TEXTILES AND APPAREL TRADE IN THE 1990S: A PERSPECTIVE FROM JAMAICA

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When the topic of fashioning a new order for international trade in textiles is discussed, two propositions must be borne in mind. The first, as von Clausewitz[1] and others have pointed out, is that nation states do not have friends, they merely have interests. However, in determining these interests, recognition must be given to the strategic importance of various relationships, including the economic and political dimensions. This is particularly true for relationships with countries in one's own regional hemisphere of influence. The second proposition is that free trade as enunciated on university campuses does not exist, has never existed, and most likely will never exist.

It is regrettable that in any discussion of free trade, even among academics, there has been little attempt to update the works of Adam Smith and David Ricardo. When they developed the theories of comparative advantage and free trade in the eighteenth and early nineteenth centuries, natural resources, climatic distinctions, and geographic distances were the most significant sources of comparative advantage between nations. But classical theory has become less applicable in a modern industrial world economy. For example, the classical view takes no account of a nation's ability to create long-term cost advantages. These advantages are not inherent, but rather are developed through public policies which are designed to protect and/or foster markets or technologies in particular industries.

Traditional free trade theory predicts a one-time increase in efficiency due to trade liberalization with no guarantee of sustained, long-term growth. Sustained growth requires progressive technological advances and continuous increases in labor productivity. Comparative advantage theory stipulates that

1. Carl von Clausewitz (1780-1831) was a Prussian General whose treatise *On War* has been widely used in military strategies.

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countries should specialize in products that can be produced more cheaply at home, using available technology and labor productivity, than abroad. Yet, in today's complex, interdependent world, one must also account for government policies and differing commercial practices, which are often dictated by political and strategic considerations within and between various countries.

Importance of the Textiles and Apparel Industry

One can hardly overstate the importance of the textiles and apparel industries to the strategic economic interests of the exporting nations involved in the multilateral trade negotiations of the General Agreement on Tariffs and Trade (GATT). This is of particular concern to the countries that are dependent on these industries for employment, foreign exchange generation, and technology transfer. For example, the textiles and apparel industries of the Caribbean Basin countries are the largest employers of labor in the manufacturing sector and accounted for 23 percent of their total exports to the United States.[2] The United States, on the other hand, purchased a mere 14 percent of its total textiles and apparel imports from its western hemisphere neighbors.[3] The small countries in this hemisphere have not been deceived into thinking that they can achieve a viable integrated economy and become economically independent. Each of these countries is interdependent, and dependent on the United States. And the United States needs the small developing nations as well. In order to maintain its current standard of living, the United States must have competitively priced labor to produce goods and services that can no longer be economically produced in the domestic market.

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The Caribbean Basin countries recognize the future positive impact that the textile industry can have on the economic and political stability of the region. These small countries, fragile and vulnerable on their own, pose a threat to no one. However, as recently witnessed in Kuwait, fragile countries can be overcome and their international stability can be threatened. Therefore, it is very important for reasons of national security and stability to have a relationship of mutual respect between the small countries in the region and the United States. The essential ingredient of such a relationship is economic interdependence, or trade. The potential of the smaller countries will quickly be realized if they are

2. Based on data from the US Department of Commerce *1990 Major Shippers Report.*
3. *Ibid.*

allowed to exploit the natural geographical proximity and production advantages that they possess.

Jamaica's Position

Put simply, if textile markets were fully liberalized, Jamaica and every other small supplier in the Caribbean, Central and South America, Asia, and Africa would suffer serious negative repercussions. The biggest beneficiary would be China, then followed by India, Pakistan, and perhaps a handful of others. The small supplier does not enjoy many of the competitive advantages that are associated with the large suppliers. The United States Conference Board, a business lobbying group, recently issued a report regarding the textile sector and concluded the following:[4]

> Economists are divided in their outlook on specific implications of the phaseout [the Uruguay Round proposal], but they are in general agreement on the following:
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> 1. Developing country exporters will be unevenly affected.
> 2. The exporters that have benefitted most from the Multi-Fibre Arrangement—Taiwan, South Korea and Hong Kong—will lose trade to other developing countries which have lower wages.
> 3. China, India, Indonesia, and Pakistan are likely to increase and perhaps dominate exports of clothing if global arrangements are liberalized.
> 4. China will probably be the principal beneficiary of market share lost by Korea, Hong Kong, and Taiwan.

