Issue Brief—The Doha WTO Ministerial

TEXTILES TRADE AND DEVELOPING COUNTRIES

Textiles trade is one of the hardest-fought issues in the World Trade Organization (WTO), as it was under the General Agreement on Tariffs and Trade (GATT), the WTO's predecessor. Under rules agreed upon in the Uruguay Round, and which began to take effect in 1995, textiles trade is undergoing fundamental change phased in over a 10-year period. The system of import quotas that dominated textiles trade since the early 1960s is being phased out. Developing countries that rely on exports of textiles and apparel are frustrated with delays in lifting quotas on the items of greatest commercial significance to them; to date, few quotas have actually been lifted. Textile and apparel-exporting developing countries are also frustrated by high tariff barriers to their exports as there have been only modest tariff reductions in this sector.

Global textiles and clothing trade exceeded $300 billion in 2000. Much of this trade was between developing and developed countries. Developing countries accounted for 78 percent of clothing exports, whereas developed countries accounted for 80 percent of clothing imports. For textiles (i.e., fabrics and yarns), the pattern differs somewhat. Developing countries are still predominant suppliers, but their share is just 60 percent, with developed countries accounting for 36 percent.[1]

Developing countries are not significant markets for imported clothing, accounting for only 15 percent of imports. They do, however, purchase significant amounts of textiles for processing into clothing that is then exported.

Developing countries have a keen interest in the global rules affecting trade in textiles and clothing; many developing countries rely on exports of these products for a majority of their foreign exchange earnings.

The Agreement on Textiles and Clothing

Trade-distorting quotas have largely governed trade in textiles and clothing for most of the past half century.[2] The WTO's Agreement on Textiles and Clothing (ATC), negotiated during the Uruguay Round, and which took effect in January 1995, serves as the basis for reintegrating trade in textiles and apparel products under the free-trade disciplines of the General Agreement in Tariffs and

[1] The developed country share of global textiles exports is expected to decline after 2005. Current rules governing trade in textiles encourage developed country exports of textiles to developing countries that then process the yarns and fabrics into clothing, which can then be imported quota-free as clothing by the country supplying the fabrics and yarns originally. As described below, the quotas that encourage this distortive trade pattern will be eliminated in 2005.

[2] From 1961 to 1973, the "Short-Term Arrangement on Cotton Textile Trade," and from 1974 through 1994 the Multifibre Arrangement (MFA)—which covered wool and manmade fibers as well as cotton—provided the basis on which developed countries, through bilateral quota agreements or unilateral quantitative restrictions, limited imports of textiles and apparel from as many as 30 developing countries and transition economies.

Trade (GATT). The GATT prohibits non-tariff barriers such as quotas. Under the ATC, transition to quota-free textile trade is to occur over a 10-year period, with all quantitative restrictions eliminated by December 31, 2004.

The ATC did not address reductions in tariff rates on textiles and apparel. Such tariffs, which were negotiated in the market access segment of the Uruguay Round, remain very high in most countries.

Quota Removal

The ATC specified that WTO Members notify the WTO of all quotas in existence as of January 1, 1995. After that date, new quotas were not allowed.

Quotas are being removed in four stages, with an increasing number of products (representing a minimum percentage of a member's volume of imports in 1990) included at each stage:

- **Stage 1**. 16% of an importing country's textile trade was to be free of quota on January 1, 1995.
- **Stage 2.** An additional 17% was to be freed of quota on January 1, 1998.
- **Stage 3.** An additional 18% will be freed of quota on January 1, 2002.
- **Stage 4.** All quotas are to be lifted as of January 1, 2005.

Quota Growth

The ATC specifies that, while quotas are being lifted on an ever-increasing share of the volume of textiles and apparel trade, the quotas remaining in effect shall be subject to growth according to the following schedule:

- **Stage 1.** By 16% annually from 1995 to 1997.
- **Stage 2.** By 25% annually between 1998 and 2001.
- **Stage 3.** By 27% annually between 2002 and 2005.
- **Stage 4.** All quotas eliminated in 2005.

Most bilateral quotas already incorporate growth rates (most often 6 percent annually) and thus the ATC growth rates represented "growth on growth."[3]

The ATC specifies that the growth factors are to be advanced one stage for small suppliers. Thus, for small suppliers, the rate of 11.05 percent would apply beginning in 1998—four years ahead of the schedule for larger suppliers. The ATC mandates special treatment of "small suppliers"; it does not mandate special and differential treatment to developing countries or least-developed countries. This means that least-developed countries or developing countries that are significant textile suppliers (e.g., Bangladesh) are not assured accelerated quota growth.

Issue of Concern to Developing Countries at Doha

Quota Elimination and Quota Growth

Today, almost seven years after the agreement began to take effect, few actual quotas have been removed. The ATC required that 33 percent of trade in textiles and clothing (based on 1990 trade volume) be quota-free by the end of 2001. But both the United States and the EU exceeded this standard at the outset of the agreement: more than 34 percent of U.S. imports and 38 percent of EU imports of products covered by the ATC (as defined in an Annex to the agreement) were already free of quota restrictions in 1995. The first significant liberalization in either market is scheduled to take place next January, when tariff lines accounting for 51 percent percent of 1990 trade volume are to be free of quotas.

