent with GATT had to relax those restrictions progressively each year so that it could be eliminated as soon as possible ²¹.

¹⁵ *ibid*, article 1

¹⁶ *ibid*, article 12.1

¹⁷ *ibid*, article 14

¹⁸ *ibid*, article 8

¹⁹ *ibid*, article 8

²⁰ Blokker, P-122

This was a major development by which developed countries formally accepted the inconsistency of their quantitative restrictions with the provisions of GATT 1947. They only agreed to relax not to eliminate them and that too gradually. But LTA neither set the time frame nor the rate of yearly reduction of quantitative restrictions. However, it was considered an attempt to bring textiles trade again in line with the GATT 1947²².

Article 2.2 prohibited the introduction of any new restrictions or intensifying already existing restrictions.

Under article 2.3, some participating countries, which were maintaining the restrictions, agreed to expand their market access from the level of quotas in 1962 by the end of validity period of LTA, as follows²³:

Austria	95 %
Denmark	15 %
EEC	88 %
Norway	15 %
Sweden	15 %

Restrictions maintained and bilateral agreement was to be increased annually through bilateral negotiations²⁴.

All participating countries had to notify the details of quota or other import restrictions to CTC within one month of the beginning of quota²⁵.

²¹ LTA, article 2.1

²² Blokker, P-122

²³ LTA, Annex-A

²⁴ *ibid*, article 2.3

²⁵ *ibid*, article 2.7

f) MARKET DISRUPTION:

The decision of contracting parties of GATT 1947 regarding *market disruptions* dated November 19, 1960 was made substantive part of LTA and added to the arrangement as Annex-C²⁶. Articles 3 and 4 of LTA allowed the imposition of restrictions on the basis of market disruption .

If imports of a cotton textiles product considered to be causing or threatening to cause market disruption, the importing country had the discretion to ask for consultations with the exporting country, specify level of export restraint, furnish details of justification to the exporting country and to the CTC. Limits of level of exports restraint had been given in annex-B²⁷.

An agreement between concerned participating countries had to be found within 60 days from date of request regarding exports restraint or any alternative solutions. Otherwise, importing country had the right to restrict the import of concerned textiles product at a level higher than the level mentioned in annex-B²⁸.

Importing country could also take necessary temporary steps to limit the import of concerned product even before the end of 60 days period²⁹.

Like 3.1 and 3.2, article 3.3 also gave all powers to importing country with no right of challenge to exporting country regarding market disruption, kind of agreement, level of restraint, temporary actions, etc³⁰.

²⁶ *ibid*, article 10

²⁷ *ibid*, article 3.1

²⁸ *ibid*, article 3.3

²⁹ *ibid*, article 3.2

Participating countries also agreed to use restraint measures *sparingly* and only in respect of the concerned specific product, which was causing or threatening to cause market disruption³¹.

The restraining actions had to be temporary, and constantly reviewed with an aim for its ultimate elimination. All these developments had to be reported to CTC at least once a year³².

g) OTHER SAFEGUARD MEASURES:

In addition to safeguard measures of article 3, LTA also provided for bilateral or multilateral mutually acceptable arrangements on other terms as well³³.

h) DISPUTE SETTLEMENT:

In case the interests of a participating country were seriously affected due to any measure of another participating country, the affected participating country could have requested for consultations. In case of failure of consultations, the affected participating country had to take the matter to CTC, which was to discuss the issue and make a comment. If still unsatisfied, affected participating country had the option to adopt the procedure as laid down in article XXIII of GATT³⁴.

³⁰ *ibid*, article 3.3

³¹ *ibid*, article 3.7

³² *ibid*, article 3.6

³³ *ibid*, article 4

³⁴ *ibid*, article 7.2, 7.3

It is clear from the above that there was nothing mandatory. CTC had no power except to make '*comments*' and '*discussion*'. It had no authority to *review* the issue and make *advise* to concern participating countries.

i) MEMBERSHIP:

Article 11.1 related to the signatories to LTA, contracting parties to GATT or those, which provisionally acceded to GATT. Article 11.2 dealt with those countries, which had not acceded to GATT. They were allowed to join LTA on terms and conditions to be agreed to between that government and LTA members³⁵.

Altogether, 17 developed and 13 developing countries joined LTA, which were divided into three groups by GATT i.e; net importing countries, net exporting countries and others³⁶. Korea became member of LTA under article 11.2 at a later stage on December 10, 1964³⁷.

j) WITHDRAWAL OF MEMBERSHIP:

Participating countries were allowed to withdraw from the LTA with a 60 days prior written notice to the Executive Secretary of GATT³⁸.

³⁵ *ibid*, article 11

³⁶ GDI, p-4; Group-I (net importing countries): Australia, Austria, Belgium, Canada, Denmark, Finland, France, FR of Germany, Italy, Luxemburg, Netherlands, Norway, Sweden, UK, US. Group-II (net exporting countries): Columbia, Greece, Hong Kong, India, Israel, Jamaica, Mexico, Pakistan, Portugal, Republic of China (Taiwan), Republic of Korea, Spain, Turkey, United Arab Republic (Egypt).

Outside Groups I and II: Japan, Poland

³⁷ Blokker, p-114

³⁸ LTA, Article 13

k) BILATERAL ARRANGEMENTS:

Like STA, LTA also allowed participating countries to enter into *mutually acceptable arrangements on other terms*. However, the 'other terms' had to be consistent with basic objectives of LTA. All such bilateral arrangements had to be brought to the notice of CTC³⁹.

l) EFFECTIVE OPERATION OF LTA:

For effective operation and implementation of LTA, all participating countries were asked to exchange information including statistics on imports and exports with each other⁴⁰.

m) CIRCUMVENTION:

The circumvention of the arrangement was prohibited either by trans-shipment, re-routing, substitution of directly competitive textile products, or action by non-participating countries⁴¹.

EXTENSION OF LTA:

LTA was extended three times, through protocols, without any change in its basic rules agreed to in 1962.

- i) Protocol agreed to on May 1, 1967, extended the validity of LTA for three years from October 1, 1967 to September 30, 1967⁴².
 - a. It changed the name of agreement from Long Term Arrangement Regarding International Trade in Cotton Textile

³⁹ *ibid*, article 4

⁴⁰ *ibid*, article 5

⁴¹ *ibid*, article 6

⁴² *ibid*, paras 1 & 5, protocol dated May 1, 1967

(in short, LTA) to Arrangement regarding International Trade in Cotton Textiles⁴³.

- b. It revised the market access ratio mentioned in annex-A (article 2) as under⁴⁴:

Austria	152 %
Denmark	24 %
EEC	154 %
Norway	24 %
Sweden	24 %

- ii) Protocol dated June 15, 1970 further extended the LTA for another 3 years up to September 30, 1973⁴⁵.

- a. It further revised the market access ratio mentioned in annex-A of LTA as under:

Austria	209%
Denmark	33 %
Norway	33 %
Sweden	33 %

- iii) The third extension was to bridge the three months period between end of second extension of LTA and coming into force of Multi-Fibre Arrangement⁴⁶.

DEVELOPMENT DURING LTA:

During LTA, following major developments had taken place with regard to its implementations⁴⁷:

- US concluded bilateral agreements with 30 countries under article 4 and maintained restraint for 6 countries under article 3.
- Austria, EEC, Norway Sweden, Denmark met their commitment of quota growth to increase the market access.

⁴³ Blokker, p-117

⁴⁴ LTA, para 3 of Protocol dated May 1, 1967

⁴⁵ *ibid*, para 1 of Protocol dated June 15, 1970

⁴⁶ Blokker, p-117

⁴⁷ *ibid*, p-129-136

- UK and Canada utilized the provision of articles 3 and 4 for applying new restrictions.

It can be said that the outcome of LTA was mixed. On one hand, the market access was increased as per commitment by certain participating countries. On the other hand, developed countries particularly, UK, and US, continued to invoke the restraint provisions on the pretext of market disruption.

US and LTA:

As mentioned above, US was the main beneficiary of LTA. It concluded maximum numbers of bilateral agreements for exports restraints. The prime objective of these restrictions was to protect the domestic textile and clothing industry of US. The impact of these restrictions (during the period of STA and LTA) on US domestic industry are explained in table 3.1 and 3.2 ⁴⁸.

Table 3.1

Textiles Sector Of US, 1961-73

(In million US dollar)

	P	I	M	X	TTB	Employment (‘000’ workers)
1961	12881	314	590	320	-270	854.8
1973	29053	1121	1423	926	-497	980.3
Change (%)	125	257	141	189	84	-

P=Production; I= Investment; M=Imports; X= Exports;
TTB= Textile Trade Balance;

Due to the restrictions imposed by US on imports of textile and clothing products from different countries, mostly the developing countries resulted in

⁴⁸ Cline, p-25-58

the increase in investment by 257 % and in production by 125 % in textile sector. This also enhanced the employment of workers from 854800 to 980300. This increased production also increased the exports by 189 %. Despite all these good indicators for US textiles, the imports continued to increase and it jumped from US \$ 590 million to US \$ 1423 million during the period 1961-73 showing an increase of 141 %. This means that the trade deficit in US textile sector increased by 89 %. Overall, the efforts of US seemed to be succeeded partially.

Table 3.2 ⁴⁹

Clothing Sector Of US, 1961-73

(In million US dollar)

	P	I	M	X	CTB	Employment (‘000’ workers)
1961	13088	79	283	159	-124	1214
1973	25970	387	2261	381	-1880	1400
Change(%)	98	389	698	139	1416	-

P=Production; I= Investment; M=Imports; X= Exports;
CTB= Clothing Trade Balance;

Similarly, the clothing industry of US also increased its investment, production, exports and employment substantially. But the imports of clothing products also increased by 698 %, which further increased the trade deficit for US clothing trade by 1416 % as shown in table 3.2. The increase in imports of textiles and clothing in US was primarily focused on man-made fibre, which was outside of the purview of STA and LTA⁵⁰.

⁴⁹ ibid, p-25-58

⁵⁰ ibid, p-148

DEVELOPING COUNTRIES AND LTA:

The desperation, anger and anxiety of the developing countries can be assessed from the following two comments made by Pakistan at LTA meetings:

'the best argument in support of the Long Term Arrangement was that the developing countries were better off under the multilateral arrangement than under a system of unilateral trade restrictions. They had been told that the choice was not between free trade and the Long Term Arrangement, but between a multilateral and a unilateral system of restrictions. They wished to know in what sense the Long Term Arrangement was a multilateral arrangement. It was, of course, a multilateral arrangement in the sense that more than two countries had signed it and were imposing restrictions or were subject to restrictions under it. But apart from this purely arithmetical sense, was there any other sense in which the Long Term Arrangement could be considered a multilateral system?'⁵¹

'The Arrangement had served the purpose of only one set of countries. It had made little or no contribution to the solution of the economic and trade problems of the developing countries. how long the contracting parties would continue to tolerate this grave breach of the General Agreement'⁵²

Despite this outburst, the developing countries got some increased market access particularly in US during 1961-73⁵³.

Table 3.3

Sources of US Textiles Imports, 1961-73

(Million US dollar)

	OECD Countries	Others
1961	342	179
1973	660	920
% Change	92	413

⁵¹ Blokker, p-142

⁵² ibid, p-132

⁵³ Cline, p-25-58

Table 3.3 shows the imports of textile products by US during 1961-73. The imports from OECD developed countries increased by 92 % whereas the imports from 'others', primarily the developing countries, increased by 413 %. This shows the reasonable increase in market access for developing countries in US.

Table 3.4⁵⁴

Sources of US Clothing Imports, 1961-73

(Million US dollar)

	OECD Countries	Others
1961	113	156
1973	649	1518
% Change	474	873

Similarly, the table 3.4 shows the changes in the imports of clothing products in US during 1961-73 period. Like textiles, clothing imports for OECD countries increased by 474 %. But the increase in imports from 'others' the developing countries was 873 %, which was far higher than the imports from the developed countries. As mentioned above, the increase in imports from developing countries was strongly focused on man-made fibre products. These products were outside of the restrictions of STA and LTA.

GATT AND COTTON TEXTILES ARRANGEMENTS:

GATT 1947 was built on the principles of non-discrimination (MFN, NT), liberalisation and no quantitative restrictions. But the rules agreed upon under the cotton textiles arrangements (both STA and LTA) clearly deviated from basic

⁵⁴ *ibid*, p-25-58

principles of GATT 1947⁵⁵. On the other hand, some considered these arrangements to be only 'practical solution'⁵⁶. However, they (STA, LTA) were also considered as 'striking a balance between divergent interest of textiles exporting (developing) countries and importing (restricting) developed countries'⁵⁷. Some seemed to agree to this arguments as they called LTA lesser evil of two evils i.e; multilateral agreement or unilateral restraint⁵⁸.

⁵⁵ Blokker, p-108; Jackson, p-207

⁵⁶ Cortes, p-56

⁵⁷ GDI, p-2

⁵⁸ Cline, p-148

4.

MULTI FIBER ARRANGEMENT (MFA)

It is commonly known as MFA although its official title was 'Arrangement Regarding International Trade in Textiles'¹. MFA was concluded in Geneva on December 20, 1973 and came into force on January 1, 1974². It comprised 9 textiles importing developed countries (including EU) and 31 textiles exporting developing countries. It provided a framework for Voluntary Exports Restraints (VERs), primarily quotas, limiting developing country's exports of textiles to developed countries³. Its membership increased to 44 by the time of its termination in 1974⁴.

BACKGROUND:

With the technological development of Japan and industrial advancement in Hong Kong, Taiwan, Korea; developed countries faced a new issue of increasing imports of wool, synthetic textiles and handmade fibers⁵. As these items were not covered under LTA, their productions as well as growth led to the boom in their exports to developed countries⁶.

As identified earlier, textiles lobby in US politics has been very active. In 1968 election campaign, Nixon made a promise to 'take the steps necessary to

¹ WTO, ATC

² GDI, 6

³ Trebilcock and Howse, p-375

⁴ WTO, ATC

⁵ GDI, p-4

⁶ Cortes, p-58

extend the concept of international trade agreements to all the textiles articles involving wool, manmade fibers and blends⁷.

Faced with increasing import of wool and manmade fiber, US succeeded in entering into bilateral agreement with Japan on October 15, 1971. US also entered into bilateral as well as multilateral agreements with Korea, Taiwan and Hong Kong in December 1971 and January 1972⁸.

After Nixon became President, US demanded widening the range of application of arrangement. Subsequently, GATT 1947 formed a Working Group in June 1972, which later became Negotiating Group in 1973. This Group was asked to study various aspects of textiles trade to reach a new agreement to cover wool and all other fiber textiles⁹. The Group submitted its report in December 1972¹⁰. Final text of new multilateral agreement was reached on December 20, 1973 and approved by GATT Council on January 28, 1974 and by Contracting Parties on November 19, 1974¹¹. Thereby, GATT legalized and accepted the separate character of MFA¹² to regulate the trade in textiles and clothing.

OBJECTIVES AND PROVISIONS OF MFA:

MFA comprised of a preamble, 17 articles and 2 annexes. It ensured the continuity of regulatory system of textiles trade, elaborated the concept of market

⁷ Blokker, p-146

⁸ ibid, p-146

⁹ Cortes, p-58

¹⁰ Blokker, p-147

¹¹ ibid, p-148

¹² Cortes, 59

disruption, improved the surveillance and dispute settlement and strengthened the textiles committee¹³.

a) OBJECTIVES:

The basic objectives of the MFA was the expansion of world textiles trade, the reduction of trade barriers and progressive liberalization of world trade in textiles products, while at the same time, ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries¹⁴.

b) DEVELOPING COUNTRIES:

It is considered to be a principal aim of MFA to increase the economic and social development of developing countries and to secure 'substantial' increase in their exports earning from textiles products¹⁵.

This provision can be considered as favour to developing countries but it did not explain the nature and magnitude of substantial increase and in what time period.

c) SCOPE OF MFA:

It was categorically mentioned that this was an exceptional arrangement and applicable only on textiles products trade¹⁶.

¹³ *ibid*, 59-60

¹⁴ WTO, ATC; MFA, article 1.2

¹⁵ MFA, article 1.3

¹⁶ *ibid*, article 1.7

d) MEMBERSHIP:

Any government of contracting party of GATT or those, which have provisionally acceded to GATT or those, which are not members of GATT, could become members of MFA¹⁷. Any participating country can withdraw from MFA with a 60 days prior notice to Director General of GATT¹⁸.

e) PRODUCT COVERAGE:

The word 'textiles' was specifically defined as tops, piece goods, made-up articles, garments and other textiles manufactured products of cotton, wool, man made fibers, etc. Hand made fabrics of cottage industry, etc of developing countries were excluded from the purview of MFA. However, if market disruption is caused by artificial and synthetic staple fiber, article 3 and 2.1 were to apply on them as well¹⁹.

f) VALIDITY PERIOD:

MFA was to remain in force for a period of four years means from January 1, 1974 to December 31, 1977²⁰. Textiles Committee was empowered to decide about any extension in MFA one year before expiry of the arrangement²¹.

g) TEXTILES COMMITTEE (TC):

Textiles Committee (TC) was established within the framework of GATT comprising all participating countries to MFA. It was responsible for matters

¹⁷ *ibid*, article 13

¹⁸ *ibid*, article 15

¹⁹ *ibid*, article 12

²⁰ *ibid*, article 16

²¹ *ibid*, article 10.5

referred to it by Textiles Surveillance Body (TSB), analysis of cotton trade, opinion on interpretation of this arrangement, reporting to GATT Council, establishment of Textiles Surveillance Body, etc²².

h) TEXTILES SURVEILLANCE BODY (TSB):

Under MFA, a new statutory body was created called Textiles Surveillance Body (TSB). It consisted of a Chairman and 8 members appointed by participating countries to MFA on rotation basis. Its responsibilities were²³:

- To supervise the implementation of MFA;
- To make recommendations to concerned parties on disagreement in their bilateral negotiations;
- To make recommendations on request of a participating country regarding any measure of another member or members considered detrimental to it. TSB has to invite to explain concerned parties directly affected with the issue concerned;
- to make recommendations within 30 days;
- Participating countries have to make endeavour to accept in full the recommendations of TSB;
- to review restrictions on textiles products maintained by participating countries and report to TC;

If recommendations of TSB failed to solve the issue, then the issue could be raised before GATT council under article XXIII of GATT. The intervention of TSB during the proceedings of negotiations, its adoption of unilateral measure in case of failure of negotiations, was a new and important aspect²⁴. However, it

²² *ibid*, article 10.1 to 10.4

²³ *ibid*, article 11

was clear that TSB could not make 'decision' but could only make 'recommendation', which may or may not be accepted by the parties.

i) EXISTING RESTRICTIONS:

All the existing, unilateral, bilateral or other quantitative restrictions in practice at the time of entry into force of MFA dealt under article 2²⁵:

- All existing restrictions of any kind has to be notified by restraining country to TSB within 60 days which will then circulate it to other participating countries. These restrictions would be terminated if restricting country did not notify within 60 days²⁶.
- All unilateral quantitative restrictions notified to TSB (with reference to article 2.1) shall be terminated within one to three years unless these restrictions are justified under GATT or brought in conformity with MFA under article 3 or 4²⁷.
- Efforts to be made through bilateral negotiations by participating countries for not only transforming pre-MFA quotas into MFA quotas but also their elimination. Participating countries must report the progress to TSB within one year. TSB will make review and recommendation in the matter to the concerned participating countries²⁸.

j) NEW RESTRICTIONS (SAFEGUARD MEASURES):

Articles 1.5, 3, 4 and annexes A and B dealt with matters relating to impositions of new quantitative restrictions under MFA.

- Participating countries agreed to apply safeguard measures only in exceptional circumstances strictly in accordance with MFA and under the surveillance of TSB²⁹.

²⁴ Cortes, p-162

²⁵ MFA, article 2

²⁶ *ibid*, article 2.1

²⁷ *ibid*, article 2.2

²⁸ *ibid*, articles 2.4, 2.5

²⁹ *ibid*, article 1.5

- All new restrictions would have to be justified under GATT and MFA³⁰.
- Using article 3 sparingly against specific country and product and to take measures in equity if imports from more than one country are causing disruption³¹.
- Requesting consultations in case of market disruption by a product not under restrictions. The request must be accompanied by 'detailed factual statement of reasons and justifications' along-with 'latest data of market disruption'. It may include specific level of restraint, which should not be lower than level mentioned in annex B of the arrangement³².
- Agreement reached as a result of consultation should be communicated to TSB, which will determine its justification under the arrangement³³.
- Importing country can take 'unilateral restrictive' action if no agreement is reached with exporting country within 60 days. The restrictive import level should have to be in accordance with annex- B. these all details has to be provided to TSB³⁴. However, any of the concerned participating country may take the issue to TSB before expiry of 60 days³⁵. TSB will conduct 'examination' and furnish its 'recommendations' to concerned parties, TC and GATT council. Participating countries are asked to review their measures already taken or being taken in light of the recommendations³⁶.
- Importing country can apply 'interim restraint' on the imports at level higher than as mentioned in annex-B. However, the importing country must review its interim action in light of TSB recommendation and report back to TSB³⁷.
- Restrictions applied under this article will be for a period of one year. One-year extension can be made subject to mutual agreement between

³⁰ *ibid*, article 3.1

³¹ *ibid*, article 3.2

³² *ibid*, article 3.3

³³ *ibid*, article 3.4

³⁴ *ibid*, article 5.1

³⁵ *ibid*, article 5.2

³⁶ *ibid*, article 5.3

³⁷ *ibid*, article 6

concerned parties³⁸. Its mean that all new restrictions applied under MFA will be for a minimum of one year and maximum of two years after which it will stand abolished.

k) BILATERAL AGREEMENT:

Bilateral agreements under MFA were another kind of safeguard measures to restrict the import of a textile product or to say that the concept of voluntary exports restraints were preserved.

- Participating countries allowed entering into bilateral agreement to eliminate real risks of market disruption in importing countries and disruption to the textiles trade of exporting countries³⁹. This seems to be contradictory to the 'commitment to a multilateral approach in search for solutions to the difficulties that arises in this field⁴⁰.
- Bilateral agreements have to be more liberal than the measures allowed under article 3⁴¹. Its mean that the level of restraint, growth rates, period of restraints etc have to be more flexible.
- TSB has to be informed about the enforcement (within 30 days) modification, extension, and termination of the bilateral agreements. TSB may make recommendations pertaining to the reported agreement ⁴². However, the nature and abidingness of the recommendations are not specified.

l) ADMINISTRATION OF RESTRICTIONS:

Under article 5 of MFA, all imports restrictions applied under articles 3 and 4 should have to be administered in flexible and equitable manner with proper arrangement for allocation of quotas among exporters and facilitation for utilization of such quotas.

³⁸ *ibid*, article 3.8

³⁹ *ibid*, article 4.2

⁴⁰ *ibid*, article 4.1

⁴¹ *ibid*, article 4.3

⁴² *ibid*, article 4.4

j) POSITIVE DISCRIMINATION:

Besides TSB, the other innovation of MFA was the provision of 'positive discrimination' in the application of safeguard measures towards developing countries under MFA⁴³.

Participating countries were asked to pay special attention to the needs of developing countries with application of more favourable terms regarding base level of exports restriction and growth rate in quota liberalization⁴⁴. The past performance criteria for developing countries should not be applied while determining quota⁴⁵. There should not be restraint for those textiles products, which were imported for processing and re-exports⁴⁶.

k) CIRCUMVENTION OF MFA:

Participating countries agreed to avoid circumvention of this arrangement by trans-shipment, re-routing or action by non-participants. In case of any dispute, the matter would be referred to TSB, which should make a report or recommendations⁴⁷.

l) ADDITIONAL TRADE MEASURE:

Participating countries required refraining from any trade measure in addition to already applied as safeguard measures. In case of dispute over

⁴³ Blokker, p-180-181

⁴⁴ MFA, article 6.1

⁴⁵ *ibid*, article 6.2

⁴⁶ *ibid*, article 6.3

⁴⁷ *ibid*, article 8

serious affect of such measure, consultations to be held within 60 days and failing agreement; the matter could be brought before TSB⁴⁸.

m) MARKET DISRUPTION:

Annex-A defined the concept of market disruption in detail and set out parameters for its measurements. It was the concept referred to the existence of serious damage to domestic producers or actual threat which could be demonstrated on the basis of:

- Sharp and substantial or imminent increase which could be measured;
- Price at which good is afforded which is substantially below the price in importing country.

It also called for taking care of interest of exporting country and various aspects related to textiles sector.

n) LEVEL OF RESTRAINTS:

The base level for restraint has been elaborated in annex-B of MFA.

MFA-II:

TC agreed to extend the MFA for four years in December 1977⁴⁹. In a dispute relating to bilateral agreement between Pakistan and EEC, TSB made decision against EEC, which took the matter to Textiles Committee (TC). Its plea was that TSB was a conciliatory organ, which could not object to a bilateral agreement. TC also did not agree to EEC⁵⁰.

⁴⁸ MFA, article 9

⁴⁹ Blokker, p-151)

⁵⁰ Cortes, p-211

Angry EEC played the key role in the extension of MFA-I for further four years from 1978 to 1981 after the adoption of '10 conclusions by TC', which added as supplement to MFA⁵¹.

All MFA products were divided into 5 groups and sub-divided into 11 categories. Group-1 consisted of the eight most sensitive products⁵², which were 60 % of all low priced MFA imports into the EEC. Import ceiling were established for each of these eight products, which were not to be exceeded in the forthcoming years⁵³. EEC further succeeded in incorporating the concepts like 'cumulative market disruption' and 'reasonable departure from the provision of arrangement'. As such, it can be said that 'MFA-II' was a serious step backwards in the process of market liberalization⁵⁴ as well as permission of violation of MFA⁵⁵.

MFA-III:

EEC again played the major role in the extension of MFA and joined MFA-III after it concluded 'satisfactory new bilateral agreements' with developing countries⁵⁶. Provision of '*reasonable departures*' was deleted but some new deviations from original MFA were introduced through 'three conclusions of Textiles Committee'. They were 'any mutually acceptable arrangements with

⁵¹ Blokker, p-184

⁵² Cotton yarn, other woven fabrics of cotton, woven fabrics of synthetic fibres, knitted shirts and t-shirts, jerseys and pullovers, men's and women's trousers, women's blouses, and woven shirts.

⁵³ Blokker, p-151

⁵⁴ Cortes, p-213

⁵⁵ Blokker, p-185

⁵⁶ *ibid*, p-153

regards to flexibility' (like reduction of quota); anti surge mechanism (using full quota after under utilization for some time)⁵⁷; 'cut back' (in respect of growth rate mentioned in annex-B) and conversion of working group created in 1979 into permanent sub-committee⁵⁸.