If the present proposals on the table for textiles and apparel in the Uruguay Round are allowed to be implemented, there would be a general significant shift away from the small developing countries, especially those from the Caribbean and South America. As a consequence the loss of export revenues, and, therefore, foreign exchange earnings would diminish resulting in a much reduced capability to service their debt. A shift in trade would also have a pronounced effect upon the major lenders, particularly the United States and private banking institutions since the western hemisphere has some of the world's largest debtors.

The Multi-Fibre Arrangement as a Protectionist Device

The Arrangement Regarding International Trade in Textiles, widely known as the Multi-Fibre Arrangement (MFA), is a GATT instrument used to regulate international trade in textiles and apparel. It permits developed importing

4. US Conference Board, "Global Business White Papers, No. 2" (Washington, D.C., 1991.)

countries to negotiate bilateral agreements with developing exporting countries and apply quantitative restrictions on imports of particularly sensitive products. The MFA has provided a unique framework for growth. Some examples of this are the cases of Hong Kong, Korea, and Taiwan, three of the most dominant textile suppliers since the 1960s. Only within the past year have these countries begun to lose their competitiveness. The MFA is admittedly a protectionist device, but given trade and political conditions in the late 1960s and early 1970s, ample justification for this protectionism exists. Not only has the volume of trade increased, but more significantly, the MFA allows small developing countries to develop this sector at a much earlier stage than would have been the case without the arrangement.

The MFA has presently established a degree of protection for importing countries, as well as a framework from which exporting countries, particularly the new and least developed, may establish a niche in the textile sector. The question now is whether a new mechanism that undermines the neediest of the exporting countries should be created. Multilateral agreements, such as the MFA or Uruguay Round, create shifts in the position of exporting countries. Producers mainly of inexpensive goods, these countries are also facing direct competition from low-cost Asian producers. According to most economists, the recent extension of the MFA has provided a temporary respite from this competition.

The Uruguay Round Discussions

The stated objective of the Uruguay Round is to expand trade, a goal most participating countries agree with. From Jamaica's point of view, however, trade expansion should imply that an increased number of countries would participate in trade and benefit from trade growth. It should not mean expansion by total trade volume combined with the reduction of the number of trading countries. In other words, trade should not be concentrated in the hands of a few.

Among many western hemispheric exporting suppliers, there is a consensus for a liberalization of the textile trade, but with full understanding of the true nature of the trade. In the last twenty-five to thirty years, virtually all developing countries have been promoting exports. Thus, it is difficult to distinguish between less developed countries (LDCs) with regard to their degree of export orientation. Obviously, some LDCs are more successful with their exporting efforts than others. It is also true that export development and promotion were not pushed in countries having strong import substitution policies—where macroeconomic, financial, and supporting exchange rate policies were inconsistent. The failure of these practices over a number of years clearly suggests that sectoral trade promotion, not across-the-board trade liberalization, is crucial for dynamic growth and development.

The Uruguay Round negotiations are fostering an inordinately large negative impact on small developing countries which do not have the flexibility and greater margins of safety that the larger countries possess. Small developing countries, therefore, should be focusing their efforts in these negotiations to ensure that their interests are not marginalized by the creation of new economic blocs and trading arrangements. These countries seem to be recognizing that the Caribbean Basin Initiative (CBI) Group, as the third largest exporter of apparel to the United States, is developing as a force. The Uruguay Round proposals must reflect these realities rather than mere theoretical positions. More discussion is needed between trading partners before moving on to multilateral proposals in a forum such as the Uruguay Round.