Developing countries complain, moreover, that the freeing of quotas has been commercially

[3] For example, if the annual growth rate of a bilateral quota under the old regime were 6 percent, the ATC rate would be increased to 6.96 percent annually from 1995 to 1997 (i.e., 6 percent x 1.16); 8.7 percent annually from 1998 to 2001 (i.e. 6.96 percent x 1.25); and 11.05 percent annually from 2002 to 2005 (i.e., 8.7 x 1.27). Elimination of all quotas in 2005.

insignificant to them, as quotas have been removed in these initial phases largely from low-value products.[4]

At Doha, developing countries will press for acceleration in quota growth for all developing countries, not "small suppliers," as is the case under the ATC. The draft text of a Ministerial Statement to be discussed at Doha, prepared by WTO Director-General Michael Moore and General Council Chairman Stuart Harbinson in late September 2001, calls for an early decision that quota growth during transition be calculated as if the third stage of quota growth had been applied as of January 2000 (instead of January 2002) for *all developing countries*. The draft text further requires that growth rates for small suppliers be calculated by the most favorable method available, that similar treatment be granted to least-developed members, and that, where possible, quotas be eliminated for least-developed countries.

Tariffs

Developing countries will press for reductions in developed country tariffs covering textiles and apparel products. These rates remain high in both developed and developing country markets. Trade-weighted textile tariffs (12.8 percent) in developed markets are more than three times higher than the average of all industrial tariffs (3.9 percent).[5]

[4] The United Kingdom's Department for International Development (DFID) reports, for example, that the EU freed only 8.7 percent of imports (on a value basis)—slightly more than half of the 16 percent of trade declared free of quota on a volume basis in the first tranche. Department for International Development background briefing paper No. 4, "Trade Protection in the Textiles and Clothing Industries."

[5] Developed countries agreed in the Uruguay Round to reduce tariffs on textiles and apparel products by only 22 percent—less than half the reduction made on all other industrial tariffs (46 percent. The United States committed in the Uruguay Round to reduce textile and apparel tariffs by only 11 percent. U.S. trade-weighted duties on all apparel products today remain above 20 percent. Post-Uruguay Round tariff bindings by the European Union are generally 7-8 percent for fabrics and 12 percent on clothing.

Developing countries will wish to retain their own high tariffs on imported textiles and clothing, however. Post-Uruguay Round developing country tariffs on textiles and clothing are prohibitive in many cases, as indicated in Table 1.

Table 1. Post-Uruguay Round Developing Country Tariffs on Textiles and Clothing

	Textiles	*Clothing*
India	45%	65%
Turkey	20-40% (no cotton binding)	Limited bindings
Thailand	30%+ surcharges	30%
Indonesia	40% ceiling	40% ceiling
Bangladesh	No bindings	No bindings
Korea	13-30%	35%
Philippines	20-30%	30%
Tunisia	60% ceiling	60% ceiling
Egypt	15-30	35-40%
Morocco	40% ceiling + surcharge	40% ceiling + surcharge
Pakistan	No bindings	70%

SOURCE: WTO

Trade Remedy Actions

Developing countries will wish to limit their exposure to trade remedy actions (e.g. anti-dumping investigations). They have proposed revisions to the ATC to restrict the use of trade remedies in the first few years after all textile and apparel quotas have been eliminated. They also have proposed a one-year wait for filing a new anti-dumping petition in the event a petition has failed, contending that otherwise they could face an endless series of nuisance petitions, which will create onerous expense, not to mention market uncertainty, for their textile and apparel exporters.[6]

[6] Developing countries often claim that anti-dumping investigations flooded the WTO in the first few years of implementation of the ATC; and that each initiation of an anti-dumping proceeding hampers their exports regardless of whether a finding of dumping is ultimately reached.

Other Measures Affecting Textiles Trade

Developing countries' ability to develop their exports of textiles and clothing will also be contingent on their ability to take advantage of preferential trade agreements (PTA) with developed countries that are important markets for their products. This in turn will require mastery by developing countries of a key element of these PTAs—the rules of origin embodied in them.

Preferential Trade Agreements

Under most free trade arrangements (FTA), duties on textiles and clothing have been phased out on fabric and garments that qualify under the "rules of origin" for the FTA. The United States and the European Union also provide preferential duty access to developing country imports under schemes like the Generalized System of Preferences, the African Growth and Opportunity Act (AGOA), and the Lomé Convention (now Cotonou Agreement).[7]

Rules of Origin

Developed countries have set specific "rules of origin" that must be met for textiles and apparel imports to qualify for unilateral or preferential rates of duties. To be eligible for preferential rates of duty, fabric generally must originate from fiber or yarn produced in the importing country (or countries included in the regional or preferential scheme). For clothing, generally it must be produced from fabric originating in the importing country (or countries included in the regional or preferential scheme).

Under the U.S. African Growth and Opportunity Act (AGOA), non-LDC sub-Saharan African suppliers must form apparel from fabric wholly formed in sub-Saharan Africa using yarn originating either in the United States or in sub-Saharan Africa. In the case of LDC sub-Saharan suppliers, production might start from fabric imported from outside sources.

In addition, both the European Union and the United States maintain schemes under which garments made from fabric produced in the European Union or in the United States enters quota-free, and generally duty is paid only on the value-added to the fabric.

But during the 1996-1998 period, most such investigations were initiated by the EU, which took action in 24 anti-dumping cases on textiles or clothing, mainly against Asian suppliers. The United States initiated no anti-dumping actions on textiles or clothing during this period. Developing countries themselves (including India, South Africa, Argentina, and Turkey, among others) initiated anti-dumping actions pursuant to the ATC.

[7] See "Special and Differential Treatment and Developing Countries" in this series for more information on schemes that give preferential tariffs to imports from developing countries.