MFA-IV:

In November 1982, ministerial meeting of contracting parties of GATT took a strong notice of 'protectionist approach' of MFA and desired to incorporate textiles and clothing into GATT system after expiry of MFA-III. They decided to hold a study on textiles and clothing to be completed by 1984 session of contracting parties⁵⁹. After discussing the report in May 1984, they formed a working group to work out modalities for further liberalization of textiles and clothing trade. Working group's report discussed by contracting parties in November 1985, which was without any concrete modality⁶⁰. However, after hectic activities like meeting of developing countries⁶¹, passage of a bill⁶² by US Congress and President Reagan's veto⁶³, Textiles Committee gave another extension to MFA up to July 1991⁶⁴. On US proposal, it enlarged the product coverage by including vegetables fibers, silk, Lenin and allowing unilateral

⁵⁷ *ibid*, p-185

⁵⁸ Cortes, p-215

⁵⁹ Blokker, p-153

⁶⁰ *ibid*, p-154

⁶¹ 23 less developed countries met in Peking to determine a joint stand in coming negotiations.

⁶² Jenkins Bill calling for highly restrictive US trade policy measures

⁶³ House of representatives was to vote on the veto of President on August 6, 1985

⁶⁴ Blokker p-155

restrictions under article 3 for 2 years⁶⁵.

DEVELOPMENTS UNDER MFA:

MFA was the compromise of interests of both exporting and importing countries. However, importing countries were more satisfied than exporting countries. It was a better alternative for exporting countries than extension of LTA or a situation without any agreement⁶⁶. Various developed countries took following specific steps⁶⁷:

- 714 bilateral agreements were concluded under article 4;
- 97 bilateral agreements of restriction notified;
- 127 new restrictions under article 3 were introduced;
- US terminated 12 of 30 bilateral agreements.
- Canada and Austria also liberalized a number of their restrictions.

MFA brought about an ordering and institutionalization of different mechanism of protection for textile trade⁶⁸. It resulted into transformation of VERs into bilateral agreements, eliminations of other forms of protection and increase in market access⁶⁹. But it would be appropriate to mention that the MFA rules, allowing import restrictions to be imposed on non-MFN basis, were inconsistent with the MFN principle of GATT 1947 under articles 1 and XIII; the rule permitting quantitative restrictions was inconsistent with general prohibition on quantitative restrictions under article XI; and the rules were also

⁶⁵ Cortes, p-217

⁶⁶ GDI, p-47-49

⁶⁷ Blokker, p-213-225

⁶⁸ Cortes, p-159

⁶⁹ *ibid*, p-210

inconsistent with two requirements of article XIX i.e; the safeguard quotas be imposed in pursuant to a product specific determination and that such quotas be temporary⁷⁰.

But, whereas these acts of omission (agriculture) and commission (LTA, MFA) were due to the political pressure from the powerful, the ability of the developing countries to virtually escaped symmetric GATT obligations of access to their own markets by others was due to their weakness⁷¹.

There is no doubt that the developing countries have suffered very large losses from import restrictions imposed by developed countries in textiles and clothing⁷². But, by accepting the MFA, these developing countries had 'partially waived their GATT rights'⁷³. The protectionist discriminatory approach of developed countries can be assessed by the fact that they reduced tariff on imports from developed countries by an average of 40 %, but reduced tariff by 28 % for imports from developing countries⁷⁴.

Due to this, it had been estimated that if all trade restrictions on LDC textiles and clothing imports were lifted by EU, Japan and US, the gains to LDCs would be no less than 50.8 % of total possible gains of all trade. Without import restrictions, exports of developing countries would increase by 50 % for textiles

⁷⁰ Stewart, p-227

⁷¹ Bhagwati, p-12-13

⁷² Trebilcock and Howse, p-376

⁷³ Jackson, p-207

⁷⁴ Trebilcock and Howse, p-388

and 128.9 % for clothing⁷⁵.

Despite all these obstructions and problems, world exports of textiles and apparel increased from \$ 96 billion in 1980 to \$ 248 billion in 1992 and accounted for 7 % of global merchandised trade⁷⁶.

⁷⁵ *ibid*, p-376

⁷⁶ Schott, p-55

5.

FURTHER NEGOTIATIONS

There was general consensus for re-examining the article XIX of GATT because of its increased circumvention particularly in textiles and clothing trade. But negotiations on this article was basically linked to the overall trade liberalization negotiations. In this regard, no progress was made in Tokyo Round¹.

Ministerial Conference in 1982 recognised the increasing circumvention of GATT 1947 as they said in their declaration²,

'.. recognise that the multilateral trading system, of which the general agreement is the legal foundation is seriously endangered... existing strains have been aggravated by differences of perception regarding the balance of rights and obligations under the GATT...'

It was this background in which declaration of Ministerial Conference at Punta de Este 1986 was issued which called for launching a new round for multilateral trade negotiation. It specifically stated that³:

'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 liberalisation of trade'

URUGUAY ROUND (UR):

After initial resistance by developing countries for initiation of new round of multilateral trade negotiations, they agreed to pursue multilateral trade

¹ Blokker, p-285

² Cortes, p-237

³ ibid, p-266

liberalization with an expanded agenda including the trade liberalisation of textiles and clothing. UR was held from 1986 to 1994. Initially, 103 countries participated in the multilateral trade negotiations. However this number increased to 128 by the time of signing of the agreement⁴.

PROPOSALS FOR TEXTILES AND CLOTHING TRADE AGREEMENT:

Developing countries asked for liberalisation of trade in textiles and clothing in return of their cooperation for liberalisation in other sectors like intellectual property, services, investment, etc⁵. Highlighting the point of view of developing countries, Pakistan made following proposals in 1988, which were rejected by developed countries⁶:

- The elimination of restrictions on determined products in addition to the criteria of low prices for their applications;
- Only the already existing restrictions protected under article 3 of the MFA could be admitted; and
- An end to all types of restrictions to be brought about in period of 5 years.

US proposed three options for textiles sector trade, which called for complete elimination of quotas on textiles and clothing imports by the year 2001⁷ and introduction of new global quota system⁸. But, US proposals could not get support of EEC and developing countries⁹. Japan proposed for termination of

⁴ Hoekman and Kostecki, p-17

⁵ Cline, p-291

⁶ Cortes, p-266, 288

⁷ Cline, p-292

⁸ Cortes, p-267

⁹ *ibid*, p-269

MFA in July 1991 followed by transitory period upto 1999, during which quotas could be maintained with growth. Ultimately it was to integrate into GATT¹⁰.

Nordic countries called for gradual elimination of quotas over a period of six years¹¹. EEC called for progressive liberalization without mentioning any specific period for integration of textiles trade into GATT¹². These confronting ideas and proposals only highlights that everybody was in favour of gradual phasing out of quotas and integrating textiles sector into GATT.

As the conflicting proposals were debated for long time without any agreement, the Ministerial Conference in 1989 in Geneva agreed on declaration of principles. According to these principles, '*negotiations had to aimed at creating a transitional agreement which would regulate integration into GATT on the basis of reinforcing its rules and discipline in accordance with that set out in the Punta del Este Declaration*'¹³.

GATT 1994 and WTO:

Along with textiles and clothing sector, there was disagreement on the trade liberalisation in services, intellectual property and agriculture. As the negotiations linger on from 1986 to 1993, US President Clinton set December 15, 1993 as the deadline for US negotiator to finalise the negotiations. Ultimately, countries agreed to an overall package of UR Agreements embodied in new GATT 1994. These agreements included Agreement on Textiles and Clothing

¹⁰ Cline, p-304

¹¹ Cortes, p-270-271

¹² Cline, p-305

¹³ Cortes, p-266-267

(ATC) where the Dunkel¹⁴ Text was essentially intact¹⁵. ATC was concluded as an integral part of UR, which was to act as a mere instrument of transition leading towards elimination of existing restrictions and ultimate re-integration of this sector into GATT¹⁶.

¹⁴ Arthur Dunkel was the Director General of GATT and president of textiles negotiating committee.

¹⁵ Schott, p-4-7

¹⁶ Cortes, p-272-273

6. AGREEMENT ON TEXTILES AND CLOTHING (ATC)

Agreement on Textiles and Clothing (ATC) agreed upon during the Uruguay Round of multilateral trade negotiations in 1994. It came into force on January 1, 1995 for a period of ten years. From January 1, 2005; trade in textiles and clothing will be integrated into multilateral trading system of WTO/GATT, 1994. It carried over into ATC, all restrictions, which were in place on December 31, 1994. These restrictions would be phased out in four stages over a ten years period. Besides,, ATC could not be extended beyond 10 years¹.

OBJECTIVES OF ATC:

In light of the Punta del Este Declaration of Ministerial Conference 1986, the objectives of ATC were *eventual integration* of the textile and clothing sector into GATT 1994, and further liberalization of trade in this sector. The process of integrations would be progressive in character along with special treatment for least developed countries². Integration means that GATT 1994 rules prohibiting quantitative restrictions would apply on integrated products³. ATC applied to all members of WTO while MFA was applicable only to those, which joined it⁴.

PROVISIONS OF ATC:

ATC comprised of a preamble, 9 articles and one annex which are explained below in details:

¹ ATC, article 9

² *ibid*, preamble

³ Hoekman and Kostecki, p-209

⁴ Stewart, p-228

a) SPECIAL TREATMENT:

ATC called for special treatment for new entrants, small suppliers⁵ and cotton producing exporting members⁶.

b) PRODUCT COVERAGE:

ATC covered the products defined by Harmonized Commodity Description and Coding System (HS) with codes at the six-digit level. It included silk, wool, cotton, other vegetable fiber, paper yarn, manmade filaments, and staple fibers, carpets, special woven fabrics, knitted fabrics, etc⁷.

c) TEXTILES MONITORING BODY (TMB):

ATC established the Textiles Monitoring Body (TMB), which consists of a Chairman and ten members. The principal function of the TMB was to supervise the implementation of the Agreement, examine all measures taken under its provisions and to take various actions specifically required of it by the ATC⁸.

These included the review of:

1. Notifications submitted by Members of quotas in place at the beginning of the transition period;
2. Members' programmes for integration of products into GATT 1994;
3. Members' notifications with respect to non-MFA restrictions and their programmes for phasing out restrictions not justified under a provision of GATT 1994;

⁵ ATC, article 1.3

⁶ *ibid*, article 1.4

⁷ *ibid*, article 1.9; ATC, annex

⁸ *ibid*, article 8

4. Bilaterally agreed restraint measures under Article 6, to ensure they were in accordance with the provisions of the Agreements;
5. Unilaterally introduced restraints where an agreement was not reached through bilateral consultation, and making recommendations as appropriate;
6. Disagreements over technical or administrative changes or with respect to actions taken in response to allegations of circumvention or false declaration;
7. Notifications on actions taken by Members in other areas of the WTO, in relation to other specific commitments undertaken in the Uruguay Round to abide by GATT 1994 rules and discipline;
8. Any matter brought to it by Members and making recommendations;
9. The implementation of the Agreement at least five months before the end of each stage of the integration process and to provide a comprehensive report on this to the WTO Council for Trade in Goods⁹.

TMB's recommendation and findings were communicated to the Members directly concerned as well as to the Goods Council for its information. The Members were to endeavor to accept in full the recommendations of the TMB. It had to exercise proper surveillance of the implementation of such recommendations¹⁰.

ATC also made provision for re-examination of a matter where a WTO Member was unable to "conform with the recommendations of the TMB". In such a case, the Member was required to provide reasons to the Body within one month, after which the TMB will consider the reasons given and issue any further recommendations it considers appropriate. If, after this process, the

⁹ *ibid*, article 8.11

¹⁰ *ibid*, article 8.9

matter remained unresolved, either of the Members involved had the opportunity to bring the matter before the Dispute Settlement Body and even GATT Article XXIII:2 could be invoked¹¹.

d) COMPOSITION OF TMB:

On 31 January 1995, General Council of GATT 1994 decided the composition of the TMB for the first three years (1995-1997). Following extensive consultations over many months, the ten "seats" on the TMB were allocated to the following constituencies, which named individuals to serve on the TMB¹²:

- a. The ASEAN member countries;
- b. Canada and Switzerland in year 1, Canada and Norway in year 2 and 3;
- c. Pakistan and China (Macau was included until such time as China becomes a WTO Member);
- d. The European Communities;
- e. Hong Kong and Korea;
- f. India and Egypt/Morocco/Tunisia;
- g. Japan;
- h. Latin American and Caribbean Member countries;
- i. In the first year Norway, Turkey and Czech Republic / Hungary / Poland / Romania / Slovak Republic; in the second and third years, Turkey, Switzerland and Czech Republic / Hungary / Poland / Romania / Slovak Republic;
- j. The United States

¹¹ *ibid*, article 8.10

¹² WTO, ATC, TMB

The composition of TMB for the second stage was the same except for the following two constituencies (b) and (i)¹³:

- b) Canada and Norway
- i) Turkey, Switzerland and Bulgaria / Czech Republic / Hungary / Poland / Slovak Republic / Slovenia

The composition of TMB for third stage of integration will be the same as for first stage except for two constituencies. A least developed textile exporting member of WTO will join constituency (e). In addition, Croatia, Lithuania and Romania have been added to the constituency (i).¹⁴

e) COUNCIL FOR TRADE IN GOODS (CTG):

In addition to TMB, the implementation of ATC was also being supervised by CTG. TMB is to report to Council for Trade in Goods five months before the end of each stage. The report should have to give a comprehensive account of process of integration, transitional safeguard and application of rules and disciplines of GATT 1994 as defined in articles 2, 3,6 and 7 along with its recommendations¹⁵. The CTG had to conduct a review, before the end of each stage, of integration process and to take 'such decisions' by consensus as it deemed appropriate to ensure that the balance of rights and obligations embodied in ATC was not impaired¹⁶.

¹³ *ibid*, ATC, TMB

¹⁴ *ibid*, notification WT/L/443 dated January 10, 2002

¹⁵ ATC, article 8.11

¹⁶ *ibid*, article 8.12

f) SPECIFIC COMMITMENT:

As a result of the Uruguay Round, ATC provided for specific commitments undertaken by all Members to take such actions as may be necessary to abide by the rules and disciplines of GATT 1994 so as to:

1. Achieve improved access to markets for textile and clothing products through such measures as tariff reductions and bindings, reduction or elimination of non-tariff barriers, and facilitation of customs, administration and licensing formalities;
2. Ensure the application of policies relating to fair and equitable trading conditions as regards textiles and clothing in such areas as dumping and anti-dumping rules and procedures, subsidies and countervailing measures, and protection of intellectual property rights; and
3. Avoid discrimination against imports in the textiles and clothing sector when taking measures for general trade policy reasons.

It was also provided that, where any Member considered that another Member had not taken the actions referred to, and that the balance of rights and obligations under this Agreement had been upset, that Member could bring the matter before the relevant WTO bodies and inform the TMB¹⁷.

g) CIRCUMVENTION:

ATC also addressed the problem of circumvention of the Agreement by trans-shipment, re-routing, false declaration of origin or falsification of documents. It required that Members should establish the necessary legal provisions and/or administrative procedures to address and take action against circumvention. If a Member considered that circumvention of the Agreement

¹⁷ *ibid*, article 7

was taking place, consultations should be held to seek a satisfactory solution. Members were required to consult and cooperate fully, consistent with their domestic laws and procedures, to investigate and establish the relevant facts. Where there was sufficient evidence of circumvention appropriate action should had to be taken. If a bilateral agreement was not reached, the matter could be referred to the TMB for examination and recommendation¹⁸.

h) ADMINISTRATION OF RESTRICTIONS:

ATC also outlined procedures with respect to the administration of restrictions as well. It provided, for example, that the exporting Members should administer restrictions; however, importing Members were not obliged to accept shipments in excess of the levels of these restrictions. It also spoke of administrative changes such as changes in rules, practices, categorization, etc, which: "should not upset the balance of rights and obligations between the Members concerned, ...adversely affect access available to a Member, impede the full utilization of such access; or disrupt trade under this Agreement". Generally, such changes were subject to consultation and, if a mutually acceptable solution was not found, the matter could be referred to the TMB for examination and recommendations¹⁹.

¹⁸ *ibid*, article 5

¹⁹ *ibid*, article 4

i) NOTIFYING EXISTING QUOTAS:

ATC provided detailed procedure for documenting each and every action of a member through notification. Likewise, a number of notifications were required in 1995 to set the starting points for the transition, i.e; the listings of all quotas already in place on 1 January 1995 under MFA. For this purpose, all quantitative restrictions within bilateral agreements maintained under the MFA in force on 31 December 1994 were to be notified in detail, including the restraint levels, growth rates and flexibility provisions, by the Members maintaining them²⁰.

The restrictions so notified were deemed to constitute the totality of such restrictions applied by the respective Members. "No new restrictions in terms of products or Members shall be introduced except under the provisions of this Agreement or relevant GATT 1994 provisions. Restrictions not notified within 60 days of the date of entry into force of the WTO Agreement shall be terminated forthwith"²¹.

Notifications were also required for products to be integrated at the beginning of the first phase. Further notifications of the second integration stage were required of Members at the end of 1996, and so on for every stage²².

²⁰ *ibid*, article 2.1

²¹ *ibid*, article 2.4

²² *ibid*, article 2.6 to 2.8

Notification was also required of any actions taken in addition to this process such as early integration of products²³ or elimination of quotas²⁴.

j) NOTIFYING NON-MFA RESTRICTIONS:

Along with integration of textile and clothing trade into GATT 1994, the other important goal of the ATC was the elimination of all non-MFA quantitative restrictions (QRs) on textiles and clothing, which were not consistent with GATT rules. This required notification in 1995 of the initial situation in respect of each restraining Member (a member which was maintaining quantitative restrictions). Again, the purpose of notification was to record the starting point, to inform the TMB of the situation and actions to be taken, for its review purposes, and for the information of all WTO Members for transparency²⁵.

k) INTEGRATION PROCESS:

Progressive and staged integration of the products, covered by the ATC, into the GATT 1994 was one of the main features of this agreement. This would permit the *eventual integration* of this sector into strengthened GATT 1994 rules and disciplines, thereby also contributing to the objective of further liberalization of trade²⁶. ATC provided a specific and categorical time-frame for the integrations of all textile and clothing products, which had been enlisted in the annex of the agreement. First step was to notify all MFA and Non-MFA

²³ *ibid*, article 2.10

²⁴ *ibid*, article, 2.15

²⁵ *ibid*, article 3

²⁶ TMB-1, para-9

restrictions maintained by any member to TMB²⁷. The percentage of products to be integrated was determined on the basis of volume of imports of each country for the year 1990²⁸. Each member country was authorized to select the product to be integrated at every stage but it must contain products from each four product-groups i.e; tops and yarns, fabrics, made-up textile products and clothing²⁹. No minimum or maximum limit of product from each group was identified, thereby leaving it at the discretion of the respective member country.

Table 6.1

Schedule of Integration Under ATC

Stage	Date of integration	Percentage of textile products to be integrated
1.	1-1-1995	Not less than 16 % of the total volume of the member's 1990 imports of the products in the annex of ATC ³⁰
2.	1-1-1998	A further not less than 17 % of the total volume of the member's 1990 imports of the products in the annex of ATC ³¹
3.	1-1-2002	A further not less than 18 % of the total volume of the member's 1990 imports of the products in the annex of ATC ³²
4.	1-1-2005	All remaining products that is 49 % of the total volume of the member's 1990 imports will be integrated into GATT 1994 and all restrictions under ATC will be eliminated ³³ .

²⁷ ATC, articles 2.1 and 3.1

²⁸ *ibid*, articles 2.6, 2.8-a, 2.8-b

²⁹ *Ibid*, article 2.6

³⁰ *Ibid*, article 2.6

³¹ *Ibid*, article 2.8-a

³² *Ibid*, article 2.8-b

³³ *Ibid*, article 2.8-c

Almost half of the products (49 %) will be integrated on last day of integration as shown in table 6.1. Therefore, it can be said that integration programme was heavily *back-loaded* putting most of the difficult liberalization off to the future³⁴.

This schedule was only for those countries, which maintained restrictions under MFA or had decided to retain the right to use Transitional Safeguard Mechanism (TSM)³⁵. Those members which did not retain the right to use TSM, they deemed to have integrated their textiles and clothing products into GATT 1994 and did not require to follow above mentioned integration process³⁶. Member countries could also do the advance integration earlier than that provided for in the above integration programme³⁷. Once a product integrated into GATT 1994, all restrictions on its import were eliminated and TSM could not be used on this integrated product³⁸.

US, EC, Canada and Norway had to furnish their integration programme first as they maintained quota under MFA and carried them over into ATC³⁹.

1) GROWTH ON CARRIED OVER QUOTAS:

ATC also provided for growth on the MFA restrictions carried over into ATC. This growth rate of quotas was to be over and above the growth rate provided for under the MFA restrictions.

³⁴ Hoekman and Kostecki, p-209

³⁵ ATC, article 7

³⁶ Ibid, article 2.9

³⁷ Ibid, article 2.10

³⁸ TMB-1, para-67

³⁹ WTO, ATC

Table 6.2

Schedule Of Quota Growth Under ATC

Stage	Date	Growth Rate	Period
1.	1-1-1995	Not less than the growth rate established for the respective restrictions and increased by 16 % ⁴⁰	1995-1997
2.	1-1-1998	The growth rate during stage 1 and increased by 25 % ⁴¹	1998-2001
3.	1-1-2002	The growth rate during stage 2 and increased by 27 % ⁴²	2002-2004
4.	1-1-2005	All restrictions will be eliminated and trade in textiles and clothing will be integrated into GATT 1994 completely ⁴³	

It was estimated that by 2005, the quota liberalization would result in 18 % and 69 % growth in the trade of textiles and clothing respectively. This growth was a major factor behind the estimated 14-37 % expansion in exports calculated to accrue to developing countries and transitional economies⁴⁴.

m) TRANSITIONAL SAFEGUARD MECHANISM (TSM):

A particularly important provision of the ATC was the Transitional Safeguard Mechanism (TSM), which allowed the use of selective safeguard actions to be taken to protect members from surge of imports during the transitional period. Article 6 of the ATC provided for the possibility of applying TSM on imports of products covered under ATC and not yet integrated into GATT, 1994 that cause serious damage or actual threat thereof, to the domestic

⁴⁰ ATC, article 2.13

⁴¹ Ibid, article 2.14-a

⁴² Ibid, article 2.14-b

⁴³ Ibid, article 2.8-c

⁴⁴ WTO, ATC

industry producing like and or directly competitive products. It was to be used as *sparingly* as possible⁴⁵. This selective safeguard was different from the non-selective provision of article XIX of GATT 1994. Every member, which wished to retain the right to use the TSM, had to notify it to TMB⁴⁶ and also had to furnish its programme of integration under article 2 for every stage.

ATC provided very detailed procedures for the use of TSM in three different ways as detailed below:

- Use of TSM with mutual consultations and bilateral agreement between the concerned parties⁴⁷;
- Unilateral use of TSM after the consultations have failed⁴⁸;
- Unilateral TSM without notice and consultations ⁴⁹.

Level and duration of the restraints under TSM had also been defined⁵⁰. All TSM had to be reported to TMB for examining their conformity with the provisions of ATC⁵¹. Under article 2.4, no new restrictions, in terms of products once integrated, could be introduced except under ATC or GATT, 1994.

⁴⁵TMB-1, para-79

⁴⁶ ATC, article 6.1

⁴⁷ *ibid*, article 6.1 to 6.9

⁴⁸ *Ibid*, article 6.10

⁴⁹ *Ibid*, article 6.11

⁵⁰ *Ibid*, article 6.12 to 6.15

⁵¹ *Ibid*, article 6

PART-II

IMPLEMENTATION OF

WTO AGREEMENT ON TEXTILES AND CLOTHING

7.

FIRST STAGE OF INTEGRATION (1995-97)

Integration of products covered under ATC was to be completed in four stages. First stage of integration was to take place on January 1, 1995 i.e; the first day of the implementation of ATC.

ATC provided that " on the date of entry into force of the WTO Agreement, each member shall integrate into GATT 1994, products which accounted for not less than 16 % of the total volume of the member's 1990 imports of the products in the Annex, in terms of HS lines or categories. The products to be integrated shall encompass products from each of the four groups i.e; tops and yarns, fabrics, made-up textile products and clothing"¹.

Members, which had quota restrictions under MFA and carried them over into ATC, notified their programme of integration for first stage under article 2.7 (a). Those members, which had retained the right to use TSM, notified their programme of integration for first stage under article 2.7 (b)². Notifications made by members were then circulated to all members. They were, later reviewed by TMB to find their conformity with ATC or otherwise³.

QUOTAS NOTIFIED:

First step of implementation was to notify all the quotas maintained under

¹ ATC, article 2.6

² TMB-I, Paras-11-12

³ *ibid*, para-12

MFA ⁴ along with details of restraint levels, growth rates and flexibility provisions by those members, which maintained such restrictions. The restrictions notified under article 2.1 constituted the totality of such restrictions and those restrictions not notified within 60 days stood terminated forthwith⁵.

All non-MFA restrictions had also to be notified within 60 days of ATC coming into force and had to be justified under GATT 1994⁶. The total quotas notified in respect of WTO members are detailed in table 7.1 ⁷.

Table 7.1

Quotas Notified In Respect Of WTO Members

Member	No. of the quotas notified
USA	751
EC	253
Canada	295
Norway	54

Canada made a joint notification of restrictions under article 2.1 and 3.1, which it carried over into ATC⁸. Initially, it notified 256 restrictions, but with the WTO membership kept on increasing, the total number of restrictions came altogether 295⁹. The 295 restrictions were against 26 WTO members under article 2.1¹⁰. Canada also notified its restrictions against 17 non-WTO countries under

⁴ ATC, article 2.1

⁵ *ibid*, article 2.4; TMB-1, Para-182; TMB-2, para-244-254

⁶ *ibid*, article 3.1

⁷ TMB-1, para-183-191; TMB-2, para-341-352

⁸ WTO, TMB notification G/TMB/N/62 dated April 19, 1995

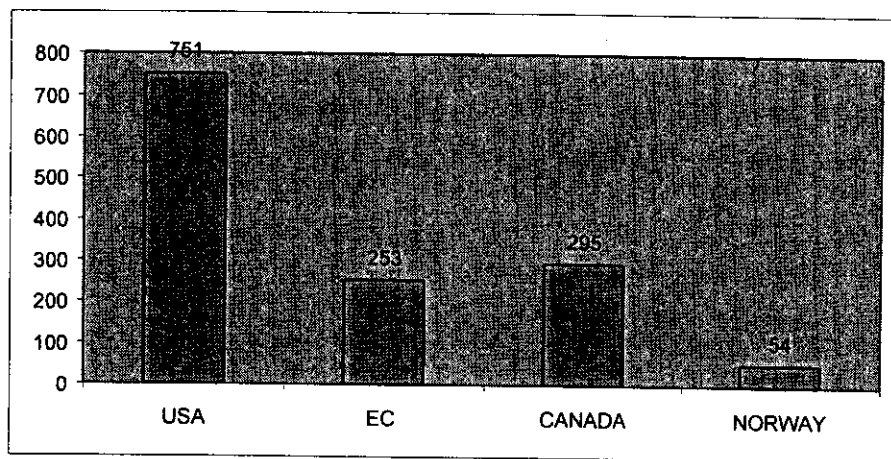
⁹ TMB-2, para-248

¹⁰ TMB-1, para-183; TMB-2, para-247-248 (Bangladesh, Brazil, Costa Rica, Czech Republic, South Africa, Dominican Republic, Hong Kong, Hungary, India, Indonesia, Jamaica, Korea, Macau,

article 3.1¹¹. Canada's 295 restrictions contained quotas, sub-limits, group limits and exports authorization without level¹².