Competition from Other Countries

It must be recognized that the four Asian "tigers" (Hong Kong, Singapore, South Korea, and Taiwan) alone have accounted for roughly 60 percent of developing country exports of manufacturers. These four countries achieved this level through planned government intervention and promotion, not through the free market. Therefore, only a conscious government process can broaden the base among LDCs for the development of the textiles and apparel sector. Trade in manufactured exports, especially textiles and apparel, must be approached with the goal of wider distribution among the developing countries. A free trade approach will most likely create the opposite effect and further enhance the position of the Asian "tigers," with China being the biggest beneficiary.

Any discussion of textile trade today must include China, the leading textiles and apparel exporter to the United States. In the absence of any effective regulations, China alone could overwhelm the entire US apparel manufacturing industry. China has already demonstrated that it can manipulate prices to dominate any market and has plans to quadruple its apparel exports by the year 2000.[5] No one in the textile trade would disagree that under a free trade program, China would come close to eliminating the competition, especially for the small and vulnerable producers in the Caribbean, Central America, and Africa.

Pakistan is frequently mentioned as another example of a low-cost producer having comparative advantage in cheap labor. In this country with an abundance of semi-skilled and unskilled manpower, low-wage rates are endemic. Pakistan's growth in textiles and apparel is explained by the fact that 51 percent of all bank development funds are allocated for direct lending to the textiles and apparel industries. For example, a National Development Bank program included funds for replacing worn out equipment, providing additional equipment to meet projected increases in demand and promoting mergers. It also focused on improving marketing programs abroad, establishing management

5. This information is based on a number of conversations held with representatives of the People's Republic of China's Ministry of Foreign Economic Relations and Trade during a November, 1991 mission by the Jamaica Promotions Corporation.

and labor institutes, and offering other kinds of technical assistance. The action of the government of Pakistan and supporting banks, and their claim that government assistance is needed in order to use its comparative advantage effectively in the development of the industry, is commendable. This cannot, however, be cited as an example of free trade based upon a natural comparative advantage.

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Another factor of equal significance in future trade relations is the likelihood that Mexico will sign a free trade agreement with the United States in the near future. In this regard, the attention of the Caribbean Basin Region has focused on some of the implications of the North American Free Trade Agreement (NAFTA) for its industries. The obvious effect is the advantage to be created for Mexican exports entering the United States duty-free, and the attendant loss of competitiveness of other regional products. The possibility of the removal of all tariffs and quotas from Mexican exports of apparel to the United States would severely damage the competitive advantage which underpins the region's industry. The current US-Mexico Bilateral Textile Agreement contains language which suggests that all quotas will be dropped immediately upon the signing of the NAFTA. An already existing advantage that Mexico has is the lower shipping costs of simply exporting across the US-Mexican border. At a meeting of the Central American and Caribbean Textile Council on September 12, 1991 in El Salvador, concern was expressed that an investment shift to Mexico has begun. This shift will obviously accelerate once the NAFTA is in place unless the existing access enjoyed by the Caribbean is consolidated.

Another important trade-related issue that is rarely mentioned, even among experts, is the need to borrow and repay loans. Increasingly, the debt burden of many developing countries is unmanageable. When attempts are made to negotiate new trading programs, it is important to consider the effects upon each country, and particularly upon the debt of the developing countries. In this regard, a free trade agreement or extreme liberalization without proper safeguards will have negative effects, particularly among small LDCs, which will not only be felt in the trade sector itself, but on the debt servicing ability of the individual LDCs.

Another significant factor for consideration is the large and increasing volumes of illegal trans-shipment of textile products by countries seeking to dispose of excess production. Small suppliers are severely damaged by this trade distorting activity which is in breach of the GATT. It is the smaller countries in an early stage of development that stand to be devastated by the dumping on the international market of trans-shipped products by low-cost, high-volume producers.

