

Mark Thirlwell
Bargain to end quotas must be kept
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p. 55

Washington and Brussels are frequent advocates of the benefits of free trade, especially for developing countries. Yet their attitude towards trade liberalisation often seems to resemble that of Augustine of Hippo towards chastity: sure they are in favour of free trade, just not yet.

The latest example of a reluctance to practise what they preach comes with the expiry on December 31 of quotas in the international trade in textiles and clothing.

The prospect of hyper-competitive Chinese producers seizing market share — on some estimates China is set to grab up to 50 per cent of global markets — has prompted both the US and the EU to press Beijing to act to limit the expected boom in exports. Meanwhile, textile and clothing producers in the US have been clamouring for "safeguard" actions against Chinese imports.

Recently China bowed to pressure, announcing that it would impose duties on some textile exports to ensure a "smooth transition". Sadly, this represents a victory for protectionism when the cause of free trade in general, and the multilateral trading system in particular, is in sore need of a few wins.

Protection for the textile and clothing sectors has a long and undistinguished history. In the 1950s, the US negotiated "voluntary" export restrictions on cotton textiles with Japan, Hong Kong, India and Pakistan. Intended to be temporary, these limits were gradually expanded, first in a series of agreements on trade in cotton textiles, and then in 1974 in the first Multi-Fibre Agreement, which extended protection to wool and man-made textiles. Three more MFAs followed, each extending the countries and products subject to protection.

The resulting system of controls has been called one of the biggest pieces of protectionist cholesterol blocking the arteries of world trade.

The MFA was finally given its last rites as part of the Uruguay Round negotiations that led to the setting up of the World Trade Organisation. As part of a "grand bargain" between developing and developed economies, the former were promised an end to the MFA in return for the latter getting their way in expanding the remit of the WTO to include investment, services and intellectual property rights.

In January 1995, the MFA was replaced by the Agreement on Textiles and Clothing, which committed four WTO members (the EU, US, Canada and Norway) to phase out quotas on textile and clothing imports by January 2005.

Potential big winners from the end of quotas will be consumers (on some estimates prices could fall by up to 50 per cent) and developing countries with a strong comparative advantage in the export of clothing and textiles, primarily China and India.

Likely losers include domestic producers in the four ATC economies and — perhaps even more vulnerable — developing countries that have built industries based on a quota-distorted market. Exports of clothing and textiles account for more than three-quarters of Bangladesh's

total merchandise exports, for example, and more than 90 per cent of that depends on quota-restricted markets.

While the end of the quota system would lead to some painful adjustments, the case for perpetuating a watered-down alternative in the form of voluntary export restraints and safeguard actions is a poor one. "Temporary" protection for the clothing and textile sectors has lasted for more than 40 years, and the call for yet more delay to allow for adjustment rings hollow.

Moreover, moves to back away from the Uruguay Round's grand bargain will only reinforce the belief that the big developed nations view the WTO as purely a mechanism for pushing their own agendas.

More fundamentally, a failure to deliver the move to freer trade in clothing and textiles would be a major blow to WTO credibility, to the demonstrated commitment of the major players like the EU and the US to freer global trade, and to the health of the multilateral trading system itself. Since the latter is already in poor shape, this is a self-inflicted injury that Brussels and Washington should be doing their best to avoid.

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