Figure 7.1

Number Of Quotas Notified For WTO Members



EC notified details of its restrictions carried over into ATC under article 2.1¹³. These restrictions included 199 specific limits and 19 sub-limits against 14 WTO members;¹⁴ and 35 outward processing trade quota measures limits against 9 WTO members¹⁵. Vide another notification; EC gave details of its 2 quota quantitative restrictions against non-WTO countries under article 3.1 of ATC¹⁶.

Malaysia, Mauritius, Myanmar, Pakistan, Philippines, Romania, Singapore, Slovak Republic, South Africa, Sri Lanka, Swaziland, Thailand, Turkey and Uruguay)

¹¹ TMB-1, Para-235; TMB-2, para-344 (Bulgaria, Cambodia, China, Cuba, North Korea, Laos, Lebanon, Lesotho, Nepal, Oman, Poland, Qatar, Russia, Syria, Taiwan, United Arab Emirates, Vietnam)

¹² TMB-1, para-184

¹³ WTO, EC's notification G/TMB/N/60 dated April 19, 1995

¹⁴ TMB-1, para-185-186; TMB-2, para-249 (Argentina, Brazil, Hong Kong, India, Indonesia, Macau, Malaysia, Pakistan, Peru, Philippines, Singapore, Korea, Sri Lanka, Thailand)

¹⁵ Ibid, (India, Indonesia, Macau, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Thailand)

¹⁶ TMB-1, para-234, TMB-2, para-345 (Bulgaria, the Czech Republic Hungary, Poland, Romania, Slovakia, Egypt, Morocco, Tunisia, Malta, and Turkey)

Norway notified all restrictions through one notification¹⁷. It included 54 specific quotas against 16 WTO members under article 2.1¹⁸. It also included 12 quotas maintained against three non-WTO countries¹⁹.

US notified²⁰ (and later amended) total 751 restrictions including 696 specific limits and 55 sub-limits (including single categories, part of categories, groupings of categories) against 25 WTO members under article 2.1²¹. It also notified, for information, 251 specific limits against 12 non-WTO countries²². US notified²³ its restrictions under article 3.1 separately against 5 countries, which were neither WTO-members nor GATT 1947 contracting parties²⁴. After Oman became member of WTO in February 2001, US notified specific limits on seven clothing items as combined categories to TMB under article 2.1²⁵.

INTEGRATION OF PRODUCTS:

Under article 2.6, members had to integrate products not less than 16 % of their total volume of imports in 1990. Under article 2.7(a), members maintaining

¹⁷ WTO, Norway's notification G/TMB/N/61 dated April 19, 1995

¹⁸ TMB-1, para-188; TMB-2, para-250 (the Czech Republic, Hong Kong, Hungary, India, Indonesia, Korea, Macau, Malaysia, Pakistan, Philippines, Poland, Romania, Singapore, the Slovak Republic, Sri Lanka, Thailand)

¹⁹ Ibid, (China, North Korea, Vietnam)

²⁰ WTO, US's notification G/TMB/N/63 dated April 19, 1995

²¹ TMB-2, para-251-254 (Bahrain, Bangladesh, Brazil, Costa Rica, the Czech Republic, the Dominican Republic, Hong Kong, Hungary, India, Indonesia, Jamaica, Kenya, Korea, Macau, Malaysia, Mauritius, Pakistan, the Philippines, Romania, Singapore, Slovak Republic, Sri Lanka, Thailand, Turkey, Uruguay)

²² TMB-1, para-189; TMB-2, para-251 (Bulgaria, China, Chinese Taipei, Colombia, Egypt, El Salvador, Fiji, Guatemala, Nepal, Oman, Poland, and United Arab Emirates)

²³ WTO, US's notification G/TMB/N/66 (Haiti, Laos, former Yugoslav Republic of Macedonia, Qatar and Ukraine)

²⁴ TMB-1, para-235, TMB-2, para-344

²⁵ TMB-2, para-259

restrictions carried over from MFA,²⁶ notified their integration programme to GATT secretariat, which then circulated them to all members. The details of the integration of products, covered under ATC, in respect of restraining members were as shown in table 7.2.²⁷

Table 7.2

Integration of Products During First Stage

Member	% of total products integrated	Required % at first stage
USA	16.21	16
EC	16.20	16
Canada	16.36	16
Norway	26.32	16

Except Norway, all other restraining members tried to just fulfil the technical obligations²⁸. EC had initially integrated 16.40 % of its imports in 1990. But Columbia challenged the integration of EC and TMB found that some of products integrated were not covered under ATC. Therefore, EC revised its integration programme and deleted all those products, which were not covered under ATC²⁹. Although the restraining members fulfilled their obligations technically by integrating at least 16 % of the products of the volume of their imports in 1990, but they failed to follow the concept of progressive and meaningful integration process as set out in the objectives of the ATC.

²⁶ US, EC, Canada and Norway

²⁷ TMB-1, para-14; TMB-2, para-34-40

²⁸ Ibid, para-36

²⁹ TMB-2, para-34

Under article 2.6, products had to be selected from four product groups i.e; tops and yarn, fabrics, made-up and clothing. The share of tops and yarns along with fabrics was significantly higher than that of made-up textile products and clothing. This is evident from the details mentioned in table 7.3³⁰:

Table 7.3

Share Of Each Product Group Integrated During First Stage (%)

Member	Tops and yarn	Fabrics	Made-up	Clothing
US	52	15	20	13
EC	33	45	20	2
Canada	59	26	8	7
Norway	14	45	40	1

Products integrated were concentrated in the relatively less value added range of products like tops and yarn and fabrics. High value added products like clothing had the smallest share in the total integrated products. Its mean that shares of products integrated was smaller in terms of their value than in terms of volume³¹.

Article 2.10 provided for advance integration earlier than as laid down in the ATC but no restraining member used this provision³². This also showed that the restraining members simply met the minimum technical requirement of implementation of ATC.

³⁰ TMB-1, para-14

³¹ ibid, para-15; TMB-2, para-15

³² ibid, para-32

Under articles 2.6 and 2.7 (b), those members which had decided to retain the right to use TSM,³³ had to furnish their integration programme within 60 days of coming into force of ATC. Further, those WTO members, which were not member of MFA, had to furnish their programme of integration within 12 months of coming into force of ATC³⁴.

Under article 6.1, 55 members decided to retain the right to use TSM. But only 45 members³⁵ submitted their integration programme pursuant to article 2.6 and 2.7(b)³⁶. All the members integrated at least 16 % of their volume of imports in 1990, which comprised products from all four groups. The remaining 10 countries did not make any notification for integration, which was mandatory³⁷.

Article 3.1 provided for the notification within 60 days following the entry into force of the ATC, of all restrictions on textile and clothing products, other than those maintained under the MFA and covered by article 2 of the ATC whether consistent with GATT 1994 or not³⁸. In addition to four restraining

³³ as provided under article 6.1

³⁴ ATC, article 2.7-b

³⁵ TMB-1, para-28 (Argentina, Bangladesh, Bolivia, Brazil, Colombia, Costa Rica, Cyprus, Czech Republic, Dominican Republic, Egypt, El Salvador, Guatemala, Honduras, Hungary, India, Indonesia, Israel, Japan, Korea, Liechtenstein, Malaysia, Malta, Mauritius, Mexico, Morocco, Myanmar, Nicaragua, Pakistan, Paraguay, Peru, Philippines, Poland, Romania, Saint Kitts and Nevis, Slovak Republic, South Africa, Slovenia, South Africa, Sri Lanka, Switzerland, Thailand, Tunisia, Turkey, Uruguay, Venezuela, and Zambia).

³⁶ Ibid, para-28

³⁷ TMB-1, para-29; TMB-2, para-24 (Burkina Faso, Cote d'Ivoire, Ecuador, Jamaica, Kenya, Lesotho, Nigeria, Senegal, Trinidad and Tobago, and the United Arab Emirates)

³⁸ TMB-2, para-341

members, 15 other members notified quantitative restrictions usually on specific textile and clothing products³⁹.

QUOTA LIBERALISED:

When a restrained product is integrated into GATT 1994, all restrictions on that product were removed. The details of quotas liberalised during first stage are given in table 7.4.

Table 7.4

Quotas Liberalised During First Stage

Member	No. of quotas Notified	Quota Eliminated	WTO members benefited
USA	751	-	-
EC	253	-	-
Canada	295	1	na
Norway	54	14	16

na = not available

Norway utilised the provision of article 2.15, under which any restraining member could eliminate restriction at the beginning of any agreement year⁴⁰ during the transition period from 1995 onward⁴¹. It integrated products, which included 14 products under restrictions, which were one-piece suit, trousers, knitted bed linen and traps and pots⁴².

³⁹ Ibid, para-342-343 (Bangladesh, Cyprus, Egypt, Hungary, India, Japan, Korea, Mexico, Malaysia, Morocco, Pakistan, Peru, Slovenia, Thailand, Venezuela)

⁴⁰ Agreement year mean January 1 of each year from 1995 to 2005

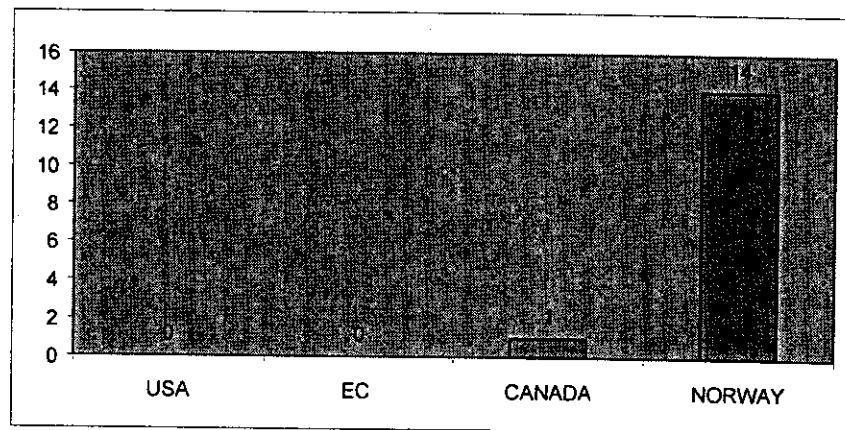
⁴¹TMB-1, para-203

⁴² TMB-2, para-255

Canada withdrew restrictions from work gloves only⁴³. EC and US did not integrate any product which was under restrictions thereby they did not liberalise any quota during first stage⁴⁴.

Figure 7.2

Quotas Liberalised During First Stage



The figure 7.2 depicts that the members maintained most restrictions like US, EC and Canada, had continued their policy of strong restrictions and discrimination towards developing countries during first stage of implementation of ATC. They failed to follow the objective of ATC i.e; progressive and meaningful integration of products. On the other hand, the member which maintained minimum restrictions i.e; Norway, liberalised the maximum number of quotas during first stage which were 25 % of the total quotas maintained by it.

⁴³ ibid, para-16

⁴⁴ ibid, para-16

GROWTH ON QUOTA:

Every restraining member fulfilled the provision of growth on growth of quotas⁴⁵ carried over from MFA under article 2.13 and 2.14. Besides, no member complained about any violation of the relevant provision of the agreement⁴⁶.

Article 2.18 provided for granting advancement by one stage, of the growth rates on quotas for those countries, which had 1.2 % or less growth rate on their restricted products under MFA. Accordingly, Canada, EC and US notified to TMB, for granting growth on quotas at a rate of 25 % instead of 16 %⁴⁷. Canada provided this facility to 17⁴⁸, US to 22⁴⁹ and EC to 25⁵⁰ countries. There was no country, which qualified for this facility in case of Norway⁵¹.

TRANSITIONAL SAFEGUARD MEASURES (TSM):

Initially, 55 members⁵² retained the right to use Transitional Safeguard Mechanism (TSM) under article 6.1, while 9 members⁵³ chose not to retain this

⁴⁵ Every restraining member had to increase the quota by 16 % over and above the rate of growth provided under MFA agreement.

⁴⁶ TMB-1, para-203

⁴⁷ WTO, notification (G/TMB/N/183-85).

⁴⁸ TMB-1, para-206 – 209; TMB-2, para-285-287 (Costa Rica, Cuba, Czech Republic, Dominican Republic, Hungary, Jamaica, Lesotho, Macau, Mauritius, Myanmar, Poland, Slovak Republic, South Africa, Sri Lanka, Swaziland and Uruguay)

⁴⁹ TMB-1, para-206 – 209; TMB-2, para-285-287 (Bahrain, Columbia, Costa Rica, Czech Republic, Dominican Republic, Egypt, El Salvador, Fiji, Guatemala, Haiti, Hungary, Jamaica, Kenya, Kuwait, Macau, Mauritius, Poland, Qatar, Romania, Slovak Republic, United Arab Emirates and Uruguay)

⁵⁰ TMB-1, para-206 – 209; TMB-2, para-285-287 (Peru and Sri Lanka)

⁵¹ TMB-1, para-206 – 209; TMB-2, para-285-287

⁵² TMB-1, para-25 (Argentina, Bangladesh, Bolivia, Burkino Faso, Brazil, Colombia, Costa Rica, Cote d'Ivoire, Cyprus, Czech Republic, Dominican Republic, Ecuador, Egypt, El Salvador, Guatemala, Honduras, Hungary, India, Indonesia, Israel, Jamaica, Japan, Kenya, Korea, Lesotho, Liechtenstein, Malaysia, Malta, Mauritius, Mexico, Morocco, Myanmar, Nicaragua, Nigeria,

right. These nine members integrated 100 % of products on 1-1-1995 as per article 2.9 of ATC⁵⁴. Table 7.5 provides the details of use of TSM during first stage of implementation of ATC.

Table 7.5

TSM Applied During First Stage

	1995	1996	1997	Total
USA	24	1	1	26
EC	0	0	0	0
Canada	0	0	0	0
Norway	0	0	0	0
Brazil	0	0	7	7
Ecuador	0	2	0	2
Total	24	3	8	35

US applied TSM under article 6.7⁵⁵ and 6.10⁵⁶ of ATC, which affected 15 members. In the first year of the implementation of the ATC, US used the provision of TSM 24 times in 1995 against 14 members⁵⁷. Due to strong and effective resistance by TMB and the restrained members, reliance on TSM by US was reduced drastically in the following years of the first stage. US used this provision only once in 1996 and 1997 against El Salvador and Pakistan

Pakistan, Paraguay, Peru, Philippines, Poland, Romania, Saint Kitts and Nevis, Senegal, Slovak Republic, Slovenia, South Africa, Sri Lanka, Switzerland, Thailand, Trinidad and Tobago, Tunisia, Turkey, United Arab Emirates, Uruguay, Venezuela and Zambia)

⁵³ *ibid*, para-26, (Australia, Brunei Darussalam, Chile, Cuba, Hong Kong, Iceland, Macau, New Zealand, Singapore)

⁵⁴ WTO, (wto-atc.htm).

⁵⁵ use of TSM after mutual consultations

⁵⁶ use of TSM unilaterally after consultation failed

⁵⁷ TMB-1, para-85 (Brazil, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Hong Kong, India, Jamaica, the Philippines, Sri Lanka, Thailand and Turkey)

respectively. Out of these 26 TSM, 9 remained enforced as agreed restraints while 17 TSM were rescinded or dropped⁵⁸.

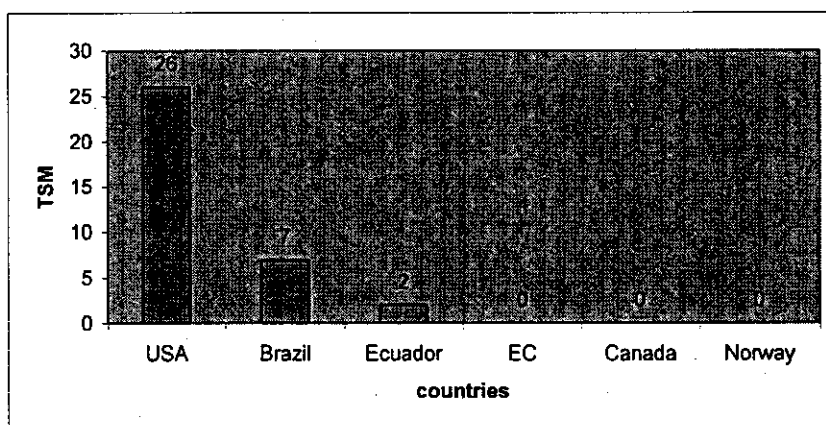
EC, Canada and Norway did not use this provision during the first stage as shown in table 7.5⁵⁹.

Brazil applied 7 TSM under article 6.7 and 6.11⁶⁰, which affected Korea and Hong Kong⁶¹. Out of these 7 TSM, 5 were agreed to with concerned members for a period of 3 years, one was rescinded and one was withdrawn on the recommendation of TMB⁶².

Ecuador applied 2 TSM against import from Korea and Hong Kong⁶³. After their review by TMB, Ecuador allowed them to expire after six months⁶⁴.

Figure 7.3

Use of TSM During First Stage



⁵⁸ TMB-1, para-174; TMB-2, para-119

⁵⁹ TMB-1, para-85, 173, 174

⁶⁰ use of TSM unilaterally without consultation request

⁶¹ TMB-1, para-86,147; TMB-2, para-120

⁶² TMB-1, para-177

⁶³ *ibid*, para-87

⁶⁴ *ibid*, para-166-170

Article 6.6 (a) and (b) called for significantly favourable treatment while applying TSM against any LDC⁶⁵. No TSM was applied against any LDC during first stage⁶⁶. Further, no member invoked the provision of article of 2.19 and 2.20 of ATC for taking safeguard actions under article XIX of GATT 1994⁶⁷.

In the first stage of implementation of ATC, US relied heavily on TSM and further restricted the textile trade particularly in 1995. Other restraining members avoided the use of TSM. This may be due to strict and detailed requirement for use of TSM, and effective examination of these actions by TMB⁶⁸.

⁶⁵ Least developed country

⁶⁶ TMB-1, para-303

⁶⁷ *ibid*, para-223

⁶⁸ *ibid*, para-179

8. SECOND STAGE OF INTEGRATION (1998-2001)

Article 2.8(a) of ATC provided that on January 1, 1998, products which accounted for not less than 17 % of the total volume of the member's 1990 imports, should be integrated. The products to be integrated should comprise products from all four groups. This programme of integration had to be notified to TMB at least 12 months before the start of integration stage¹.

INTEGRATION:

As per requirement, the restraining members furnished their notifications for second stage of integration to TMB, which were circulated to all members. They integrated products covered under ATC as per details² in table 8.1.

Table 8.1

Integration of Products During Second Stage

Member	% of total products integrated	Required % for 2 nd stage
USA	17.03	17
EC	17.11	17
Canada	18.70	17
Norway	17.02	17

Just like first stage of integration, the restraining members integrated only technically required share of products for the second stage. They did not adopt the principle of progressive and meaningful integration as provided in the

¹ ATC, article 2.11

² TMB-1, para-41-44; TMB-2, para-47-56

objectives of ATC. The group wise break up of integrated products is explained in Table 8.2³.

Table 8.2

Share Of Each Product Group Integrated During 2nd Stage (%)

Country	Tops and yarns	Fabrics	Made-up	Clothing
US	47	14.7	26.7	11.6
EC	62.1	13.2	12.2	12.5
Canada	3.5	11.3	76.4	8.8
Norway	37.9	14	23.4	24.5

All restraining members, except Norway, had integrated the minimum volume of clothing which was the highest value added in the four product groups. They mostly integrated products from less value added groups like tops and yarns and fabrics. No member used the provision of article 2.10 and 2.15 for advance and early integration than provided in the ATC ⁴.

Members, which retained the right to use TSM, had to provide integration programme for second stage under article 2.8(a). 46 members provided the integration programme while 2 members did not provide the integration programme⁵. Haiti and Mongolia notified not to retain the right to use the TSM. As such, they fully integrated their textiles sector into GATT 1994 under article 2.9⁶. On the other hand, Panama, Latvia and Estonia notified to retain the right to use the TSM under article 6.1. Thereby they had submitted integration

³ *ibid*, para-41-44; TMB-2, para-51-56

⁴ TMB-2, para-63

⁵ *ibid*, para-69

⁶ *ibid*, para-27

programme as well ⁷.

QUOTA LIBERALISED:

During the second stage of integration, the restraining members integrated some products, which were under restrictions. As such, these products were liberalized.

Table 8.3

Quotas Liberalized During Second Stage

	No. of the quota Notified	Quota liberalized in first stage	Quota liberalized in 2nd Stage	WTO members benefited in 2nd stage
USA	751	0	24	14
EC	253	0	12	5
Canada	295	1	2	22
Norway	54	14	40	24

US eliminated 24 restrictions, which benefited 14 members⁸ as shown in table 8.3. These liberalized products were mostly low value. EC withdrew 12 restrictions in second stage, which benefited 5 WTO members⁹. Canada withdrew only 2 restrictions relating handbags of textile material and tailored collar shirts. This benefited 22 WTO members¹⁰. Norway adopted the provision of article 2.15 ¹¹ for early elimination of restrictions as detailed in table 8.4 ¹². As such,

⁷ ibid, para-29

⁸ TMB-1, para-44, 53; TMB-2, para-265 (Bahrain, Brazil, Hong Kong, India, Indonesia, Korea, United Arab Emirates, Malaysia, Macau, Pakistan, Philippines, Romania, Singapore, Thailand)

⁹TMB-1, para-42, 54; (Brazil, Argentina, Hong Kong, Korea, Macau

¹⁰TMB-1, parap-41, 55; TMB-2, para-256 (Bangladesh, Bulgaria, Cuba, Hong Kong, India, Indonesia, Korea, Macau, Malaysia, Mauritius, Myanmar, Pakistan, the Philippines, Poland, Qatar, Romania, Singapore, South Africa, Sri Lanka, Swaziland, Thailand, United Arab Emirates)

¹¹ Elimination of quota at the beginning of any agreement year

¹² TMB-1, para-43, 203; TMB-2, para-49, 262-263

Norway was the first of the four restraining members, which fully integrated its all restricted textiles products on 1 January 2001¹³.

Table 8.4

Quotas Liberalized by Norway During Second Stage

Date of integration	Quota liberalized	Products category	WTO members benefited
1.1.1998	32	Woven jacket, woven trousers, bed linen, fishing nets	16
1.1.1999	5	Woven jackets, bed linen, fishing nets	5
1.1.2001	3	Fishing nets	3

GROWTH ON QUOTA:

According to article 2.14 (a), the growth rates on quotas carried over from the pre-ATC regime and already increased by not less than 16 % annually during stage one, had to be further increased by not less than 25 % annually during the second stage of the integration process. All restraining members increased the rate of growth on the existing quotas by 25 %¹⁴.

Article 2.18 provided for granting advancement by one stage of the growth rates on quotas for those members, which had 1.2 % or less growth rate on their restricted products under MFA. It means that they had to get 27 % increase (stipulated for third stage), instead of 25 %, during second stage. Canada, EC and US accorded advance growth rate to those countries, which were eligible

¹³ TMB-2, para-264

¹⁴ *ibid*, para-276

for this facility. No member was qualified for this facility as for as Norway is concerned¹⁵.

TRANSITIONAL SAFEGUARD:

The main characteristic of the second stage of implementation of ATC was that EC, Canada and Norway did not use TSM at all. US used TSM only once in 1998. As is evident from the table 8.5 and figure 8.1, non-restraining members heavily resorted to the use of TSM under articles 6.7 and 6.11¹⁶.

Table 8.5

TSM Applied During Second Stage

	1998	1999	2000	2001	Total
USA	1	-	-	-	1
EC	-	-	-	-	0
Canada	-	-	-	-	0
Norway	-	-	-	-	0
Colombia	9	-	-	-	9
Poland	-	1	-	1	2
Argentina	-	17	-	-	17
Total	10	18	0	1	29

US used TSM against Pakistan in 1998 on the import of combed cotton yarn¹⁷. The issue was ultimately reached the level of DSB, which asked US to promptly remove the import restrictions¹⁸. US have now decided to challenge the decision before the Appellate Body¹⁹.

¹⁵ Ibid, para-290

¹⁶ Ibid, para-236

¹⁷ Ibid, para-123, 136

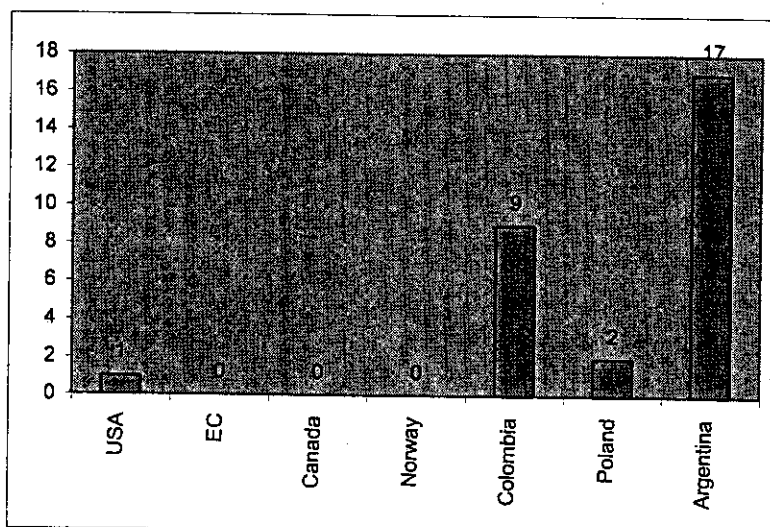
¹⁸ ibid, para-50

¹⁹ ibid, para-151

Colombia made 9 requests for TSM against Brazil, Chile, India, Peru, and Venezuela for the product denim fabric under article 6.7. It also asked for TSM on import of plain polyester filaments from Korea, Malaysia, Thailand and US²⁰. Later, Colombia decided not to apply TSM in five cases²¹ whereas it applied TSM in four cases²².