Small developing nations have had some success in influencing their more developed counterparts. One example is the Special Access Program (SAP) of the CBI. This program helps account for the fact that $1.9 billion worth (approximately one-half) of western hemisphere textiles and apparel supplies were exported to the United States in 1990. The SAP is an Outward Processing Trade (OPT), officially termed "807 trade" by the United States. The 807 trade allows cut piece goods and trim components to be exported from the United States, to be assembled or sewn abroad, and then to be returned to the country of origin. Duties are assessed only on the value added, that is labor, in the country of assembly. The SAP is a variation on the 807 trade with the major difference being the requirement for piece goods to come from the United States. It is significant that the United States Apparel Industry Council (USAIC), the body representing the majority of 807 firms, has declared that CBI beneficiary countries should be granted similar trade benefits as those given to imports from NAFTA countries.[6] In this regard, USAIC will organize lobbying efforts to achieve this goal through negotiations under CBI III,[7] Enterprise for the Americas, or the Uruguay Round of the GATT.

Recommendations

The above illustrations clearly suggest the need for a reevaluation of the Uruguay Round negotiations. The textiles and apparel sector is the first rung on the ladder to industrialization. As one of the oldest industries in developed countries, the textiles and apparel sector has broad longtime political support. Among the developing countries, this sector is most compatible with the basic raw materials available in a developing country, including low-skilled manpower, moderate financial needs and available land.

Before any substantial progress toward free trade ensues, the internal markets of all countries, including the importing markets, primarily of the United States, Europe, and Japan, must be opened and made capable of absorbing part of the textiles and apparel sector. Only considerable political and economic measures for an equitable solution can ensure a level playing field since these three markets are not equally open at the moment. Equity relative to both production and consumption can be achieved only when income in developing countries like Bangladesh, China, and Mexico is distributed more evenly so that apparel workers can afford to purchase at least some of their own production.

Adjusting to these needed changes will be difficult. In the United States, for example, the workers in the textiles and apparel industry are not particularly

6. USAIC Press Release, 4 October 1991.
7. CBI III is a proposed amendment to extend protection to a wider group of exporting industries.

mobile or educated. In addition, these industry workers are predominately female and from minority groups. These factors make it difficult for the textile workers to shift to another sector. The developing countries, on the other hand, have a prevalence of low-skilled labor and a need for experience to achieve viable productivity as well as public expenditures to create an infrastructure that would attract the textiles and apparel sectors.

The rules of international trade and developed country programs should therefore stimulate this movement. It is not only the developed countries which must assist in this process, but also the large developing countries which must make generous accommodations. At this early stage, the small suppliers and new entrants are weak and vulnerable, and development can be stifled by the trade practices of either developed or large developing nations, reflecting the economic, political, and social realities of the world today.

Conclusion

The subject of international trade, particularly with regard to textiles and apparel, often tends to be addressed in academic or theoretical terms rather than the practical and realistic. Since international rules almost by definition are required to be general, much latitude to manipulate exists. However, often the small suppliers, who have neither the economic nor political clout to object effectively get manipulated since they have to rely upon the goodwill and national interests of the large developed countries whose markets they are trying to penetrate.

The large importing countries, therefore, must weigh their national interests and consider the actual effects of their relationships with the small developing countries. The development of beneficial trade agreements is not merely a question of financial numbers, but of political relationships and national security concerns as well.

This paper should not be interpreted as opposing the liberalization of trade policy. What the various examples and perspectives demonstrate is that a pragmatic approach is critical to a fair and equitable conclusion for all parties. It should be clear that the small developing countries are particularly vulnerable to any inequity that creeps into these negotiations. Hopefully these views will stimulate a fresh look at international trade in the belief that there is still time for all governments to reevaluate their positions with a view toward equity.