Figure 8.1

TSM Applied During Second Stage Of Integration



Poland made one request for TSM against import of woven fabrics of synthetic filaments yarn against Korea under article 6.7. It also asked for consultation with Romania for applying TSM on import of acrylic or mod-acrylic staple fiber. Later, it decided not to use TSM against Korea and other issue is still under consultation²³.

²⁰ *ibid*, para-124

²¹ *ibid*, para-152

²² *ibid*, para-153-177

²³ *ibid*, para-125, 178,179

Argentina notified TSM under article 6.7 and 6.11 in 17 cases against Indonesia, Korea, Malaysia, Brazil, and Pakistan. After consultations, Argentina decided not to apply TSM on import of polyester fibre yarn from Indonesia, Korea and Malaysia and also on import of polyester fibre from Korea²⁴. Argentina and Brazil agreed to a solution regarding TSM on import of five products from Brazil²⁵. Argentina rescinded TSM against import of five products from Pakistan²⁶ and two products from Korea²⁷. Further, it also increased the level of restraint for import of one product from Korea²⁸.

²⁴ *ibid*, para-180

²⁵ *ibid*, para-205

²⁶ *ibid*, para-216

²⁷ *ibid*, para-230

²⁸ *ibid*, para-230

9. THIRD STAGE OF INTEGRATION (2002-2004)

Under article 2.11, integration programme by restraining members had to be notified 12 months before the start of every stage. Under article 2.8 (b), the 3rd stage of implementation started on January 1, 2002. As such, restraining members were supposed to furnish their integration programme latest by January 1, 2001, which they complied with. TMB have circulated the programmes and also sought some clarifications from the concerned members. After receiving the clarifications, it will review the integration programmes in light of provisions of ATC.

INTEGRATION OF PRODUCTS:

Under article 2.8(b), restraining members had to integrate 'products which account for not less than 18 % of the total volume of the member's 1990 imports'. According to programme of integration notified to TMB by restraining members, all of them have integrated at least 18 % of the products on January 1, 2002. Details of products integrated are given in table 9.1¹.

As mentioned in table 9.1, all except Norway, integrated only the volume of products technically required for third stage. This was in line with the pattern in first two stages where these members met the technical requirements only. No effort was made to follow the *progressive and meaningful integration* objective of ATC.

¹ TMB-2, paras 82-85

Table 9.1

Integration Of Products In Third Stage

	% of products integrated	% of products required to be integrated
US	18.11 ²	18
EC	18.08 ³	18
Canada	18.16 ⁴	18
Norway	21.65 ⁵	18

The other requirement of integration was to select products from four groups⁶. All four restraining members did fulfill this requirement as is evident from table 9.27.

Table 9.2

Share Of Each Product Group (%)

	Tops and Yarns	Fabric	Made-up	Clothing
US	18.00	21.59	46.38	14.08
EC	21.13	19.91	24.56	34.40
Canada	30.34	5.78	42.79	21.09
Norway	12.61	28.96	23.51	34.96

The selection of products for third stage shows a mix approach by the restraining members. US, as usual, selected minimum products from clothing which is the highest value added product and is of main interest for developing countries. This also clarify that US have opted to integrate its high value added products on the last day of integration at fourth stage i.e; January 1, 2005.

² ibid, para 85

³ ibid, para 83

⁴ ibid, para 82

⁵ ibid, para 84

⁶ ATC, article 2.6

⁷ TMB-2, calculated on the basis of data provided in para 82-85

However, it selected maximum products from group of made up which is second best value added.

Canada chose maximum products from the group of made-up, which are the second best value added. On the other hand, EC and Norway selected maximum products from the highest value added product i.e; clothing.

In addition to these four restraining members, those 46 members which retained the right to use the TSM, had to notify their integration programme as well to TMB⁸. Out of 46, 36 members furnished their integration programme while 10⁹ members did not provide the necessary notifications to TMB. As some of these notifications did not provide the needed information, TMB could review 27 notifications ¹⁰.

All these members integrated at least 18 % of the products of their volume of imports in 1990 and also selected products from all four groups as required under article 2.8 (b) ¹¹. Pakistan integrated its entire textiles sector as part of third stage of integration with effect from January 1, 2002¹². It means that now Pakistan's textile trade will be governed under GATT, 1994.

QUOTA LIBERALISED:

One of the main aims of the ATC was to eliminate the quantitative restrictions on the products of textiles and clothing. When a restricted product is

⁸ ATC, article 2.7 (b)

⁹ TMB-2, para 86 (Bangladesh, Bolivia, Egypt, Honduras, Israel, Malaysia, Saint Kitts and Nevis, south Africa, Thailand, Venezuela)

¹⁰ *ibid*, para 87

¹¹ *ibid*, para 88

¹² *ibid*, para 88

integrated into GATT 1994, all restrictions from it are removed. Table 9.3 gives the details of products integrated by restraining members in the third stage, which were under quantitative restrictions and liberalized.

Table 9.3

Quotas Liberalized in Third Stage

	Quota notified	Quota liberalized during stage 1 & 2	Quota liberalized in 3 rd stage	Members benefited in 3 rd stage
US	751	24	43 ¹³	20
EC	253	12	37 ¹⁴	09
Canada	295	03	27 ¹⁵	20
Norway	54	54	na	na

na = not applicable

Norway has already liberalized all quotas by integrating the restricted products in first two stages¹⁶. Remaining three members liberalized nominal number of quotas in the third stage. It means that they will liberalize the majority of their quotas on the last stage of integration on January 1, 2005.

Canada liberalized 27 specific restrictions, which benefited 20 members of WTO. Thereby, it fully liberalized 30 quotas in three stages out of total 295 quotas i.e; only 10.29 % of total quotas. This also highlights that 89.7 % of quotas maintained by Canada will be liberalized on the last day of integration on January 1, 2005. Besides, it also removed restrictions from 17 categories or sub-

¹³ ibid, para 111

¹⁴ ibid, para 104

¹⁵ ibid, para 99

¹⁶ ibid, para 106

categories, *partially*¹⁷, which benefited 27 members¹⁸. TMB is of the view that "Canadian notifications does not provide a precise and fully reliable picture on the number of restraints¹⁹", therefore, it has sought more clarifications.

EC liberalized 37 specific limits, which were under restrictions. Thereby, it fully liberalized 49 quotas in three stages out of 253 quotas. It means that it liberalized 19.36 % of total quotas so far and will liberalize 80.64 % on last day of integration on January 1, 2005.

US eliminated 43 specific limits in third stage on January 1, 2002. Therefore, it fully liberalized 67 out of 757 quotas in three stages, which constitutes 8.85 % of total quotas maintained by it. It means that US will liberalize 91.15 % of quotas on last day of integration on January 1, 2005. It also removed some restrictions *partially*.

¹⁷ Partially removal of restrictions means that some not all products under one category are liberalized.

¹⁸ TMB-2, para 82

¹⁹ *ibid*, para 97

PART-III

KOREAN TEXTILES AND CLOTHING INDUSTRY

10.

PRE-GATT KOREAN TEXTILE INDUSTRY

As is well known, Korea have pursued the policy of export led industrialization and development. It succeeded in achieving and maintaining high growth rate since 1960s. In the early stages of development after independence from Japan, textile industry played an important role in exports expansion as well as overall development in Korea¹.

With the development of other industries like chemicals, autos and semi-conductors, the share of textile industry to total exports and manufacturing declined during 80s and 90s. But, it has still contributed US \$ 15.83 billion out of total exports of US \$ 150.7 billion².

It is generally observed that textile industry is developed as a first step towards industrial development by many developing countries. This is due to the fact that developing countries have cheap labour, raw material and less technology, which suits to develop the textile industry³.

BACKGROUND:

Korean textile industry has a very long history as it started its development during Yi dynasty after 15th century. This was due to increasing demand for Korean cotton fabric in Japan as well as its demand as financial

¹ Kasai, p-1

² Korea Herald dated January 3, 2002, p-10

³ Kim 1977, p-1

resource for the military and mean of tax payment within Korea. Under colonial rule, Korean cotton acted as a source of raw material for Japanese industry⁴.

However, large textile plants were also established in Korea with the Japanese capital. The first cotton textile mill as well as first raw silk unit in Korea was established in 1917. This led to the emergence of small-scale domestic textile units in Korea. Important development during 1930s and 1940s as well as Japanese war with China and in pacific increased the demand for textile products which gave impetus to the further expansion of textile industry within Korea⁵.

CONTRIBUTION TO OVERALL ECONOMIC DEVELOPMENT:

Textile was the third largest industry after food processing and chemical industries during pre-independence period. Although, the share to manufacturing sector fluctuated between 12 % to 16 %, but the textile sector

Table 10.1⁶

Korean Textile Industry, 1922-40

(Million won)

Year	Value of textile industry	Percentage to manufacturing industry	Total textile factories	workers in textile industry
1922	31.0	12.0	108	4785
1925	41.4	14.0	229	15405
1930	45.7	16.3	270	21194
1935	82.3	13.6	377	31450
1940	232.2	12.4	668	51615

⁴ Choi, p-249-253

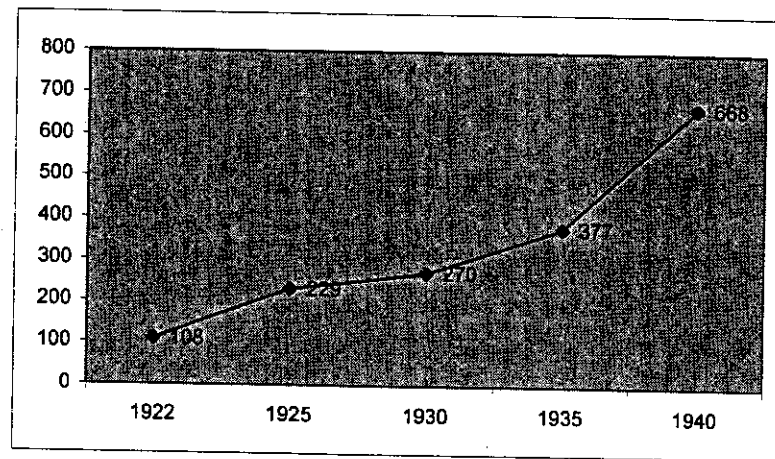
⁵ Kim, p-2-26

⁶ ibid, pp-10,16,17

employment increased from 4785 to 51615 workers, which shows an increase of 978 % during 1922-40 as highlighted in the table 10.1. Although, the share to manufacturing fluctuated between 12 % to 16.3 %, but the textile industry grew by 649 % during 1922-40. The was made possible by increasing the factories from 108 to 668 which shows an increase of 518 % during the said period as shown in figure10.1. Similarly, this high growth also increased the figure 10.2. Thereby, textile industry was contributing significantly to the GNP, employment, capital accumulation and foreign exchange earnings at the time of Korean independence from Japan⁷.

Figure 10.1 ⁸

Textile Factories In Korea, 1922-40



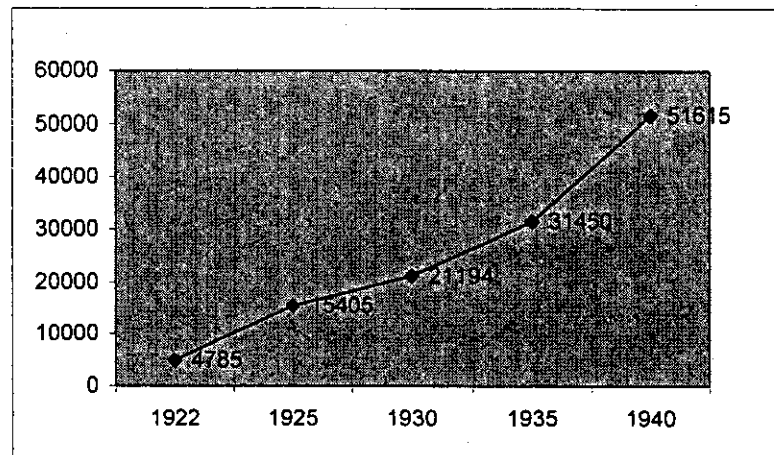
In this way, textile industry positively assisted in the overall development of Korea.

⁷ Choi, p-257

⁸ Bank of Chosen, 1948

Figure 10.2

Workers Employed In Korean Textiles Industry, 1922-40



TRADE PERFORMANCE:

The trade performance of Korea during the period 1922-47 shows consistent expansion and growth in textile goods. Textile exports increased from 19.4 million won in 1922 to 56.2 million won in 1947 showing an increase

Table 10.2⁹

Korean Textile Exports, 1922-47

(Million won)

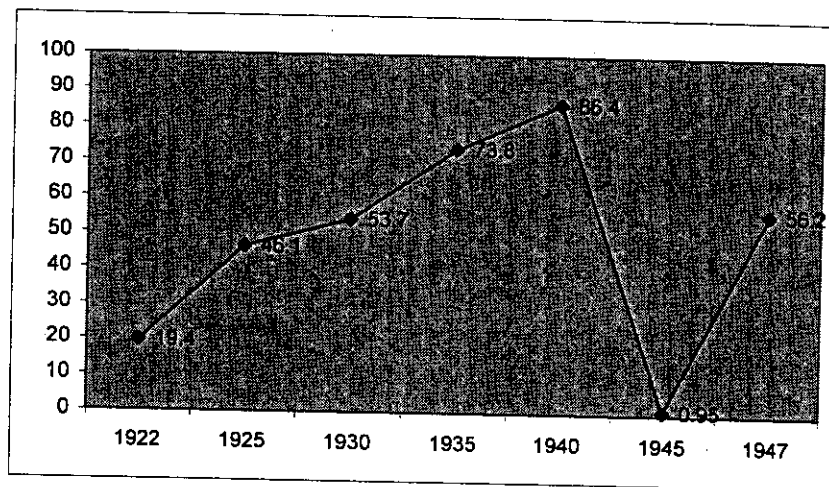
	Total Exports	Exports of manufactured goods	Exports of textile products	Textile as % of manufactured goods
1922	215.4	23.6	19.4	82.2
1925	341.6	59.3	46.1	77.7
1930	266.5	53.7	53.7	75.2
1935	550.8	73.9	73.8	63.3
1940	947.8	140.5	86.4	61.5
1945	70.9	10.1	0.95	9.4
1947	1111.1	108.3	56.2	51.9

⁹ ibid, 1948, p-III-43-60

of 189.7 % during the period in review. This growth expansion was drastically reversed in 1945, the year of independence of Korea. But Korea recovered very well as it again raised textile exports from meager 0.95 million won in 1945 to 56.2 million won in 1947 as shown in figure 10.3.

Figure 10.3

Korean Textiles Exports, 1922-47



Despite a steady expansion in exports of textile products over a period of 1922-47, its share as percentage of exports of manufacturing goods kept on decreasing. The share of textile in total manufactured exports declined from 82.2 % in 1922 to 51.9 % in 1947. This was due to emergence and development of other manufacturing industries like chemicals, etc. However, it can be said that textile industry acted as a leader in the manufacturing industries particularly in the early years.

Table 10.3 ¹⁰

Korean Textile Imports, 1922-47

(Million won)

	Total Imports	Import of manufactured goods	Textile Imports	Textile as % of manufactured goods
1922	256.1	149.8	71.1	47.5
1925	340.01	217.8	120.5	55.3
1930	367.04	256.7	98.5	38.4
1935	659.4	360.6	120.7	33.5
1940	1536.4	985.4	212.1	21.5
1945	122.2	48.4	0.006	0.012
1947	2088.1	1037.9	376.5	36.27

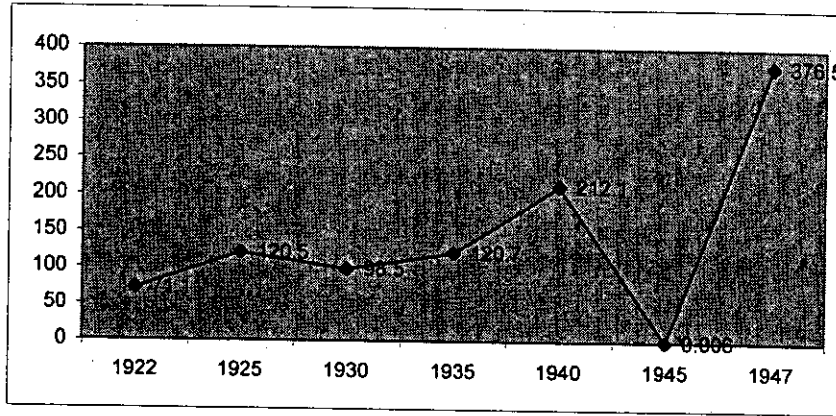
Alongwith exports, imports of textile products also increased in Korea from 71.1 million won in 1922 to 376 million won in 1947, which indicate an increase of 429.53 %. Most of the imports had been the raw material or semi-processed products. Except for the year of 1945, the independence year of Korea, the import of textile increased continuously as depicted in figure 10.4.

However, the share of textile products in the import of total manufactured goods kept on decreasing during the period. It was 47.5 % in 1922 and declined to 36.27 % in 1947. This was due to development of other manufacturing industries in Korea and demand for their raw material and machineries.

¹⁰ *ibid*, 1948, p-III-43-60

Figure 10.4

Korean Textiles Imports, 1922-47



TEXTILE TRADE BALANCE:

The trade balance of textile sector in Korea shows that it was surplus from 1922-25. But it became deficit to the tune of 100 million won in 1930. This was probably being due to the increasing demand for import of semi processed textile products and raw material for further processing. In this way, trade balance kept on increasing till the end of 1947 as highlighted in table 10.4.

Table 10.4

Korean Textiles Trade Balance, 1922-47

(Million Won)

Year	Total Textile Exports	Total Textile Imports	Textile Trade Balance
1922	215.4	256.1	1.59
1925	341.6	340.01	1.59
1930	266.5	367.04	-100.54
1935	550.8	659.4	-108.6
1940	947.8	1536.4	-588.6
1945	70.9	122.2	-51.3
1947	1111.1	2088.1	-977.0

EXTERNAL FACTORS:

The consistent rise in Korean textile trade specifically the exports can be attributed to various factors. First, the main trading partners of Korea were Japan, China and Hong Kong¹¹ and not US and EC, which had been imposing quantitative restrictions on the textile exports from developing countries. Thereby, Korean textile trade particularly the exports were free of any restrictions during this period. Second could be the fact that Japan, the leading exporter of textile products at that time, had to confront a lot of quantitative restrictions from its trading partners. Its textile exports were subjected to quantitative restrictions by 40 countries. Besides, it had to face discriminatory tariff as well as exchange control measures against its textile exports¹². This provided sufficient space for export of Korean textile products, which grew by 189.7 % during 1922-1947.

¹¹ *ibid*, 1948, p-III-43-60

¹² Blokker, p-89

11.

DEVELOPMENT UNDER GATT 1947

This period was crucial from many angles. The period of world wars was replaced by the period of reconstructions and development in the world. A number of world institutions were created as a result of Bretton-wood Conference like United Nations, World Bank, International Monetary Fund, etc. International Trade Organisation (ITO) was also envisioned but it could not be created. The job envisioned for ITO, was performed by GATT 1947. As such, GATT 1947 acted as de-facto multilateral trade organisation from 1947 to 1994. GATT was aimed at to provide multilateral non-discriminatory trade among its members on MFN basis.

On the other hand, Korea got back its independence from Japan in 1945 and was trying to move on. But, its efforts were marred by the Korean War in 1950-53 which caused havoc to the country and divided it in to North and South Korea. These political upheavals adversely affected the Korean economy and so the textile industry. Most of the industries were destroyed and people were sufferings from intense poverty¹.

But Korea bravely faced the catastrophe and started reconstruction and development immediately. This exceptional situation was also reflected in the textile industry, its production, employment and trade.

¹ Sohan, Yang and Yim, p-9

TRADE POLICY:²

All trade policies formulated since independence by Korea had been aimed at export promotion and enhancing foreign exchange reserve levels. But, the period up to 1961 was an era of import substitution for Korea. Imports were financed by the foreign aid. Export promotion was a secondary task during this period. The main trade policy goal, during this period, was to control the amount of foreign exchange reserves.

Table 11.1³

Korean Textiles Exports, 1948-60

(Million US Dollar)

Year	Total exports	Total manufactured exports	Textile & clothing exports	Textile exports as % of total exports	Growth rate of textile exports
1948	15.99	2.1	0.9	5.7	
1949	12.52	0.1	0.8	6.1	-16.6
1950	13.03	0.3	0.3	2.3	-60.6
1951	7.65	0.2	0.7	8.6	119.9
1952	27.7	1.4	2.5	9.1	282.3
1953	39.6	1.2	2.5	6.3	-1.6
1954	24.2	1.8	6.6	27.1	164.6
1955	18.0	1.3	2.0	10.9	-70.2
1956	24.6	2.3	2.8	11.4	43.2
1957	22.2	4.0	3.1	13.9	10.2
1958	16.5	2.6	1.9	11.3	-39.9
1959	19.8	2.2	2.5	12.5	32.8
1960	32.8	4.0	3.9	11.8	57.5

² *ibid*, p-11-16

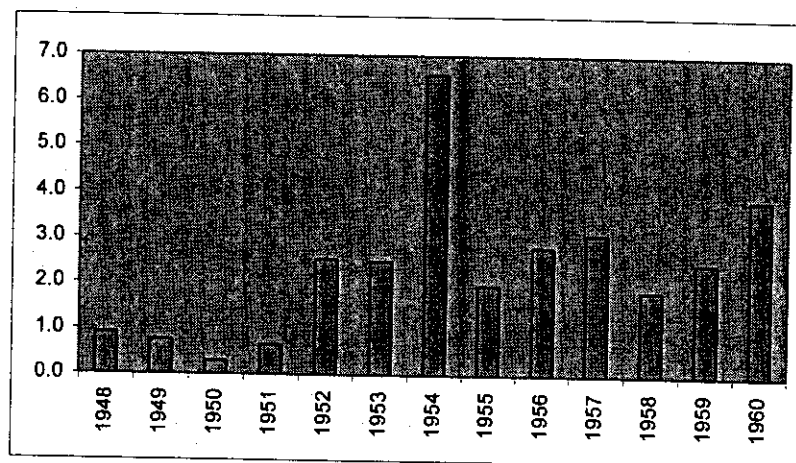
³ Bank of Korea, various issues from 1949 to 1961. (Values from 1948 to 1954 have been converted into dollar using the exchange rate between dollar and Hwan (Won) for respective period).

TEXTILE EXPORTS:

Korean textile production and exports continued to grow during 1948-1960 as it did during 1922-47. As shown in table 11.1, the textile exports, which were \$ 0.9 million in 1948, reached to \$ 3.9 million in 1960, showing an increase of 333.3 % in a period of 13 years. Textile exports was depressed for the period 1948-51. However, it started growing in the later part of the period as highlighted in figure 11.1.

Figure 11.1

Korean Textiles Exports, 1948-60



The share of exports in total exports first decreased, then increased and ultimately stabilised during 1956-60. However, annual growth rate of textile exports had been bumpy as it kept on increasing and decreasing at a very high rate as shown in table 11.1.

During the 1948-55 period, the main exports of textile products were fur

skin, floss skin, raw silk and waste of textile fabrics⁴. But the composition of exports changed to textile fibres and waste, along with cotton fabrics by the end of 1960⁵. Textile fibers and waste was the single largest category of textile exports, which was \$ 1.9 million in 1955 but dropped to \$ 1.44 million in 1960⁶.

Table 11.2⁷

Korean Textiles Imports, 1948-60

(Million US dollar)

Year	Total Imports	Total Manufactured Imports	Textile & Clothing Imports	Textile Import as % Of total Imports	Growth rate as % of total exports
1948	19.7	1.9	2.5	12.6	-41.5
1949	16.4	5.0	3.6	21.7	44.1
1950	2.1	3.6	0.3	15.3	-91.0
1951	20.3	0.5	4.5	21.9	1290.6
1952	214.2	9.8	4.4	2.0	-1.8
1953	345.4	9.2	3.6	1.0	-18.8
1954	243.3	30.1	8.7	3.6	145.1
1955	341.4	63.2	59.7	17.5	586.2
1956	386.1	80.3	59.9	15.5	0.4
1957	442.2	64.2	60.5	13.7	0.9
1958	378.2	68.4	64.3	17.0	6.4
1959	303.8	44.3	60.0	19.8	-6.6
1960	343.5	53.0	64.5	18.8	7.5

TEXTILE IMPORTS:

Like exports, Korean textile imports were also affected by war and destruction. However, after the war, the regular import pattern was restored from 1955 onwards. Textile imports fluctuated between \$ 0.3 million to \$ 8.7

⁴ ibid, 1948-1956

⁵ ibid, 1961

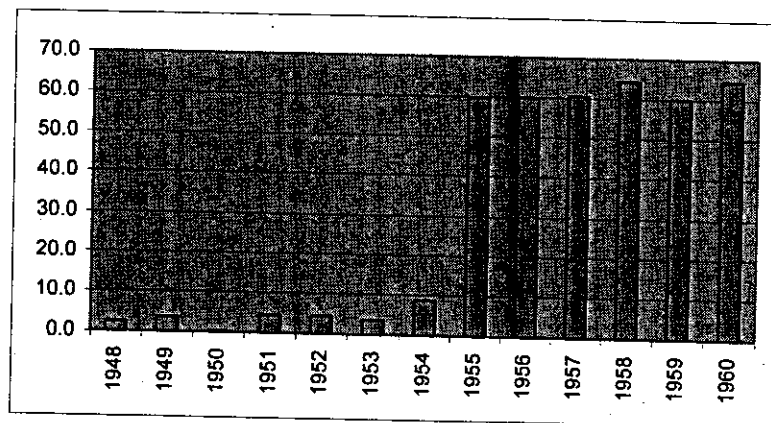
⁶ ibid, 1961

⁷ ibid, 1949-1961

million during 1948-54 as shown in table 11.2. However, it jumped to \$ 59.7 million in 1955 as the reconstruction and development efforts were started. It reached to \$ 64.5 million in 1960 as highlighted in figure 11.3.

Figure 11.2

Korean Textiles Imports, 1948-60



During 1948-60, raw cotton was the single largest product of textile imports, which kept on increasing and reached to the value of \$ 28.63 million. Besides raw cotton, which was needed to make value added textile products; textile fibre, textile yarn and clothing were other main textile imports during the period⁸.

TEXTILE TRADE BALANCE⁹:

The period of 1948 to 1960 was the period of reconstruction and development after the independence and Korean War. Most of the textile products particularly the made up and clothing were being imported to meet the domestic requirement. As such, the textile trade balance was deficit, which kept

⁸ *ibid*, 1961

⁹ *ibid*, 1948-1961

on increasing with every passing year from \$ 3.71 million in 1948 to \$ \$ 361.7 million in 1958. After that, it reduced slightly to the level of \$ 310.7 million in 1960 as shown in table 11.3.

Table 11.3
Korean Textiles Trade Balance, 1948-60

(Million US dollar)

Year	Textiles exports	Textiles Imports	Textile Trade Balance
1948	15.99	19.7	-3.71
1949	12.52	16.4	-3.88
1950	13.03	2.1	10.93
1951	7.65	20.3	-12.65
1952	27.7	214.2	-186.5
1953	39.6	345.4	-305.8
1954	24.2	243.3	-219.1
1955	18.0	341.4	-323.4
1956	24.6	386.1	-361.5
1957	22.2	442.2	-420
1958	16.5	378.2	-361.7
1959	19.8	303.8	-284
1960	32.8	343.5	-310.7

TEXTILE MACHINERY:

In order to develop the textile industry, a lot of textile machinery was imported. This helped in developing the value added products and increasing the exports. However, the value of imported textile machinery ranged from \$ 5.4 million to \$ 6.4 million during the period 1955 to 1960 . This laid the foundation for the later development of textile industry as one of the main export industry in Korea.

Table 11.4¹⁰

Import of Textiles Machinery in Korea, 1955-60

(Million dollar)

Year	Value of textile machinery imported
1955	6.45
1956	5.95
1957	5.17
1958	5.98
1959	5.93
1960	5.4

TEXTILE ESTABLISHMENTS AND WORKERS:

Like the pre-independence period, the development of textile industry in Korea continued after the independence and Korean War. Textile factories, which were 668 in 1940, increased to 2493 in 1960¹¹. This shows an increase of 273.2 % over a period of 20 years. This increase in factories also increased the number of textile workers from 51615 in 1940 to 81649 in 1960¹², showing an increase of 58.1 %. Interestingly, 56522 workers were female in the textile industry¹³.

MONTHLY INCOME IN TEXTILE INDUSTRY:

The emphasis on textile industry and its expansion also affected the wages of the workers of this industry as is evident from table 11.5. Monthly wages were 16100 won in 1957, which increased to 22900 won per month in 1960. It means that wages in textile industry increased by 42.232 % in four years time.

¹⁰ *ibid*, 1961, p-194-195

¹¹ *ibid*, 1963, p-300

¹² *ibid*, 1963, p-300

¹³ *ibid*, 1963, p-300

Table 11.5 ¹⁴

Monthly Wages in Textiles Industry of Korea

Year	Monthly wages (won)
1957	16100
1958	16900
1959	19300
1960	22900

STEP TO DISCRIMINATORY TEXTILE AGREEMENTS:

This is the period in which developed countries had started making efforts to introduce the quantitative restrictions on the imports of textile products from developing countries. They were of the view that textile imports from developing countries had been causing disruption to their domestic industry, employment and over all economy. They had succeeded in introducing export restraint agreement with Japan and were forcing other textile exporting countries to agree to such bilateral arrangements¹⁵.

¹⁴ *ibid*, 1960, p-260-261; 1961, p-239

¹⁵ Cortes, p-49

12. DEVELOPMENT DURING STA AND LTA, 1961-73

Contracting Parties (CP) of GATT 1947 adopted the concept of '*market disruption*' vide their decision dated November 1960¹. This paved the way for introducing a separate trading arrangement for textiles and 'began a series of anti GATT (1947) agreements for textiles'².

The first two agreements were Short Term Arrangement for International Trade in Cotton Textiles (STA), 1961 and other one was Long Term Arrangement for International Trade in Cotton Textile (LTA), 1962. LTA remained enforced by 1973. These arrangements covered all cotton textile products. Member countries were allowed to introduce quantitative restrictions to limit the import of any cotton textile product if it was causing or threatening to cause market disruption in the importing country. However, the textile products of wool, silk, synthetic and manmade fiber were outside the purview of STA and LTA.

The main argument of developed countries was that the textile exports of developing countries, being comparatively cheap, were causing market disruption for the textile industries of developed countries. Therefore, they considered it justified in introducing a separate regulation for textile trade parallel to GATT 1947. But the trade statistics do not conform this argument as explained in table 12.1.

¹ WTO, ATC

² Cortes, p-52

Table 12.1³

Textile Imports in selected Developed Countries, 1955-60

Countries	Imports from developed countries (%)		Imports from developing countries (%)		% Change for developing countries
	1955	1960	1955	1960	
Austria	96.4	90.3	3.6	9.7	6.1
Italy	95.4	86.1	4.6	13.9	9.3
Norway	94.6	89.6	5.4	10.4	5.0
Denmark	94.2	85.3	5.8	14.7	8.9
Germany	94.1	90.1	5.9	9.9	4.0
Belgium/ Luxemburg	93.3	92.6	6.7	7.4	0.7
Netherlands	90.6	90.9	9.4	9.1	-0.3
Canada	89.1	85.3	13.9	14.7	0.8
France	85.1	88.4	14.9	11.6	-3.3
Switzerland	84.7	84.7	15.3	15.3	0
US	52.3	41.5	47.7	58.5	10.8
UK	52.5	57.8	47.5	42.2	-5.3

From table 12.1, it is evident that US and UK were the two main developed countries which had been importing substantial textile products from developing countries. US imports from developing countries was 47.7 % in 1955, which increased to 58.5 % by 1960. Its mean that an increase of 10.8 % in textile imports from developing countries to US took place in 5 years time. UK, however, reduced the imports from developing countries from 47.5 % in 1955 to 42.2 % in 1960. Thereby, it increased the imports from developed countries.

Except these two, all other developed countries were, basically trading with each other. The share of textile imports from developing countries was

³ Blokker, p-94

negligible ranging from 3.6 % to 15.3 % in 1955 and from 7.4 % to 15.3 % in 1960. Therefore, their claim that market disruption in their textile industry was caused by imports from developing countries was not justified. Whatever, market disruption they had experienced was to overwhelming imports from developed countries (85-96 %). It was not due to meager textile imports from developing countries.

Developed countries used these special textile arrangements for entering into bilateral agreements with developing countries and succeeded in limiting their textile imports from them. Korea, a developing country at that time, was also affected by these agreements. It was not a member of STA but joined LTA on December 10, 1964⁴. Korea was also under certain pressure from US, which wanted to bring Korean textile exports under the umbrella of LTA⁵.

Developed world used these arrangements to limit the cotton textile exports from developing countries particularly Japan. On the other hand, Korean textile exports to US were un-restricted till 1971 when they entered into an exports restraint agreement (ERA)⁶. Its mean that Korean textile industry flourished during the period of STA and LTA as they were not put under any quantitative restrictions.

⁴ *ibid*, p-114

⁵ GDI, p-26

⁶ *ibid*, p-26

KOREAN TEXTILE PRODUCTION:

Production of cotton, silk, wool and synthetic textile products increased manifold during 1961-73. The production of cotton yarn, cotton fabrics, raw silk, silk fabrics, woolen yarn and woolen fabrics increased consistently during the period as shown in table 12.2. As mentioned earlier, only cotton textile products were under the purview of STA and LTA. During this period, Korea also tried to produce and export value added textile products instead of raw material and semi-processed textile products. Besides, Korea also entered into the era of production of synthetic fiber, yarn and fabrics in late 60s⁷.

Table 12.2 ⁸

Korean Textiles Production, 1961-73

Products	1961	1973
Cotton Yarn	44191 (000 kg)	103014 (MT)
Cotton Fabrics	111191 (000 kg)	264400 (000 sq meter)
Raw Silk	388.3 (000 kg)	3157 (MT)
Silk Fabrics	2692 (000 kg)	15536 (000 sq meter)
Woolen Yarn	377 (000 kg)	3149 (MT)
Woolen Fabrics	3288(000 sq meter)	13315 (000 sq meter)

Production of synthetic fiber increased from 1915 metric tons in 1965 to 120855 metric tons in 1973. Similarly, production of synthetic yarn increased from 14992 metric tons in 1971 to 36040 metric tons in 1973, showing an increase of 140 % in just 3 years. Simultaneously, Korea also started production of

⁷ Bank of Korea, 1970

⁸ *ibid*, 1962-1974

synthetic fabrics which was 151107000 square meters in 1973 to 332084000 square meters in 1973 showing an increase of 119 %⁹.

Textile Exports:

With the increase in production, Korean textile exports also enhanced many times during this period. As shown in table 12.3, textile and clothing exports increased from \$ 4.3 million in 1961 to \$ 1278.3 million in 1973. This was an exceptional performance as it shows an increase of 29627 %. The increase in exports was particularly significant after 1965 as is evident from figure 12.1.

Table 12.3 ¹⁰

Korean Textiles Exports, 1961-73

(Million US dollar)

Year	Total exports	Total manufactured exports	Total textile and clothing exports	Textile as % of manufacturing exports	Textile exports as % of total exports	Growth rate of textile exports
1961	40.9	4.8	4.3	89.7	10.5	-
1962	54.8	8.1	6.3	77.0	11.4	45.6
1963	86.8	34.5	17.7	51.3	20.4	183.0
1964	11.1	55.5	33.4	60.1	28.0	88.2
1965	175.1	100.9	54.8	54.3	31.3	64.2
1966	250.3	143.4	80.7	56.3	32.2	47.4
1967	320.2	198.6	125.2	63.0	39.1	55.1
1968	455.4	310.6	193.5	62.3	42.5	54.5
1969	622.5	416.2	253.6	60.9	40.7	31.0
1970	835.2	573.4	341.1	59.5	40.8	34.5
1971	1067.6	773.8	486.7	62.9	45.6	42.7
1972	1624.1	1157.0	681.3	58.9	41.9	40.0
1973	3225.0	2272.8	1278.3	56.2	39.6	87.6

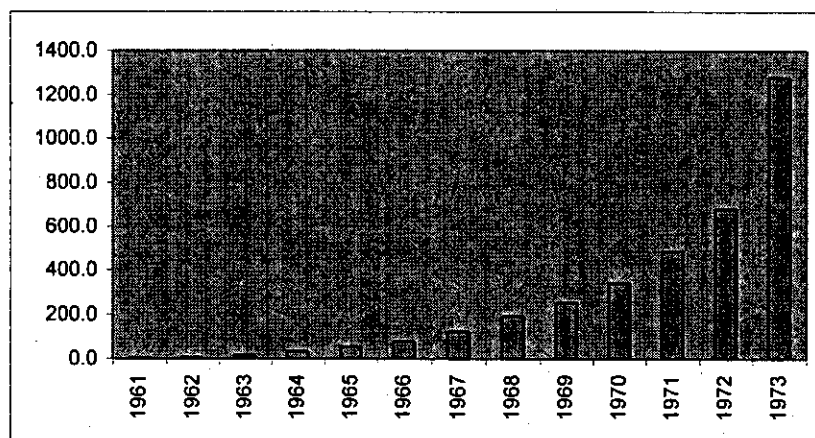
⁹ ibid, 1974

¹⁰ ibid, 1962-1974

Textile exports growth rate had been more than 31 % per annum though out the period. Its percentage share to total manufactured exports remained around 60 % and that of total exports ranged from 10 % to 45 %. Textile exports share to total exports first increased from 10.5 % in 1961 to 45 % in 1971 and then declined to 39.6 % in 1973. 1971 was the year when Korea had to conclude exports restraint agreements with US and Japan to limit its exports of clothing and textiles¹¹.

Figure 12.1

Korean Textiles Exports, 1961-73



During this period, the main exports products had been textile fiber, cotton fabrics and clothing as is evident from table 12.4. Exports of textile fiber jumped from \$ 3.4 million in 1961 to \$ 93.3 million in 1973 showing an increase of 2644 %. Exports of cotton fabrics increased from \$ 2.4 million in 1961 to \$ 56.5 million in 1973 showing an increase of 2254 %. In order to produce and export high value added products, Korea succeeded in producing and increasing the

¹¹ GDI, p-26

Table 12.4

Main Textile Exports Products, 1961-73

(Million US dollar)

Products	1961	1963	1973
Textile Fiber	3.4	5.3	93.3
Cotton Fabrics	2.4	4.3	56.5
Clothing	-	4.6	74.9

exports of clothing during this period form \$ 4.6 million in 1965 to \$ 74.9 million showing an increase of 1528 %.

TEXTILE IMPORTS:

In order to produce and export textile products, Korea needed the textile raw material as well as semi-processed textile products. As such, its imports also increased from \$ 61.9 million in 1961 to \$ 571.3 million in 1973 showing an increase of 822 % during the period as shown in table 13.5. The increase in import had been gradual except for 1973 when it jumped from \$ 477.4 million to \$ 902.4 million in just one year as shown in figure 12.2. The percentage share of textile to total manufactured imports gradually reduced. Similarly, share of textile imports as percentage of total imports also declined from 19.6 % in 1961 to 13.5 % in 1973.

Main textile imports had been raw cotton, which was \$ 29.4 million in 1961 and reached to \$ 112.4 million in 1973 indicating 282 % increase. Import of textile fiber increased from \$ 42.1 million in 1961 to \$ 259.7 million and that of clothing from \$ 0.067 million in to \$ 10.9 million in 1973.

Table 12.5¹²

Korean Textiles Imports, 1961-73

(Million US dollar)

Year	Total imports	Total manufactured imports	Total textile & clothing imports	Textile import as % of manufacturing imports	Textile import as % of total imports	Growth rate of imports
1961	316.1	45.2	61.9	136.9	19.6	-
1962	421.8	83.3	79.3	95.1	18.8	28.0
1963	560.3	96.4	86.2	89.5	15.4	8.8
1964	404.4	51.5	72.7	141.3	18.0	-15.7
1965	463.4	77.6	87.1	112.2	18.8	19.8
1966	716.4	135.7	112.2	82.7	15.7	28.8
1967	996.2	200.9	150.1	74.7	15.1	33.8
1968	1462.9	281.0	193.4	68.8	13.2	28.8
1969	1823.6	333.9	206.8	61.9	11.3	6.9
1970	1984.0	353.2	248.1	70.3	12.5	20.0
1971	2394.3	430.1	284.3	66.1	11.9	14.6
1972	2522.0	477.4	307.2	64.3	12.2	8.0
1973	4240.3	902.4	571.3	63.3	13.5	86.0

Figure 12.2

Korean Textiles Imports, 1961-73

¹² Bank of Korea, 1962-1974

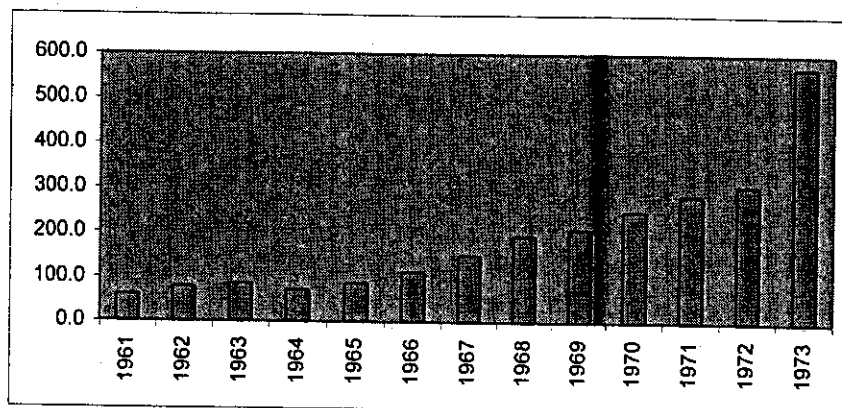


Table 12.6

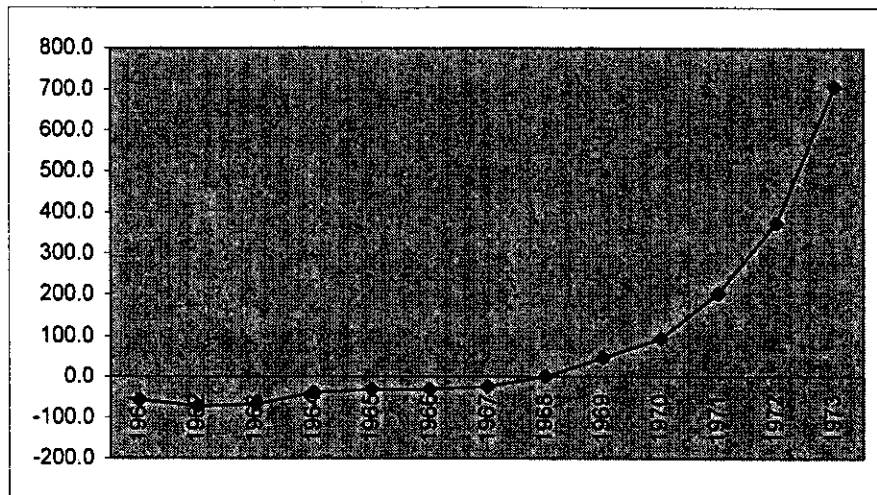
Korean Textiles Trade Balance, 1961-73

(Million US dollar)

Year	Total textile and clothing exports	Total textile and clothing imports	Textile trade balance
1961	4.3	61.9	-57.6
1962	6.3	79.3	-73.0
1963	17.7	86.2	-68.5
1964	33.4	72.7	-39.4
1965	54.8	87.1	-32.3
1966	80.7	112.2	-31.5
1967	125.2	150.1	-24.9
1968	193.5	193.4	0.1
1969	253.6	206.8	46.8
1970	341.1	248.1	92.9
1971	486.7	284.3	202.4
1972	681.3	307.2	374.1
1973	1278.3	571.3	707.0

Figure 12.3

Korean Textiles Trade Balance, 1961-73



TEXTILE TRADE BALANCE:

As explained, both exports and imports of textile products had increased. However, exports, increased more than imports. As such, Korean textile trade balance, which was deficit from 1961 to 1967, became surplus from 1968 onwards as indicated in figure 12.3. Textile trade surplus increased from \$ 0.1 million in 1968 to \$ 707.0 million in 1973.

TEXTILE MACHINERY:

Increasing import of textile machinery was an indicator of growing textile industry in Korea. Textile machinery worth of \$ 4.4 million was imported in 1961. With continuous expansion of the industry, the import of textile machinery reached the figure of \$ 147.3 million in 1973¹³.

TEXTILE ESTABLISHMENTS:

¹³ *ibid*, 1962-1974

The textile establishments which were 2493 in 1960, increased to 5942 in 1973¹⁴ as shown in table 12.4. Out of 5942, 2911 were textiles establishments and 3031 were clothing establishments. Total textile and clothing establishments increased by 138.3 % during the period of 1960-1973.

WORKERS AND WAGES:

With the increase in textile and clothing establishments, number of workers in the industry also increased (figure 12.5) from 81649 in 1960 to 373908 in 1973 showing an increase of 357.9 % during the period in review¹⁵.

Wages of textile workers increased to 19143 Won and that of clothing industry workers to 14952 Won per month in 1973¹⁶.

Figure 12.4 ¹⁷

Korean Textiles Establishment, 1960-73

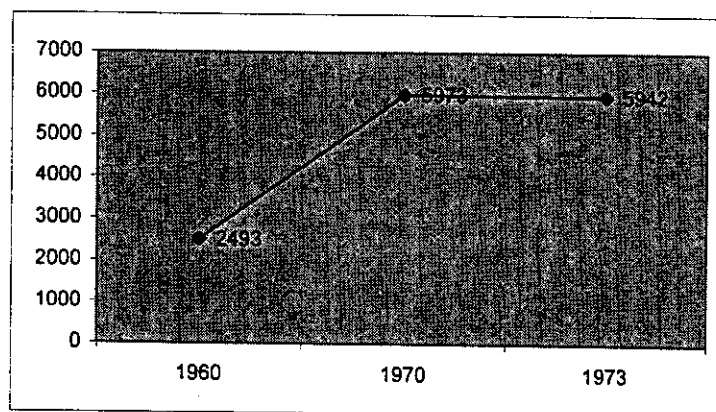


Figure 12.5 ¹⁸

¹⁴ National Statistical Office of Korea, 1970, p-83-91

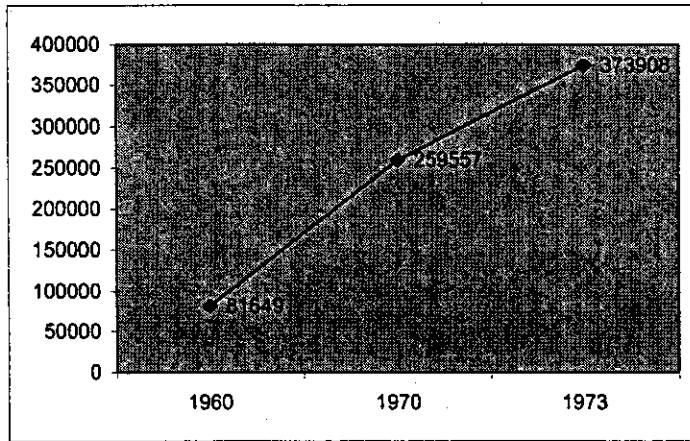
¹⁵ *ibid*, 1970, p-83-91

¹⁶ Bank of Korea, 1973, 1978

¹⁷ National Statistical Office of Korea, 1960-74

¹⁸ *ibid*, 1960-74

Korean Textiles Workers, 1960-73



13.

DEVELOPMENT DURING MFA, 1974-1994

STA and LTA had provided for imposing quantitative restrictions on cotton textile products only. Wool, silk, synthetic and man-made fibers were outside the purview of the STA and LTA. This resulted in squeezing the production of cotton and expansion in production of synthetic fiber in the world and particularly in East Asia and Korea.

Table 13.1¹**Fiber Composition of Textile Production, 1959-71, (%)**

	Year	Cotton	Synthetic	Others
World				
	1959-61	68	22	10
	1969-71	55	38	7
Japan				
	1959-61	58	19	23
	1969-71	37	41	22
Korea				
	1959-61	92	2	6
	1969-71	54	42	4
Taiwan				
	1959-61	90	6	4
	1969-71	70	27	3
China				
	1959-61	89	7	4
	1969-71	85	9	6

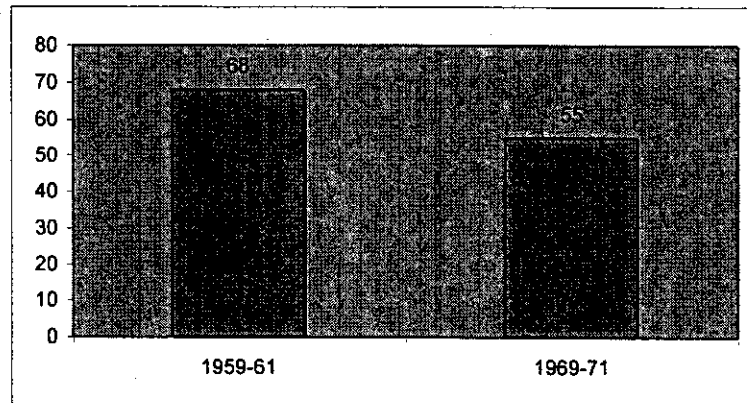
The information in table 13.1 highlights the effects of quantitative restrictions imposed on cotton textile productions under STA and LTA. These

¹ Hamilton, p-151

restrictions resulted in reduction in production of cotton textile in the developing countries of East Asia as well as in the world as a whole as shown in figure 13.1.

Figure 13.1

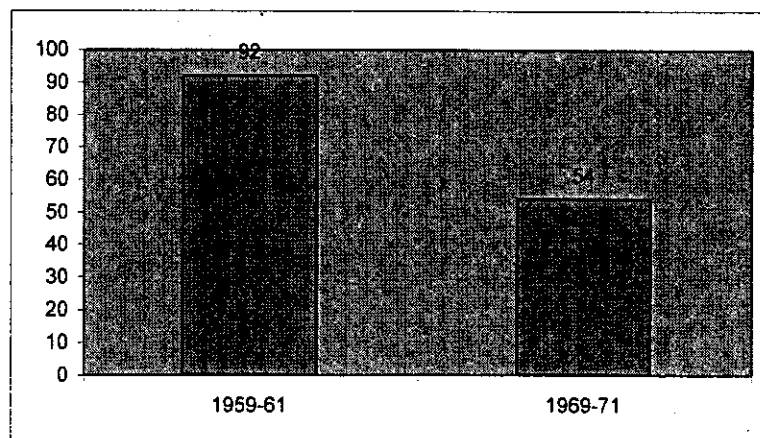
Cotton Production in the World, 1959-71



The world cotton production was 68 % of total textile fiber production in 1959-61, which reduced to 55 % of total fiber production. As such, the reduction in the production of cotton due to quantitative restrictions would have also resulted in reductions in employment, income and exports.

Figure 13.2

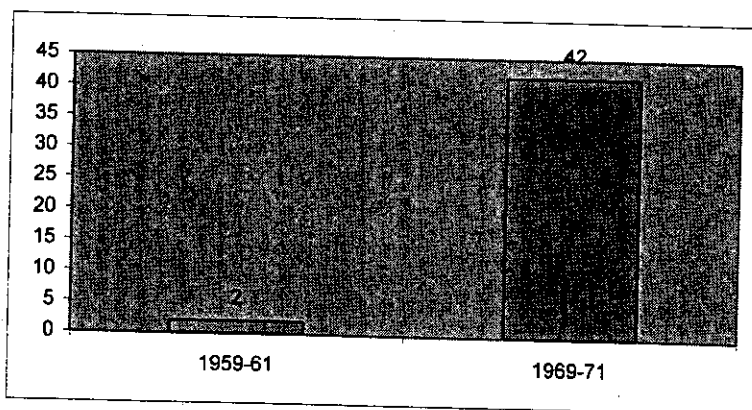
Cotton Production in Korea, 1959-71



If we see the production of cotton textile in leading exporters in developing countries like Japan, Korea, Taiwan and China, the same declining trend can be observed. Production of cotton textile as share of total fiber production reduced from 58 % to 37 % in Japan, 92 % to 54 % in Korea, 90 % to 70 % in Taiwan and 89 % to 85 % in China during the same period. Among these four countries, Korea was most affected as its production of cotton textile as share to total fiber production reduced from 92 % to 54 % as shown in figure 13.2. In this way, the developing countries were deprived off the benefits of having comparative advantage in the production of cotton textile by means of discriminatory regulations for textile trade.

Figure 13.3

Korean Synthetic Production, 1959-71



On the other hand, the production of synthetic fiber, which was not covered under the regulations of STA and LTA, increased its share to total textile fiber. As shown in figure 13.3, the production of synthetic fiber in Korea increased from 2 % to 42 % of total textile fiber production during 1959-71. It is

like transformation of Korean textile industry from only cotton based to multi-fiber based textile industry.

Like Korea, the share of synthetic fiber production also increased in Japan, Taiwan and China as well as in the world as a whole as shown in table 13.1.

MARKET DISRUPTION:

The underlying concept of all textile trade regulations had been the concept of market disruption. Developed countries always claimed that imports of textile products from developing countries had been causing market disruption for their textile industry and adversely affecting their textile production, employment, etc.

Table 13.2²

Textiles Imports By Developed Countries, 1955-75

Year	Imports from Developing Countries (%)	Imports from Developed Countries (%)
1955	10.2	89.8
1965	15.8	84.2
1975	21.7	78.3

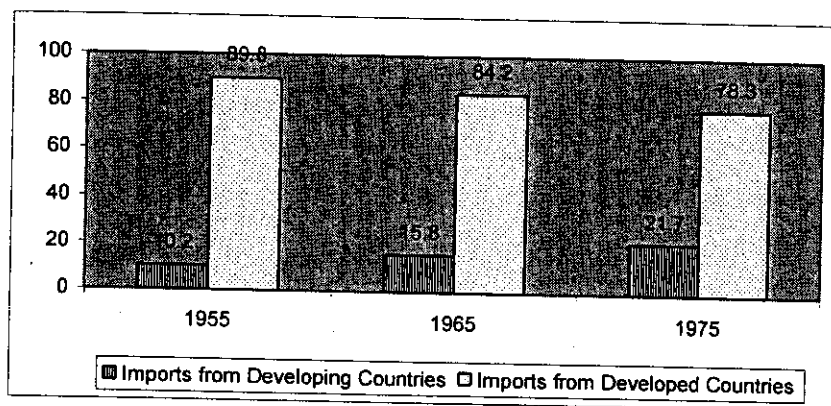
Table 13.2 clearly negates the claim of developed countries as they imported small quantities of textile products from developing countries. Their imports of textile and clothing products from developing countries had been 10.2 % in 1955, 15.8 % in 1965 and 21.7 % in 1975. Its mean that they imported 89.8 %, 84.2 % and 78.3 % of their textile and clothing products from developed

² ibid, p-15

countries. Any market disruption in their textile industry could be attributed to the imports from developed countries, which was over-whelming as compared to the share of developing countries and shown in figure 13.4. As such, the imports from developed countries should be held responsible for market disruption and not the imports from developing countries.

Figure 13.4

Textiles Imports By Developed Countries, 1955-75



MULTI-FIBER ARRANGEMENT (MFA):

Despite the statistical facts, market disruption was again made basis for introducing another separate agreement for trade in textile and clothing called multi-fiber arrangement in 1974. It was against the principle of non-discrimination of GATT 1947³. Its coverage extended to products of all fibers including wool, synthetic and man-made⁴. Only man-made fabrics of cottage industry of developing countries were excluded from its purview.

³ *ibid*, p-13

⁴ MFA, article 12

KOREAN TEXTILES PRODUCTION:

Production of most of the textile and clothing products increased during the period 1974-94 as is evident from the table 13.3.

Table 13.3⁵

Main Korean Textiles Production, 1974-94

Year	Cotton Yarn (MT)	Cotton Fabrics (000 square meter)	Woolen Yarn (MT)	Woolen Fabrics (000 square meter)	Synthetic Fabrics (000 square meter)	Chemical Fiber (MT)
1974	130226	261446	2754	15118	313935	-
1980	226088	358136	-	45395	790236	-
1985	267620	469911	21398	36407	1046328	831
1990	-	608999	-	21248	3127619	1193
1994	315699	447211	28261	19598	7137000	1687

During the period of MFA from 1974 to 1994, production of cotton yarn increased by 142 %, cotton fabrics by 71 %, woolen fabrics by 29 %, woolen yarn by 926 %, synthetic fiber fabrics by 2173 %. The production of chemical fiber increased by 103 % during 1985-94 periods. On the other hand, the production of silk fabrics remained stagnate during 1990-95 at the 45 million square meter. It can be inferred from the above that this was the period of synthetic fabrics and chemical fiber for Korea.

KOREAN TEXTILE EXPORTS:

With the increase in production, particularly in chemical and synthetic fiber, the exports of Korean textile and clothing products also increased

⁵ Bank of Korea, 1975 to 1995; KOFOTI, statistics

considerably during the period of implementation of MFA from 1974 to 1994. As shown in table 13.4, total textile and clothing exports increased from \$ 1526 million in 1974 to \$ 14545.8 million in 1994. Its mean that exports increased by \$ 13019.8 million in 20 years, which is equivalent to 853 % increase.

Table 13.4 ⁶

Korean Textiles Exports, 1974-94

(Million US dollar)

Year	Total Exports	Total Manufactured Exports	Total Textile & Clothing Exports	Textile As % of Manufacturing Exports	Textile Exports as % of Total Exports	Growth rate of Textile Exports
1974	4460.4	3022.5	1526.0	50.5	34.2	-
1975	5081.0	3367.3	1840.2	54.6	36.2	20.6
1976	7715.1	5364.5	2837.6	52.9	36.8	54.2
1977	10046.5	6563.7	3231.9	49.2	32.2	13.9
1978	12710.6	8319.7	4187.2	50.3	32.9	29.6
1979	15055.5	9794.9	4725.7	48.2	31.4	12.9
1980	17504.9	11534.1	5213.7	45.2	29.8	10.3
1981	21253.8	13853.1	6368.5	46.0	30.0	22.1
1982	21853.4	13246.8	6063.9	45.8	27.7	-4.8
1983	24445.1	13736.9	6168.2	44.9	25.2	1.7
1984	29244.9	15470.6	6625.9	42.8	22.7	7.4
1985	30283.1	15436.1	7881.9	51.1	26.0	19.0
1986	34714.5	19267.4	10012.5	52.0	28.8	27.0
1987	47280.9	25546.6	13320.1	52.1	28.2	33.0
1988	60696.4	31504.2	15350.7	48.7	25.3	15.2
1989	62377.2	32704.2	16606.6	50.8	26.6	8.2
1990	65015.7	32930.5	16708.7	50.7	25.7	0.6
1991	71870.1	33728.3	18239.7	54.1	25.4	9.2
1992	76631.5	34374.0	13546.6	39.4	17.7	-25.7
1993	82235.9	34918.9	13554.1	38.8	16.5	0.1
1994	96013.2	36453.4	14545.8	39.9	15.1	7.3

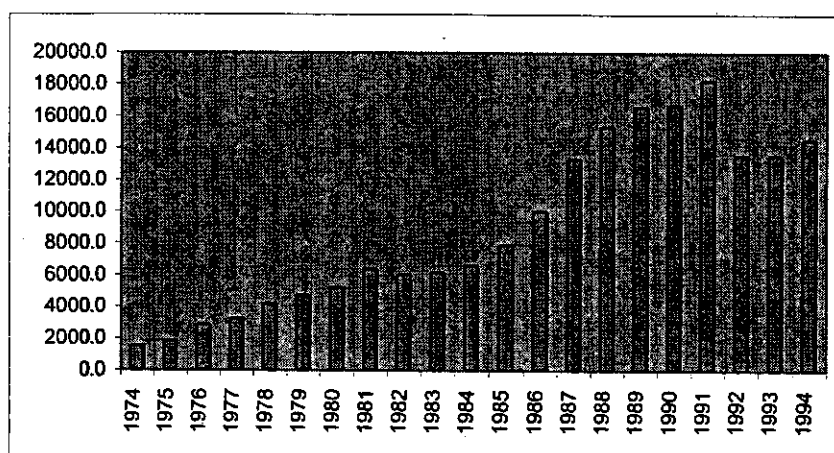
⁶ Bank of Korea, 1975-1995

The exports kept on increasing except for the years 1982 and 1992 when it recorded negative growth rate.

However, after both years, textile exports again picked up and increased as shown in figure 13.5. 1976 and 1987 and 1978 were the years when textile exports recorded the highest annual growth equivalent to 54.2 %, 33 % and 29.6 % respectively.

Figure 13.5

Korean Textiles Exports, 1974-94



Textile exports as percentage of total manufactured exports reduced from 1974 to 1984, then increased for a brief period and ultimately kept on declining. Similarly, textile exports as percentage of total exports also declined from 34.2 % in 1974 to 15.1 % in 1994.

These reductions were due to diversifications of Korean exports as a result of Korean Heavy and Chemical Industrialization (HCI) drive. As a result of this policy, textile and clothing industry was not given the status of *favoured industry*

along with other 16 industries. Eight industries were given this status⁷. This policy resulted in emergence of automobile, semi-conductor and electronics as the leading exports industries in Korea in 80s and 90s.

The main textile exports products during this period were cotton fabrics, which were \$ 54.9 million in 1974 and increased to \$ 458.6 million by 1994. Korean efforts to export more and more value added also succeeded as the exports of clothing and apparel increased from \$ 956.9 million in 1974 to \$ 5652.2 million in 1994 showing an increase of 490 % in 20 years⁸.

KOREAN TEXTILE IMPORTS:

Imports of textile and clothing also increased as the demand for raw material and semi-processed textile products increased during 1974-1994 as shown in table 13.5. They were worth of \$ 584.5 million in 1974 and increased to \$ 3916.5 million showing an increase of 570 % in a period of 20 years. Annual growth rate of textile imports had been varying from - 5.7 % to 26.0 % as highlighted in figure 13.6.

With the shift in the emphasis to heavy and chemical industries as a result of HCI drive in 1970s, the textile and clothing imports as a percentage of total imports as well as total manufactured imports declined substantially. Textile imports to manufactured imports declined from 50.1 % in 1974 to 16.3 % in 1994 and that to total imports from 8.5 % to 3.8 % during the same period.

⁷ Ho, p-46

⁸ Bank of Korea, 1975 to 1994

Table 13.5⁹Korean Textiles Imports, 1974-94

(Million US dollar)

Year	Total Imports	Total Manufactured Imports	Total Textile & Clothing Imports	Textile As % of Manufacturing Exports	Textile Import as % Of total Imports	Growth rate of Imports
1974	6851.8	1167.5	584.5	50.1	8.5	-
1975	7274.4	1053.2	593.3	56.3	8.2	1.5
1976	8773.6	1479.2	742.8	50.2	8.5	25.2
1977	10810.5	1929.2	849.2	44.0	7.9	14.3
1978	14971.9	2781.9	994.4	35.7	6.6	17.1
1979	20338.6	3440.3	1091.9	31.7	5.4	9.8
1980	22291.7	3122.4	1212.5	38.8	5.4	11.1
1981	26131.4	3562.5	1375.7	38.6	5.3	13.5
1982	24250.8	3394.3	1296.9	38.2	5.3	-5.7
1983	26192.2	3948.2	1348.3	34.2	5.1	4.0
1984	30631.4	4904.6	1306.1	26.6	4.3	-3.1
1985	31135.7	4787.3	1270.1	26.5	4.1	-2.8
1986	31583.9	6235.0	1407.7	22.6	4.5	10.8
1987	41019.8	8394.6	2069.9	24.7	5.0	47.0
1988	51810.6	10853.0	2521.4	23.2	4.9	21.8
1989	61464.8	13227.2	2750.6	20.8	4.5	9.1
1990	69843.7	14822.4	2813.6	19.0	4.0	2.3
1991	81524.9	18564.6	3294.0	17.7	4.0	17.1
1992	81775.3	17125.8	3218.1	18.8	3.9	-2.3
1993	83800.1	18217.5	3107.9	17.1	3.7	-3.4
1994	102348	24101.0	3916.5	16.3	3.8	26.0

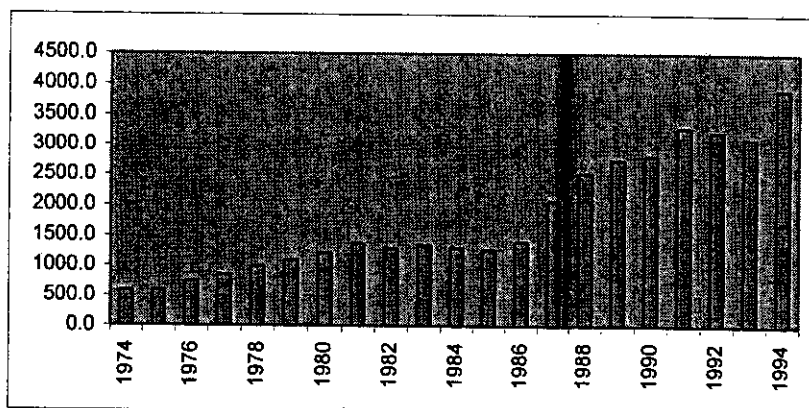
Main textile imports had been raw cotton, which was \$ 189.5 million in 1974 and increased to \$ 589.9 million in 1994 showing an increase of 211 % during the period in review. Import of textile yarn increased from \$ 269.6 million

⁹ *ibid*, 1975 to 1995

to \$ 1321.2 million and that of textile fabrics from \$ 308.9 million to \$ 399.3million during the same period¹⁰.

Figure 13.6

Korean Textiles Imports, 1974-94



TEXTILE TRADE BALANCE:

The period of 1974 to 1994 was the best for the Korean from the textile trade balance point of view. It remained surplus throughout the period, which ranged from \$ 941.5 million in 1974 to \$ 14945.7 million in 1994 as shown in table 13.6. The expansion in textile trade balance for the period from 1974 to 1991 was 1487 % while 1028.9 % for entire period.

Contrary to surplus textile trade balance, the overall trade balance of Korea was deficit at \$ -6335.0 million in 1994¹¹.

¹⁰ ibid, 1975 to 1995

¹¹ ibid, 1975 to 1995

Table 13.6

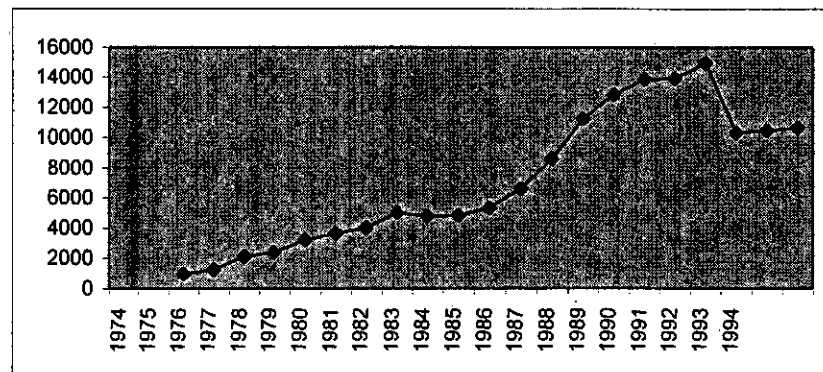
Korean Textiles Trade Balance, 1974-94

(Million US dollar)

Year	Total Textile & Clothing Exports	Total Textile & Clothing Imports	Textile Trade Balance
1974	1526.0	584.5	941.5
1975	1840.2	593.3	1246.9
1976	2837.6	742.8	2094.8
1977	3231.9	849.2	2382.7
1978	4187.2	994.4	3192.8
1979	4725.7	1091.9	3633.8
1980	5213.7	1212.5	4001.1
1981	6368.5	1375.7	4992.7
1982	6063.9	1296.9	4767.0
1983	6168.2	1348.3	4819.8
1984	6625.9	1306.1	5319.8
1985	7881.9	1270.1	6611.8
1986	10012.5	1407.7	8604.8
1987	13320.1	2069.9	11250.2
1988	15350.7	2521.4	12829.3
1989	16606.6	2750.6	13856.0
1990	16708.7	2813.6	13895.1
1991	18239.7	3294.0	14945.7
1992	13546.6	3218.1	10328.5
1993	13554.1	3107.9	10446.2
1994	14545.8	3916.5	10629.3

Figure 13.7

Korean Textiles Trade Balance, 1974-94



TEXTILE MACHINERY:

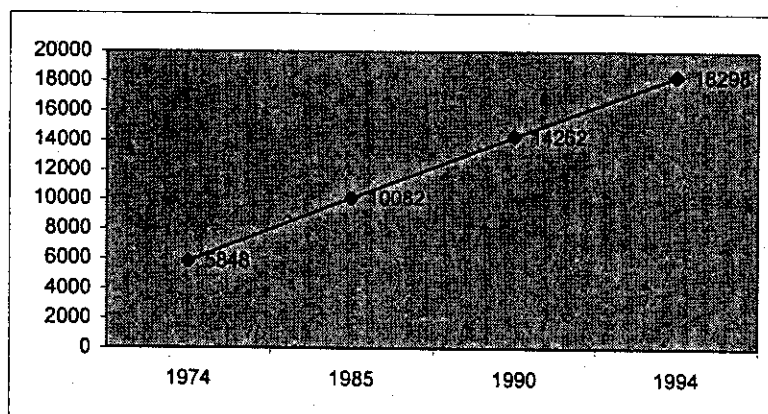
In order to meet the growing demand for textile products, new establishments were set up by importing textile machinery. Textile machinery worth of \$ 186.5 million was imported in 1974 whereas the value of imported textile machinery was \$ 1216.5 million in 1994¹².

TEXTILE ESTABLISHMENTS:

Establishment for the production of both textile and clothing were increased during this period. Textile establishment increased from 2941 in 1974 to 9838 in 1994 showing an increase of 234 %. On the other hand, the establishment for clothing production increased from 2907 in 1974 to 8460 in 1994 showing an increase of 191 %¹³.

Figure 13.8 ¹⁴

Korean Textiles Establishments, 1974-94



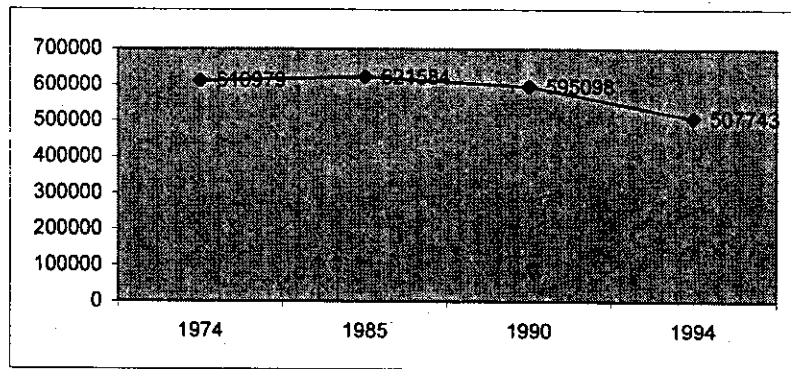
¹² *ibid*, 1975 to 1995

¹³ National Statistical Office of Korea, 1975-1995

¹⁴ *ibid*, 1975-1995

Figure 13.9¹⁵

Total Korean Textiles Workers, 1974-94

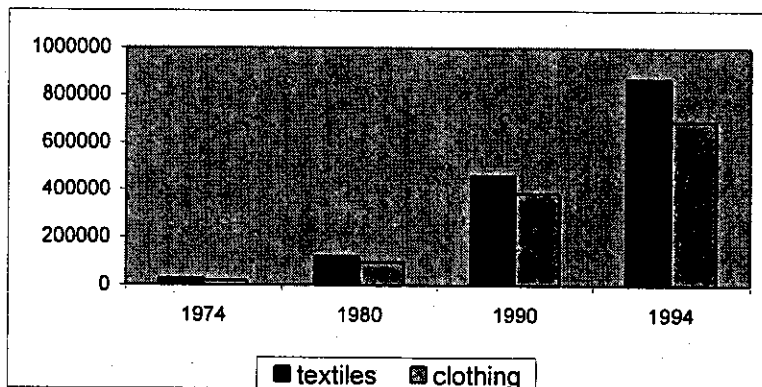


WORKERS AND WAGES:

With the increase in establishments, the number of total textiles workers had also increased from 373,908 in 1973 to 507,748 in 1994.

Figure 13.10¹⁶

Monthly Wages in Korean Textiles Industry, 1974-94, (Won)



Workers in textile establishment increased from 280,646 in 1973 to 304,603 in 1994. Simultaneously, the workers in clothing establishments increased from

¹⁵ *ibid*, 1975-1995

¹⁶ Bank of Korea, 1974-95

3031 in 1973 to 8460 in 1994¹⁷. However, a declining trend started from 1985 as shown in figure 13.9.

At the same time, wages of workers in this industry also increased. Wages for textile workers increased from 27571 won per month in 1974 to 868590 won in 1994. Similarly, wages of clothing workers increased from 19931 won per month to 690060 won per month in 1994¹⁸.

QUANTITATIVE RESTRICTIONS:

USA, EC, Canada and Sweden were the main restraining countries during MFA period. They introduced bilateral quotas against many developing countries including Korea particularly during 1980-1987¹⁹. Besides, Austria and Finland also introduced quantitative restrictions against Korea during 1980-1987²⁰. Furthermore, Norway introduced quantitative restriction against Korea during 1980-1983 and 1985-1987²¹.

¹⁷ *ibid*, 1975 to 1995

¹⁸ *ibid*, 1975 to 1995

¹⁹ Hamilton, p-90-93

²⁰ *ibid*, p-282

²¹ *ibid*, p-282

14.

DEVELOPMENT DURING ATC, 1995-2002

MFA was originally agreed to for a period of five years but it was kept on extending by the end of 1994 with certain changes under titles MFA-II, MFA-III and MFA-IV. New restrictive clauses were added and deleted at the time of enactment of each MFA. As a matter of fact, they were derogation from GATT 1947 because of their discriminatory as well as restrictive character¹.

Despite all quantitative restrictions and discriminatory textile trade regulations, the share of developing countries in the total textile and clothing imports of developed countries continued to increase. Simultaneously, the share of imports from developed countries declined as is evident from table 14.1.

Table 14.1 ²

Textile and Clothing Imports of Developed Countries, 1965-86 (%)

Years	From Developing Countries	From Developed Countries
1965	15.8	84.2
1975	21.7	78.3
1979	25.4	74.6
1986	31.3	68.7

The restrictive nature of MFAs failed to block the competitive edge of developing countries as their share in textile and clothing imports of developed countries increased from 21.7 % in 1975 to 31.3 % in 1986. The share of textile

¹ Hamilton, p-12; Blokker, p-150

² Hamilton, p-15

imports from developed countries reduced from 84.2 % in 1965 to 68.7 % in 1986. This put pressure on textile production and employment in developed countries³.

Developing countries continued to demand for non-discriminatory trade regulations for textile and clothing. They succeeded in including the textile and clothing in the Uruguay Round (UR) multilateral trade negotiations through the Punta Declaration in 1986. UR negotiations resulted in conclusion of ATC, which came into force on January 1, 1995. It provided for integration of textile and clothing into normal rules and disciplines of GATT 1994 in four stages by January 1, 2005. So far, two stages have been completed and third stage of integration has started from January 1, 2002. All WTO members have so far integrated at least 51 % of textile and clothing products. Its mean half of textile and clothing products will now be traded under the normal rules and disciplines of GATT 1994 and not under any discriminatory trade regulation.

The non-discriminatory trade in textile and clothing under normal rules and disciplines of GATT 1994 will enable countries like Korea to expand its exports without any quantitative restrictions. However, it will face stiff competition from China, Hong Kong and Taiwan.

TEXTILE AND CLOTHING PRODUCTION:

After a wonderful period of expansion spread over two decades from 1974 to 1994, Korean textile and clothing production is facing decline. The decline is quite prominent in the main products as shown in table 14.2. Production of

³ *ibid*, p-36

cotton yarn reduced by 33 %, cotton fabrics by 41.9 %, woolen yarn by 42.9 %, woolen fabrics by 18.3 %, silk fabrics by 60 % and synthetic fabrics by 16.6 %.

Table 14.2⁴

Korean Textiles Production, 1994-2000

Years	Cotton Yarn (000 MT)	Cotton Fabrics Million sq meter	Woolen Yarn MT	Woolen Fabrics Km	Synthetic Fabrics Million sq meter	Chemical Fiber 000 MT
1994	357	688	20085	13558	7137	1687
1995	328	585	18947	13346	7829	1863
1996	301	555	16635	14557	7805	2030
1997	247	461	15377	13694	7721	2406
1998	227	417	13128	11459	6914	2437
1999	248	354	13676	12607	6154	2585
2000	239	400	11478	11076	5954	2649

There was reduction in external demand for the Korean textile and clothing products during the period as explained later in this chapter. On internal side, Korean government reduced the tariffs on all industrial goods from 30 % to 8 % during 1986-1994 periods⁵. Some Korean textile companies have transplanted their production units in China and Indonesia during 1995-97⁶.

On the other hand, production of chemical fiber increased by 57 %, knit wears by 15.8 % and that of warp knit fabrics by 98.7 %⁷.

TEXTILE EXPORTS:

Along with reduction in the production of main textile and clothing products, the Korean exports in this sector also decreased from \$ 17807.4 million

⁴ KOFOTI, domestic statistics

⁵ KIET, p-76

⁶ ibid, p-77

⁷ KOFOTI, domestic statistics

in 1995 to \$ 14437.1 million in 2001 as shown in table 14.3. This shows a decrease of 18.9 % in the exports in last five years.

However, exports increased to some extent in 1997 and 2000 but ultimately declined in 2001 as shown in figure 14.1. Share of textile export to total exports declined from 14.2 % to 9.6 % during 1995-2001. On the other hand, the annual growth of textile exports has been varying from 7.6 % to -10.2 %.

Table 14.3 ⁸

Korean Textiles Exports, 1995-2001

(Million US dollar)

Year	Total Exports	Total Manufactured Exports	Total Textile & Clothing Exports	Textile Exports as % of Total Exports	Growth rate Of Textile Exports
1995	125058.0	40949.8	17807.4	14.2	-
1996	129715.1	39348.7	17467.1	13.5	-1.9
1997	136164.2	41128.6	18256.8	13.4	4.5
1998	132313.1	Na	16391.9	12.4	-10.2
1999	143685.5	Na	16873.3	11.7	2.9
2000	172267.5	Na	18156.1	10.5	7.6
2001(P)	150653.0	Na	14437.1	9.6	-20.5

P = provisional, na = not available

The main exports product during this had been an accessory of apparel and clothing, knitted fabrics, laminated textile fabrics and man-made filament. Out of these exports products, the exports of laminated textile fabrics increased from \$ 1009 million to \$ 1300 million that of knitted fabrics form \$ 1227 million to \$ 2291 million during the period of 1995-2001⁹.

⁸ Korea Customs Office, statistics

Figure 14.1

Korean Textiles Exports, 1995-2001

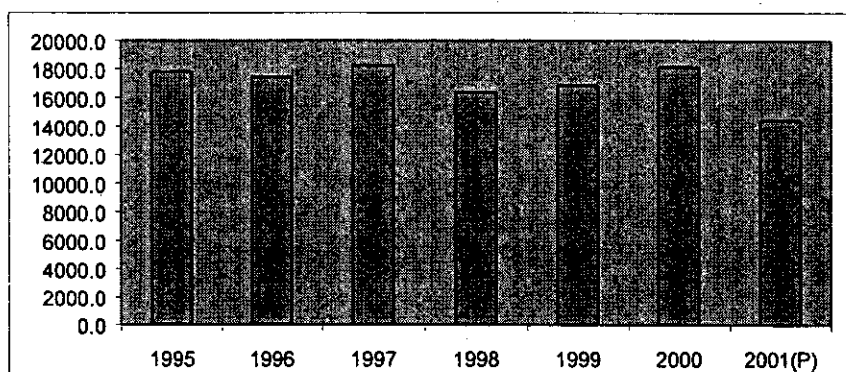


Table 14.4¹⁰

Korean Textiles Imports, 1995-2001

(Million US dollar)

Year	Total Imports	Total Manufactured Imports	Total Textile & Clothing Imports	Textile Import as % Of total Imports	Growth rate of Imports
1995	135118.9	32073.8	6381.4	4.7	-
1996	150339.1	33008.5	6432.7	4.3	0.8
1997	144616.4	30810.1	5911.2	4.1	-8.1
1998	93281.8	na	3487.3	3.7	-41.0
1999	119752.3	na	4574.0	3.8	31.2
2000	160481.0	na	5367.4	3.3	17.3
2001(P)	141116.1	na	5022.7	3.6	-6.4

P = provisional, na = not available

TEXTILE IMPORTS:

Like exports, Korean textile imports also declined from \$ 6381.4 million in 1995 to \$ 5022.7 million in 2001 as shown in table 14.4. This shows a decrease in

⁹ ibid, statistics

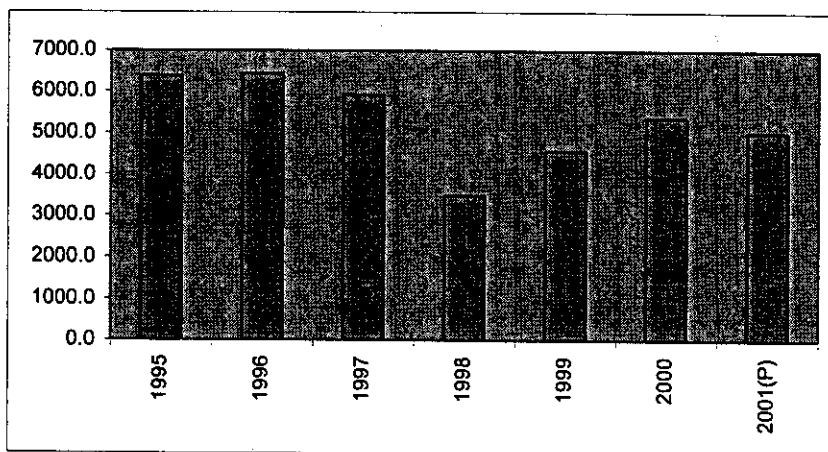
¹⁰ ibid, statistics

imports by 21.3 % during the period in review. Its share in total imports also declined from 4.7 % to 3.6 %. Annual growth rate of textile imports had been varying from -41.0 % in 1998 to 17.3 % in 2001.

Main textile import items had been cotton, man-made filament and man-made fiber. Import of cotton declined from \$ 1473 million to \$ 1179 million, that of man made filament from \$ 1101 million to \$ 567 million, and that of man made staple fiber from \$ 1180 million to \$ 735 million during the period in review¹¹.

Figure 14.2

Korean Textiles Imports, 1995-2001



TEXTILE TRADE BALANCE:

Despite decline in textile exports, the textile trade balance remained surplus during 1995-2001. It was \$ 11426.0 million in 1995 and decreased to \$ 9414.4 million in 2001. However, it increased from 1995 to 2000 by 11.97 % before declining in 2001.

¹¹ *ibid*, statistics

Table 14.5

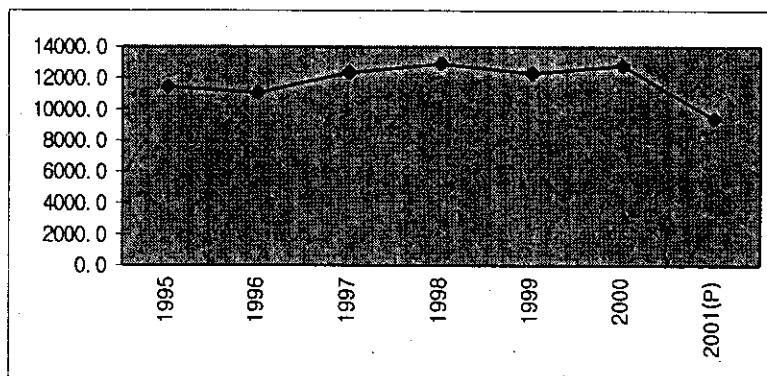
Korean Textiles Trade Balance, 1995-2001

(Million US dollar)

Year	Total Textile And Clothing Exports	Total Textile & Clothing Imports	Textile Trade Balance
1995	17807.4	6381.4	11426.0
1996	17467.1	6432.7	11034.4
1997	18256.8	5911.2	12345.6
1998	16391.9	3487.3	12904.6
1999	16873.3	4574.0	12299.3
2000	18156.1	5367.4	12788.8
2001(P)	14437.1	5022.7	9414.4

Figure 14.3

Korean Textiles Trade Balance, 1995-2001



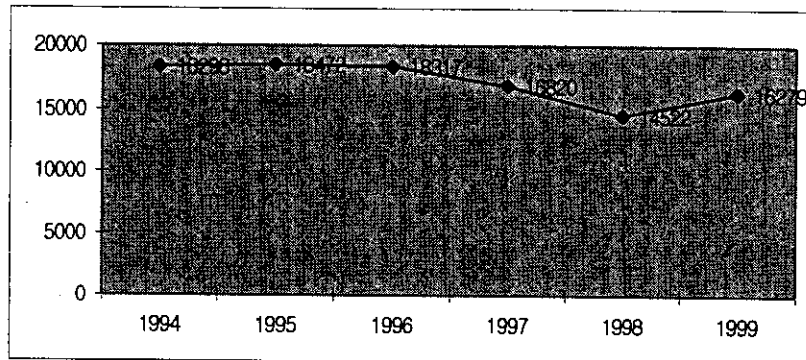
TEXTILE ESTABLISHMENTS:

The slump of Korean textile industry is also visible if we see the number of textile and clothing establishments during the period 1994-99. Number of textile and clothing establishments decreased from 18298 in 1994 to 14522 in 1998 and then increased to 16279 in 1999. Individually, textile establishments

decreased from 9838 in 1994 to 8823 in 1999 and that of clothing decreased from 8460 to 7456 during the said period¹².

Figure 14.4 ¹³

Total Korean Textile and Clothing Establishments, 1994-99

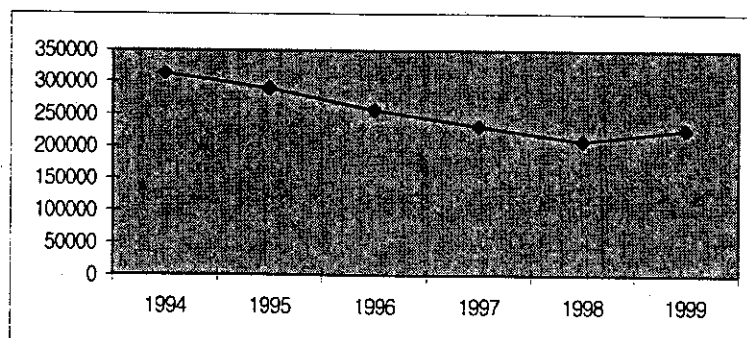


TEXTILE WORKERS:

With the decline in establishments, the total number of workers in textile and clothing sectors decreased from 313063 in 1994 to 208772 in 1998 and then increased to 227114 in 1999.

Figure 14.5 ¹⁴

Total Workers in Korean Textile and Clothing Industry, 1994-99



¹² National Statistical Office of Korea, 1996-2000

¹³ ibid, 1996-2000

¹⁴ ibid, 1995-2000

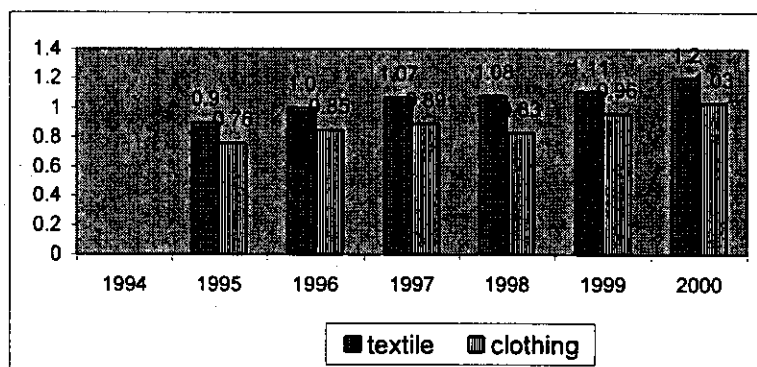
Textile workers declined from 304603 in 1994 to 219658 in 1999 and that of clothing from 8460 to 7456 during the same period. However, there had been sign of recovery in year 1999.

WORKER'S WAGES:

Despite decrease in production, exports and number of establishments, the monthly wages of workers in textile and clothing industry increased during 1995-2000 period as shown in figure 14.6.

Figure 14.6¹⁵

Monthly Wages of Textile and Clothing Workers in Korea, 1995-2000



Wages in textile and clothing increased from 1.66 million won per month in 1995 to 2.23 million won in 2000. Individually, wages for textile workers increased from 0.9 million won per month in 1995 to 1.2 million won in 2000 showing an increase of 33 %. On the other hand, monthly wages for clothing workers increased from 0.76 million won in 1995 to 1.03 million won in 2000 showing an increase of 35 %.

¹⁵ Bank of Korea, 1996-2001

15.

IMPLEMENTATION OF ATC AND KOREA

The prime objective of ATC was the liberalization of trade in textile and clothing by progressive integration of this sector into strengthened rules and discipline of WTO/GATT 1994 and gradual quota elimination¹. ATC provided a specific timetable for completion of integration spread over a period of ten years from January 1, 1995 to January 1, 2005. According to the schedule, two stages of integration completed on December 31, 2001 and third stage of integration have started from January 1, 2002.

The integration process started with notifications of quantitative restrictions maintained under MFA and carried over into ATC². Four restraining members of WTO i.e; US, EC, Canada and Norway, made the notification. These notifications gave the details of all the quota restrictions in 1994-95, which they wished to carry over into ATC. These notifications also included the textile and clothing products exported by Korea and were put under quantitative restriction by the four restraining members of WTO.

NOTIFICATION BY US:

Under article 2.1 of ATC, US notified 751 quantitative restrictions it maintained through bilateral export restraint agreements and carried over into ATC³. US maintained these quotas against 25 members of WTO including Korea⁴.

¹ ATC, preamble

² *ibid*, article 2.1

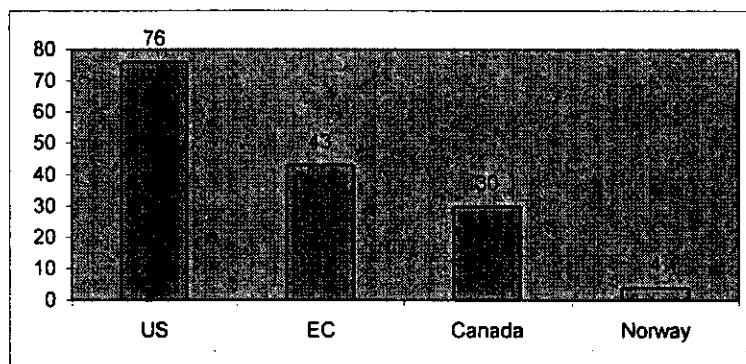
³ WTO, TMB notification No.G/TMB/N/63 dated April 19, 1995

These quotas included 76 quotas maintained against Korean textile and clothing exports products⁵.

The products put under quotas related to cotton, wool, silk, man-made fiber, etc. the initially agreed growth on these quotas was from 0.1 % to 2.5 % per annum. However, the carried forward growth (into ATC) on these quotas ranged from 2 % to 3%⁶. After the quota carried over into ATC, only the growth rate provided in the ATC had to apply⁷.

Figure 15.1

Notified Quantitative Restrictions Against Korea



NOTIFICATION BY EC:

EC notified 253 quantitative restrictions under article 2.1⁸ against 23 WTO members including Korea⁹. These 253 restrictions included 43 quotas against Korea as well. 43 quotas were on products of cotton, synthetic fiber, wool, man-

⁴ TMB-2, paras 251-254

⁵ WTO, Trade Policy Review of US 1996, p-130

⁶ *ibid*, TMB notification No.G/TMB/N/63 dated April 19, 1995

⁷ ATC, articles 2.13 and 2.14

⁸ WTO, TMB notification No.G/TMB/N/60 dated April 19, 1995

⁹ TMB-2, paras 247-248

made fiber, etc. the growth rate for these quotas ranged from 0.75 % to 7.0 % per annum before carried over into ATC¹⁰.

NOTIFICATION BY CANADA:

Under article 2.1, Canada notified 295 quantitative restrictions¹¹ against 26 WTO members including Korea¹². 30 quotas were against Korea relating to products of cotton, wool, silk and synthetic fiber, etc. the growth rate of these quotas were 0.9 % to 10.0 % prior to they were carried over into ATC¹³.

NOTIFICATION BY NORWAY:

Norway notified, under article 2.1 of ATC, 54 quotas it maintained¹⁴ against 16 WTO members including Korea¹⁵. There were 4 quotas against Korea relating to products of outer garments of woven material, bed linen and nets. Growth rate for these quotas were 5.0 % but the carried over rate (into ATC) was increased to 15 %¹⁶.

QUOTA LIBERALISED:

Once a product under restraint was integrated into WTO/GATT 1994, all quantitative restrictions on it were removed. During three out of four stages of integration so far, restraining countries had integrated some of the products under restraint, thereby, they removed the quantitative restriction from those

¹⁰ WTO, TMB notification No.G/TMB/N/60 dated April 19, 1995

¹¹ ibid, TMB notification No.G/TMB/N/62 dated April 19, 1995

¹² TMB-2, paras 247-248

¹³ WTO, TMB notification No.G/TMB/N/62 dated April 19, 1995

¹⁴ ibid, TMB notification No.G/TMB/N/61 dated April 19, 1995

¹⁵ TMB-2, para 250

¹⁶ WTO, TMB notification No.G/TMB/N/61 dated April 19, 1995

products.

US did not integrate any restricted product in the first stage of integration. However, it integrated 24 restricted products in second stage, thereby liberalized 24 quotas¹⁷. The 24 quotas liberalized benefited 14 WTO members including Korea. Korea benefited from 23 quotas liberalized relating to apparel, garments, hosiery, footwear, fabrics, made-up and carpets¹⁸. For third stage, US liberalized 43 quotas with effect from January 1, 2002. These benefited 20 WTO members¹⁹. 8 of these liberalized quotas benefited Korea as well. These were pertained to products like man-made fiber gloves, cotton shawls, coats and jackets, bags, dressing gowns, staple fiber yarn and headwear²⁰.

EC did not liberalize any quota in the first stage²¹. However, it did liberalize 12 quotas in second stage, which benefited 5 WTO members including Korea²². Korea benefited from 7 quotas liberalized regarding products like clothing accessories, synthetic fiber, ski suits, tents, camping goods, textile fabrics, etc²³. EC liberalized 37 quotas in third stage of integration, which benefited 9 WTO members including Korea. Korea benefited from 11 quotas liberalized for third stage²⁴.

¹⁷ *ibid*, Trade policy Review of US 1999, p-161

¹⁸ TMB-1, paras 52-53

¹⁹ TMB-2, para 111

²⁰ *ibid*, para-109, tables 9,10,11

²¹ TMB-1, para-16

²² *ibid*, para 42 & 54

²³ TMB-1, table 2

²⁴ TMB-2, para 104, table 6

Table 15.1

Quotas Notified and Liberalized against Korea under ATC, 1995-2002

	Total quota notified	Quota against Korea	Quota against Korea liberalized in three stages			Total quota Liberalized for Korea	Outstanding quota against Korea
			One	Two	Three		
US	751	76	0	23	8	31	45
EC	253	43	0	7	11	18	25
Canada	295	30	0	2	4	6	24
Norway	54	4	2	2	0	4	0
Total	1353	153	2	34	23	59	94

Canada liberalized one quota in first stage relating to work gloves²⁵.

It liberalized 2 quotas in the second stage, which benefited 22 WTO members. Korea benefited from both quotas liberalized relating to hand bag of textile and tailored collar shirts²⁶. 27 quotas were liberalized by Canada for third stage, which benefited 20 WTO members. Korea benefited from 4 quotas liberalized²⁷.

Norway adopted the provision of article 2.15 of ATC for liberalizing quotas in advance. It liberalized 14 quotas on January 1, 1996, which befitted 16 WTO members²⁸. Korea benefited from 2 quotas liberalized²⁹. Norway liberalized 32 quotas on January 1, 1998, 5 quotas on January 1, 1999, and 3 quotas on January 1, 2001. These 40 quotas liberalized during second stage of integration

²⁵ *ibid*, para 16

²⁶ TMB-1, para 55

²⁷ TMB-2, tables 3, 4

²⁸ *ibid*, para 255

²⁹ WTO, TMB notification No. G/TMB/N/130 dated January 1, 1995

benefited 24 WTO members. Korea benefited from 2 quotas liberalized. In this way, Norway liberalized all quantitative restriction it carried over into ATC³⁰.

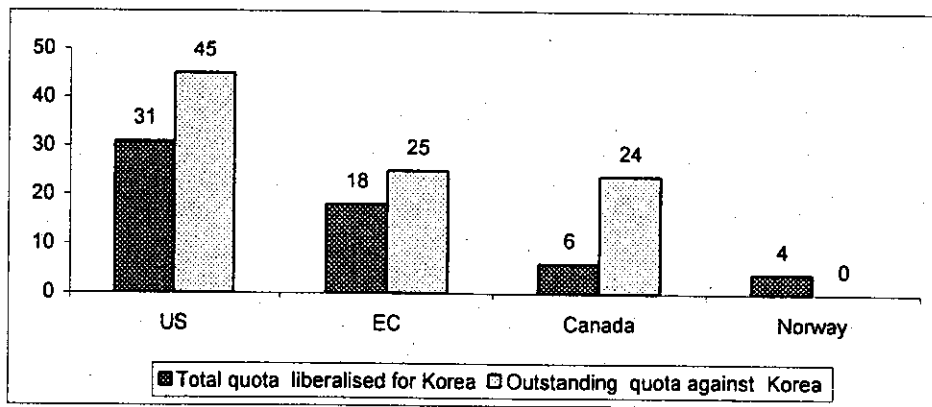
THE NET EFFECT:

The total notified quotas against textile and clothing export products of Korea was 153. It comprised 49 % quotas by US, 28 % by EC, 20 % by Canada and 3 % by Norway.

The net effect of three stages of integration for Korea is like all other restrained members of WTO. Norway liberalized all 4 quotas it maintained against Korea. Canada liberalized 6 out of 30 quotas, thereby, it liberalized 20 % of its quotas against Korea and remaining 80 % will be eliminated on last day of integration on January 1, 2005. EC eliminated 18 out of 43 quotas, thereby, liberalized 41.9 % of quotas it maintained against

Figure 15.2

Quotas Liberalized And Outstanding Against Korea, 1995-2002



³⁰ TMB-2, para 262

Korea. It implies that EC will eliminate remaining 58.1 % on January 1, 2005. US liberalized 31 out of 76 quotas, thereby, eliminated 40.8 % of quotas it maintained against Korea. Remaining 59.2 % of quotas will be eliminated on last day of integration.

In total, 59 quotas out of 153 maintained against Korea have so far been liberalized. This mean 38.6 % of total quotas eliminated whereas 61.4 % will be eliminated on last day of integration of ATC. The outstanding quotas are mostly related to sensitive high value added products, which are of most importance for Korea and other developing countries.

QUANTITATIVE RESTRICTIONS BY KOREA:

Korea also notified two quantitative restrictions against Japan. These were regarding products of woven fabrics of pure silk, silk fabrics, grey satin, etc³¹.

KOREA'S INTEGRATION PROGRAMME:

Korea opted to retain the right to use the Transitional Safeguard Mechanism (TSM) under article 6.1 of ATC³². Accordingly, it furnished its integration programme for first, second and third stages. It integrated 16 % of the products of its volume of imports in 1990 in first stage under article 2.7(b)³³, 17 % in second stage under article 2.8(a) and 2.11³⁴ and 18 % in third stage under

³¹ WTO, TMB notification No.G/TMB/N/68 dated April 28,1995

³² *ibid*, TMB notification No.G/TMB/N/68 dated April 28,1995

³³ *ibid*, TMB notification No.G/TMB/N/46 dated April 28,1995

³⁴ *ibid*, TMB notification No.G/TMB/N/235 dated February 20, 1997

article 2.8(b) and 2.11³⁵. Although, it fulfilled the technical requirement, but it did not use the option of advance integration provided in article 2.10 of ATC.

TRANSITIONAL SAFEGUARD MECHANISM (TSM):

During first stage, Brazil and Ecuador made request for applying TSM against Korea³⁶. In second stage, Colombia, Poland and Argentina made requests for consultation to apply TSM against import from Korea³⁷.

Table 15.2

TSM Applied Against Korea, 1995-2001

	TSM applied against Korea during	
	First stage	Second stage
Brazil	5	-
Ecuador	1	-
Colombia	-	1
Poland	-	1
Argentina	-	5

³⁵ *ibid*, TMB notification No.G/TMB/N/390 dated January 3, 2001

³⁶ TMB-2, paras 120-121

³⁷ *ibid*, paras-124-126

PART-IV

SUMMARY AND CONCLUSIONS

PRE-ATC TEXTILE AND CLOTHING:

As is evident from all discussion so far, the trade in textile and clothing has covered a long way since the end of Second World War. It started as trade of raw cotton, moved to cotton yarn and cotton fabrics. When cotton textile products put under quantitative restrictions, production of other kinds of textile fiber were developed. Wool, Silk, Synthetic, etc fibers and their products (yarn, fabrics and clothing) played an important role in textile trade.

Developing countries had the abundant raw material, cheap labour and relevant technology for the production and process of cotton textile products. This enabled them to have competitive edge in the production and trade of cotton textile products. The share of imports of textiles from developing countries started increasing in developed countries.

The increase in share of developing countries in the textile imports of developed countries was primarily due to emergence of Japan as leading textile and clothing exporter after the end of Second World War. This led to the conclusion of Voluntary Export Restraint (VER) agreements between Japan and US, UK and other developed countries in fifties¹. This was the first substantial violation of GATT 1947 which called for non-discriminatory trade on the basis of MFN among its CP members.

¹ Cortes, p-34

Developed countries were of the view that the market distortion in their textile and clothing industry was caused by increasing imports from developing countries. They claimed that the increasing share of textile exports by developing countries was putting pressure on their production, employment and trade of textile industry. They succeeded in introducing the concept of '*market disruption*' in textile and clothing trade through a decision of CP of GATT 1947 dated November 19, 1960². This was a fundamental departure from provision of GATT 1947³ and began a series of anti-GATT agreements for textile⁴.

Adoption of concept of market disruption led to the conclusion of STA in 1961, which established a textile trade regulation parallel to GATT 1947. STA was followed by LTA and MFA, which all were inconsistent to several GATT articles relating to non-discrimination, quantitative restrictions, etc⁵.

It was the UR during which developed countries ultimately agreed to complete elimination of separate textile trade regulations in a specific time period of ten years under ATC. ATC has provided for elimination of all quantitative restrictions and complete integration of textile and clothing trade into strengthened rules and discipline of WTO/GATT 1994 by January 1, 2005⁶.

Blame of developed countries that the market distortion or market disruption in their textile industry was caused by the imports from developing

² WTO, ATC

³ *ibid*, ATC

⁴ Cortés, p-52

⁵ Hamilton, p-13

⁶ ATC, article 2

countries was not justified by the trade statistics shown in table 16.1. In 1963, the textile imports of developed countries from developing countries were \$ 860 million in 1963. On the other hand, developed countries exported textile products worth of \$ 1530 million to developing countries in the same year⁷ resulting in net surplus of \$ 670 million.

Table 16.1 ⁸

Net Trade in Textiles and Clothing, 1963

(Million US dollar)

EC	Total	1240
	With Developing countries	280
US	Total	-490
	With Developing countries	-140
Japan	Total	1050
	With Developing countries	580
All industrialized countries ⁹	Total	1090
	With Developing countries	670

US was the most restraining country in the trade of textile and clothing. It had a deficit of \$ 490 million in 1963. Out of \$ 490 million, \$ 140 million was contributed by developing countries and remaining \$ 350 million was due to trade with non-developing countries¹⁰. It means that the 28.6 % textile trade deficit of US was contributed by developing countries and that of 71.4 % by non-

⁷ Keesing and Wolf, p-17

⁸ *ibid*, p-18

⁹ US, Canada, EC, EFTA (European free trade association), Japan

developing countries. But all quantitative restrictions were placed against developing countries.

EC had a surplus of net textile trade of \$ 1240 million including a surplus with developing countries amounting to \$ 280 million in 1963. Japan had a surplus of net textile trade amounting to \$ 1050 million including \$ 580 million surplus with developing countries in 1963. In nutshell, the net textile trade balance of industrialized countries was surplus at \$ 1090 million including a surplus with developing countries amounting to \$ 670 million in 1963¹¹.

Table 16.2 ¹²

World Production of Textile Fiber, 1950-1996, (%)

	Raw Cotton	Raw Wool	Cellulosic/ Rayon	Synthetic
1950	70.9	11.3	17.1	0.7
1960	67.7	9.8	17.8	4.7
1970	54.1	7.4	16.4	22.1
1973	51.3	5.4	14.4	28.9
1978	46.2	5.2	12.8	35.8
1985	49.1	5.1	8.7	36.9
1990	48.5	5.1	7.2	38.9
1994	45.7	3.9	5.7	44.4
1996	44.9	3.4	5.4	46.1

Only US had the deficit textile trade with developing countries. All other industrialized countries had the surplus textile trade viz-a-viz developing countries. But all developed countries joined hand to introduce separate trade

¹⁰ Keesing and Wolf, p-17

¹¹ *ibid*, p-17-18

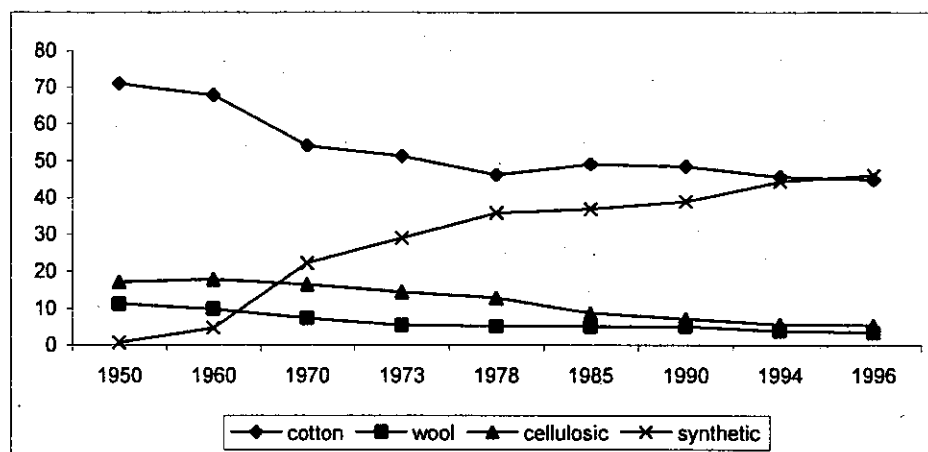
¹² *ibid*, p-25 (for period 1950-1978); KOFOTI, International statistics (for 1985-96)

regulations for textile and clothing based on discriminatory quantitative restrictions.

The production of various kinds of textile fibers went through a lot of transformation during the period 1950 to 1996 as shown in table 16.2. Although, the quantity of production of cotton increased manifold, but the share of cotton in the total textile fiber production declined from 70.9 % in 1950 to 51.3 % in 1973 (end of LTA and beginning of MFA). It further declined to 45.7 % in 1994, the time when MFA ended and ATC came into force. The decline in the contribution of cotton was more prominent during 1950 to 1973 when cotton textile product was put under heavy restrictions by developed countries.

Figure 16.1

World Textile Fiber Production, 1950-1996



Similarly, contribution of wool fiber to total textile fiber production continuously declined from 11.3 % in 1950 to 9.8 % in 1960, 5.4 % in 1973, 3.9 % in 1994 and 3.4 % in 1996. However, the contribution by man-made synthetic fiber

increased consistently during this period as shown in figure 16.2. It increased from 0.7 % in 1950 to 4.7 % in 1960, 28.9 % in 1973, 44.4 % in 1994 and 46.1 % in 1996. Its main expansion period was 1960-1973 when cotton textile products were under restraint but man-made fiber products were outside the purview of STA and LTA. As is evident from figure 16.3, the trends (increasing or decreasing) of share of each textile fiber remained the same throughout the period from 1950-1996. It can be inferred from these facts that textile industry is more diversified than it was in 1950.

POST ATC TEXTILE AND CLOTHING:

After the MFA was replaced by ATC in 1995, all eyes were set to see the process and progress of integration of textile and clothing trade into WTO/GATT 1994 by January 1, 2005. Under the ATC and after its termination, normal WTO/GATT 1994 rules will govern all textiles and clothing trade among WTO members. Thereafter, only GATT 1994 legal mechanisms, e.g; tariffs, safeguards, antidumping and countervailing duties will be used to regulate trade in this sector¹³.

With the completion of two stages on December 31, 2001 and commencement of third stage out of total four stages of integration provided under ATC, 51 % of integration has already been notified by the members of WTO to TMB as was required under article 2 of ATC.

¹³ Stewart, p-231

All restraining members have integrated the minimum required volume of textile products of their imports in 1990 as shown in table 16.3. So far, US, EC and Canada have *technically* fulfilled their obligations in the first two stages (Norway have integrated all its products under restrictions). But this technical compliance by the restraining members of WTO has raised some questions and ambiguities of ATC, which allowed them to manipulate the objective of ATC.

Table 16.3

**Share of Each Product Group in Total Integration,
1995-2002, (%)**

WTO Restraining members	Tops and Yarn	Fabrics	Made-up	Clothing
USA	39.0	17.1	31.2	12.9
EC	38.7	26.0	18.9	16.3
Canada	30.9	14.4	42.4	12.3
Norway	21.5	29.3	28.9	20.2

The fundamental objective of the ATC was to "*further liberalization of trade*" and "*progressive meaningful integration*" of textiles and clothing sector into GATT 1994¹⁴. Restraining members integrated the minimum percentage volume of the products required to integrate at every stage. At none of the three stages, they adopted the progressive approach by integrating substantially more than what was required. In first stage, against the requirement of at least 16 %, US, EC and Canada integrated less than 16.4 % of the products. In the second stage, against the provision of at least 17 %, US, EC and Norway integrated less than 17.11 %

¹⁴ ATC, preamble

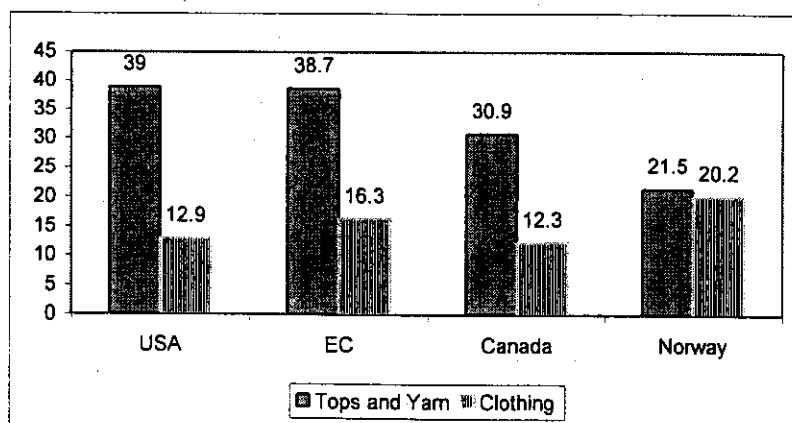
whereas Canada integrated 18.7 % of the products. Similarly, USA, EC and Canada integrated less than 18.6 % of their textile products against the minimum requirement of 18 % for the third stage. Cumulatively, at least 51 % of products had to be integrated in three stages. Against this requirement, USA, EC and Canada just tried to meet the technical requirement of ATC as is evident from table 16.3.

By adopting this non-progressive approach, the USA, EC and Canada are taking a risk by deferring the integration of half of the products till the last day¹⁵ of integration under ATC. This will probably put pressure on the domestic textile industry of these countries.

This can best be described as *technical compliance* of legal requirement but not the progressive and meaningful integration of textiles products into WTO/GATT 1994.

Figure 16.2

Integrated Products of Low and High Value, 1995-2002



¹⁵ January 1, 2005

ATC, not only set minimum limit of integration of products, but also called for selection of products from four product groups i.e; tops and yarns, fabrics, made-up and clothing. But it did not set any minimum limit for each of these four product groups and left it at the discretion of the restraining members. Restraining members exploited this loophole of the ATC by integrating only nominal volume of the high value products as shown in table 16.4.

Table 16.4

Integration Of Textile Products In Three Stages
1995-2002, (%)

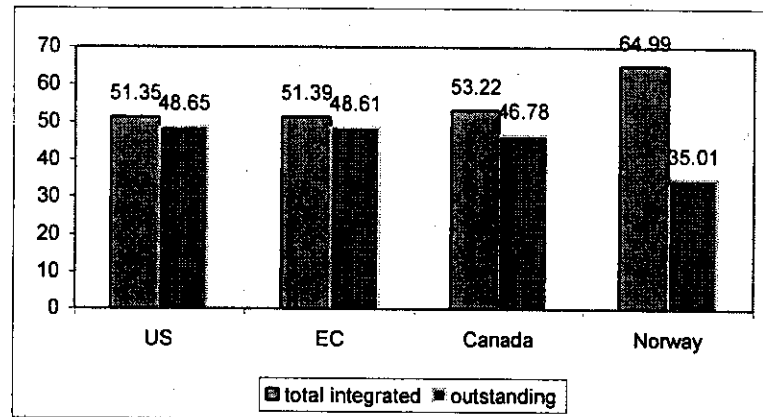
WTO Restraining Members	Integration of products in stage			Total integrated	Out-standing
	1	2	3		
USA	16.21	17.03	18.11	51.35	48.65
EC	16.20	17.11	18.08	51.39	48.61
Canada	16.36	18.70	18.16	53.22	46.78
Norway	26.32	17.02	21.65	64.99	35.01

Low value products of tops and yarn and fabrics got the lion share whereas the high value product of clothing was given the least share. High value products particularly the clothing is of special interest to developing countries.

As shown in figure 16.3, USA, EC and Canada integrated maximum products in low value tops and yarns and least volume of products from clothing group. Norway adopted a balanced approach by integrating reasonable volume of products from each of four groups. USA will integrate 87 %, EC 87 %, Canada 83 % and Norway 79 % of the high value clothing products on last day of integration under ATC.

Figure 16.3

Total Volume of Products Integrated and Outstanding,
1995-2002, (%)



The integration is based on the volume of the textile and clothing imports in 1990 of each restraining members and not the value of the imports. This provision of ATC gave opportunity to four restraining members to liberalize only the low value products so far¹⁶. As such, despite the completion of half of the integration programme, developing countries have to wait for another three years for any substantial benefits to accrue to them under ATC.

No restraining member adopted the provision of *advance integration* under article 2.10 of ATC.

Non-progressive and non-meaningful approach in the integration programme is also evident in the way the restraining members liberalized the quota restrictions so far as detailed in the table 16.5. Except Norway, which adopted the provision of article 2.15 and liberalized all quotas by the end of second stage of integration,

¹⁶ ITCB, implementation of ATC

all other restraining members adopted a non-progressive strategy. The products still under restrictions are of importance to developing countries.

Table 16.5

Quotas Notified and Liberalized in Three Stages

WTO members	Quotas Notified	Quota liberalized in stage			Total liberalized quotas	Out-standing quotas
		1	2	3		
USA	751	0	24	43	67	684
EC	253	0	12	37	49	204
Canada	295	1	2	27	30	265
Norway	54	14	40	-	54	0

USA, EC and Canada adopted the policy of liberalizing least number of quotas in first three stages. This also means that they will liberalize huge number of quotas on last day¹⁷ of integration. USA has liberalized only 8.9 %, EC 19.4 % and Canada 10.2 % of the quotas in three stages. This imply that USA will liberalize 91.1 %, EC 80.6 % and Canada 89.8 % of their quotas notified by them on last day of integration.

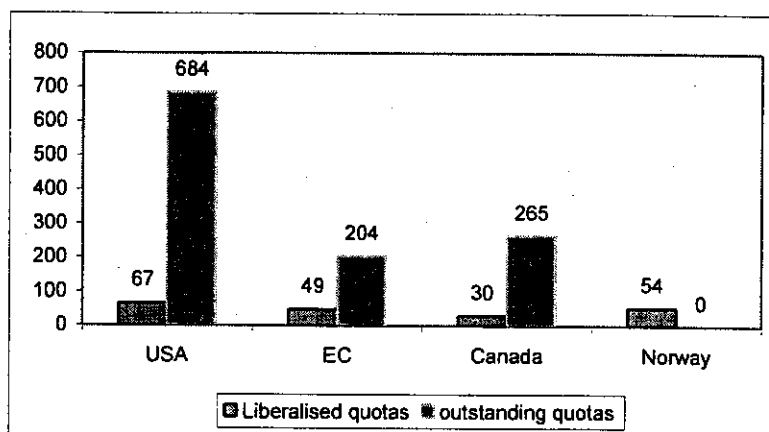
The non-liberalization of exuberant number of quotas in first three stages, as shown in figure 16.4, is not only a matter of great disappointment for developing countries but also posing a threat to the programme of integration in the fourth stage. It means that products still under restrictions will now be liberalized on the last day of ATC. But this will pose a big threat to the highly

¹⁷ January 1, 2005

protected textiles industries of the restraining members of WTO. It will result in closing of many producing units and unemployment of thousands of laborers.

Figure 16.4

Number of Quotas Liberalized and Outstanding, 1995-2002



Except Norway, no other restraining member used the provision of *early integration* under article 2.15 of ATC.

By adopting the non-progressive integration approach, restraining members are taking a deliberate risk, which could prove fatal for their domestic industries as well as smooth and successful implementation of ATC.

This situation is probably due to the fact that ATC did not provide any minimum limit of liberalization of the restricted products (quotas) at every stage of integration. It left it to discretion of the restraining countries to decide which have exploited this lacuna of the ATC to their advantage.

The most sensitive quota products are those which are of higher value added, such as T-shirts, men's shirts, ladies blouses, jeans etc and they are still

under quantitative restrictions¹⁸.

Four restraining members maintained so many restrictions against developing members exporting textiles products. But they did not introduce even single restrictions against each other. This is a good example of Negative Symmetry by the developed countries for each other as well as discriminatory attitude towards developing countries.

Visa Requirement:

Inventing another method of restricting the imports from developing countries, US devised the issuance of a certificate called visa, as an administrative arrangement, to monitor and control imports of textile and clothing products from countries under quota restriction. It was an additional requirement to normal shipping documents. It was considered violation of ATC. After the issue was raised at TMB, US withdrew the requirement with effect from January 1, 1999¹⁹. Besides, USA has also decided not to impose visa requirement for those products integrated in the third stage of integration²⁰.

Rules of Origin:

USA also introduced changes in its rules of origin for the textiles and clothing products on July 1, 1996. It was considered as an instrument of trade policy to block the import of textile products from certain exporting countries. According to the changes, the country of origin was the country where the fabric

¹⁸ ITCB, implementation of ATC

¹⁹ TMB-2, paras 58-62

²⁰ WTO, TMB notification No. G/TMB/R/84 dated January 1, 2002

was formed rather than the country where the product was made. After reviewing the issue, TMB recommended to Council for Trade in Goods of WTO to ask members not to implement any changes, except if multilaterally agreed, in their respective rules of origin during the remaining period of ATC. It was being viewed as another way to restrict textile and clothing imports from certain members of WTO.

Textile Tariffs:

The discriminatory approach of developed countries towards textile and clothing trade and so the developing countries can be assessed from their tariff policy as explained in table 16.6 ²¹.

Table 16.6

Developed Country's Tariffs (Trade Weighted)

	Pre-Uruguay Round	Post-Uruguay Round
All Industrial products	6.3 %	3.8 %
Textile and Clothing Products	15.5 %	12.1 %

The tariffs for textile and clothing were more than two times higher than all industrial products in pre-UR. In post-UR, tariffs for textile and clothing are now more than three times the tariffs for all industrial products.

Korean Textile and Clothing Industry:

Given the diversification and competitiveness of Korean textile and clothing industry, it was expected that the implementation of ATC would result

²¹ ITCB, the story about tariffs is little different

in boom in its textile industry. With the liberalization of quotas and increase in market access, Korean textile will make a big leap. It did make a big leap when its exports increased from \$ 14.5 billion in 1994 to \$ 17.8 billion in 1995 but it declined to \$ 14.4 billion by the end of 2001. Production of main textile products also declined during 1994-2000, which led to the reduction in textile establishments and number of workers.

But, 61.4 % of total quotas against Korea, mostly relating to high value added clothing products, will be liberalized on last day of integration. Besides, Korea's competitive edge in trade of textile and clothing over other exporting countries will prove to be a decisive factor in coming years particularly after the complete implementation of ATC. At present, the Korea's competitive index for textile trade is 3 and for clothing trade is 4²². As such, there are bright prospects for Korea to capture big share of non-discriminatory trade in textile and clothing after January 1, 2005.

Role of USA:

In order to implement the UR Agreements, USA promulgated a Uruguay Round Agreements Act and Statement of Administrative Actions (SAA) in 1994. Implementation of ATC is being carried out in accordance with the sections 331-334 of the Act. US also formed the Committee on Implementation of Textile Agreements (CITA), which is responsible for drawing up US integration

²² Competitiveness Index, p-128-129

schedule²³.

The textile industry in USA is already passing through crisis since 1990. But this crisis further deepened after the Asian financial crisis in 1997, which reduced the cost of imports in USA by 39-40 % due to depreciated Asian currencies²⁴. This situation led to the closure of many textile plants, laying off thousands of workers, reduction in demand for textile fiber and increase in textile and clothing trade deficit in USA as shown in tables 16.7, 16.8 and 16.9.

Table 16.7²⁵

Textile Plants Closed Down in USA, 1997-2001

Year	Number of plants closed down
1997	14
1998	26
1999	35
2000	29
2001	103

Increase in closing plants also resulted in increase in laying-off of employees. The employment in US textiles reduced by 33.8 % during 1990-2001. The reduction is stronger during 1995-2001 when textile employment reduced by 32.3 %. On the other hand, employment in clothing sector of USA also suffered heavily as it reduced by 29 % during 1995-2000 and by 36 % during 1990-2000.

²³ Stewart, p-231-233

²⁴ ATMI, statistical overview of the crisis in US textiles

²⁵ ibid, textile plants closing

Table 16.8

Workers in Textile and Clothing Industry in USA, 1990-2001

Year	Number of Textile workers	Number of Clothing workers
1990 ²⁶	670900	1017400
1995 ²⁷	656200	915800
2000 ²⁸	541000	650000
2001 ²⁹	444000	-

This situation also affected the textile and clothing trade of USA during 1990-2001. The textile and clothing imports in USA increased by 52.7 % during 1990-95³⁰ and by 54.1 % during 1995-2001³¹. Increase in imports led to increase in deficit of trade balance in textile and clothing sector for USA as shown in table 16.9.

Table 16.9 ³²

Textile and Clothing Trade Balance of USA, 2000-2001

(Million US dollar)

Year	Trade Balance
2000	-60758
2001	-62420

This situation has created an environment in which President of USA has been asked to 'use various powers at his disposal' to save the textile industry

²⁶ WTO, trade policy review of USA, 1996, p-125

²⁷ ibid, trade policy review of USA, 1996, p-125

²⁸ ATMI, textile employment

²⁹ ibid, textile jobs losses

³⁰ WTO, trade policy review of USA, p-125

³¹ ATMI, textile industry year end trade and economic report dated January 2, 2002

³² ibid, textile industry year end trade and economic report dated January 2, 2002

which is 'facing a crisis of survival'³³. In their letter to US President, Governors of four states³⁴ producing most of textile and clothing products in USA, demanded him to 'use every tool to combat this crisis' including 'laws attacking unfair trade practices', prohibiting imports made from child labor' and 'not negotiation new trade agreements which could cause damage to textile industry'³⁵.

This letter has resulted in beginning of a campaign in USA to save the textile industry from collapse, which seems to loom at the time of fourth stage of integration. As explained earlier, USA will integrate 48.65 % of its products, mostly high value added clothing products; liberalize 684 quotas (91.1 % of quotas notified by USA to TMB) on last day of integration.

These efforts have started showing their impact. At Doha Ministerial Conference of WTO, USA successfully blocked the efforts of developing members to obtain an early liberalization of remaining quotas from restraining members³⁶.

USA has taken a risk by not adopting the *gradual and progressive integration*, which can turn out to be fatal for its textile and clothing industry. Emergence of China as the leading exporters of textile and clothing³⁷ and its entry into WTO has made the competition for US textile industry more difficult.

³³ *ibid*, Letter by Governors of four states of USA to President Bush dated July 25, 2001

³⁴ Georgia, South Carolina, North Carolina and Alabama

³⁵ ATMI, Letter by Governors of four states of USA to President Bush dated July 25, 2001

³⁶ ITCB, Doha declaration

³⁷ WTO, annual report 2001, p-145, 152

As explained in earlier chapters, USA and its politically strong textiles lobby has been a main player in shaping the textiles trade laws/agreements in the world. Next presidential election in USA will be held in November 2004, just days before the complete integration of textiles trade into WTO/GATT, 1994. This scenario raises many disturbing questions with regards to the successful passage of textile trade into the era of non-discrimination. Will this lobby again be able to defer this process of integration? Will the presidential candidates in that election again yields to pressures by this lobby? Will the passage to non-discriminatory trade in textile and clothing be achieved on January 1, 2005?

There is fear that strong political pressures for delay (in complete integration) are likely to emerge in USA, which are unlikely to be successfully resisted³⁸. This fear calls for a coordinated, coherent and consistent efforts by developing countries to counter any attempt to delay the complete integration of textile and clothing trade into WTO/GATT 1994. In this regard, Korea along with China, being the major exporters of textile and clothing in the world, have to play a leading role.

³⁸ Martin and Winters, p-9

APPENDICES

APPENDICE-A

SUMMARY OF DEVELOPMENTS REGARDING TEXTILE TRADE REGULATIONS ¹

1948	GATT entered into force
1955	Japan's textiles export to US reached 144 million yard, which was higher than 137 million yard in pre-war period.
	On the advice of US, Japan introduced Voluntary Exports Restraint (VER) for its exports at 150 million square yards of cotton cloth and 2.5 million dozen of cotton blouses for the year 1956.
1959-60	VERs on textiles exports to UK from Hong Kong, India and Pakistan.
1960	On the request of US, the contracting parties of GATT adopted the concept of "market disruption" on 19-11-1960. This became basis for all GATT inconsistent and discriminatory arrangements made in the later years for textiles trade.
1960-61	US Presidential candidate Kennedy promised to solve the problems of US textile industry to save it from increasing imports from developing countries.
1961	Short Term Arrangement regarding international trade in Cotton Textiles (STA) came into force on October 1, 1961. 19 countries joined the STA.
1962	Long Term Arrangement regarding international trade in cotton textiles agreed and came into force on October 1, 1962 for five years.
1967	LTA extended for next three years.
1968	US Presidential candidate Nixon promised to take steps to extend the concept of international trade agreement to all the textiles articles involving wool, man-made fibers and blends.
1970	LTA is extended for another three years.
1971	To block the increasing import of manmade fibre and wool products, US entered into VER with Japan, Hong Kong, Korea, Taiwan, and Malaysia.
1973-74	Under US guidance, textiles producing and trading countries agreed to Multi Fibre Arrangement (MFA), which came into force on January 1, 1974. It provided expanded product coverage alongwith 6 % growth in quotas.
1974	US used MFA to conclude bilateral agreements with almost all developing countries for effectively controlling their exports to US. EC, Nordic countries, Canada, Australia also negotiated bilateral agreements for restraining the exports from developing countries.

¹ Bernard and Michel, p-208; and ITCB, conduct of textile trade relations under GATT/WTO

1977	An extension was agreed for a five-year period of MFA called MFA-II, including the provision for "jointly agreed reasonable departures" from MFA rules.
1980	In a meeting held in Bogota, Columbia in November 1980, the developing countries pledged to work for restoration of original MFA.
1982	MFA-III negotiated and agreed for five years after dropping the provision of "reasonable departure".
	GATT Ministerial meeting calls for study on textiles.
1984	Developing countries prepared and presented their own study titled "MFA in theory and practice" and called for non-discrimination, avoidance of quantitative restrictions, etc for textile trade.
1985	To coordinate their activities effectively, developing countries of MFA formed International Textiles and Clothing Bureau (ITCB) in Geneva.
	President Reagan vetoed the Textiles and Apparel Enforcement Act passed by US Congress, which called for provision of global textile quota for developing countries.
1986	MFA further extended as MFA-IV for five years with expanded product coverage including vegetable fiber and silk blend.
	Uruguay Round of trade negotiations started in September 1986 with textiles and clothing on the agenda.
1989	Textiles importing and exporting countries agreed in Geneva to phase out MFA restrictions, integration of textile products to be progressively.
1991	Director General, GATT presented the draft final Act of all agreements negotiated during UR including Agreement on Textiles and Clothing (ATC).
	MFA extended again until 1994
1995	Agreement on Textiles and Clothing (ATC) came into force on January 1, 1995 with provisions of ten years phase out period (in four stages), growth on MFA quotas, use of transitional safeguard, etc.
	Members of WTO submitted their integration programme for the first stage.
1996	US introduced major changes in its rules of origin for textiles and clothing.
1997	First stage of integration completed. Product of low value were integrated. US used transitional safeguard extensively. Member countries submit their programme of integration for the second stage.
2000	EU attempted to link quota liberalization with increased market access in developing countries.

2001	Governor of four textiles producing states of USA called US President Bush to use all resources to save US textile industry from collapse.
	Second stage of integration completed in December. Member countries submitted their integration programme for the third stage.
2002	Third stage of integration started.

APPENDICE-B

AGREEMENT OF TEXTILES AND CLOTHING AT A GLANCE

Preamble	Commitment to bring this sector into GATT, commence the process of integration in progressive manner and give special treatment to the least developed countries.
Article 1	Highlights the transitory nature of the agreement and identify the products to be covered under this agreement.
Article 2.1 to 2.12	Notifications of all MFA restrictions in position on December 31, 1994, process of integration in four stages, right to use transitional safeguard mechanism, full integration, and advance integration, base level for restrictions.
Article 2.13 to 2.18	Growth on MFA restrictions, eliminating restrictions at the beginning of any agreement year, advancement of one stage of growth for countries having less than 1.2 quota growth.
Article 2.19 to 2.20	Use of article XIX of GATT 1994 for applying safeguard measures.
Article 2.21	TMB to review the implementation of ATC.
Article 3	Notification of non-MFA quotas and their process of integration
Article 4	Administrations of restrictions
Article 5	Procedure concerning the circumvention of quotas
Article 6.1 to 6.9	Procedure of use of transitional safeguard mechanism with mutual consultation and agreement
Article 6.10	Procedure for use of unilateral TSM after the consultations are failed.
Article 6.11	Procedure for use of Unilateral transitional safeguard mechanism without prior consultations.
Article 6.12	Duration of transitional safeguard mechanism
Article 6.13 to 6.15	Level of restraint under transitional safeguard mechanism
Article 6.16	Restrictions by non-restraining country
Article 7	The overall obligations of members pertaining to GATT 1994 rules and disciplines
Article 8.1 to 8.10	The establishment, composition, responsibilities of Textiles Monitoring Body (TMB)
Article 8.11 to 8.12	The role of Council for Trade in Goods (CTG) in the implementation of ATC
Article 9	Duration and extension of the agreement as well as termination of all restrictions.
Annex	List of products covered by ATC

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