

THIRD ECSA-WORLD CONFERENCE
TROISIÈME CONFÉRENCE ECSA-WORLD

THE EUROPEAN UNION IN A CHANGING WORLD

L'UNION EUROPÉENNE DANS UN MONDE EN TRANSFORMATION

BRUXELLES
19-20 SEPTEMBRE 1996

A SELECTION OF CONFERENCE PAPERS
UNE SÉLECTION DES RAPPORTS DE LA CONFÉRENCE



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ECSA-WORLD CONFERENCE

When the European Commission organized the first ECSA-World meeting in Brussels in 1992, the project of federating 32 academic national associations was still a dream. It has since become a reality. Encouraged by President Delors, a first World Conference took place in May 1994. More than 300 scholars took part in this scientific exercise, working together on the theme of **'Federalism, subsidiarity and democracy in the European Union'**.

The European Commission has been fully supporting the ECSA-World initiative from the very beginning. It recognizes the vital role of academics to promote a better understanding of the European integration process. DG X (Information, Communication, Culture and Audiovisual Media), in particular, is promoting the development of European integration studies and aims at giving them more visibility in academic circles.



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Textiles and clothing trade: Trends and development after the Europe Agreements and the Uruguay Round¹

Laura Resmini and Alberto Brugnoli

Abstract

The 20th birthday of the Multifibre Arrangement (MFA) took place in concomitance with the conclusion of a fundamental GATT negotiating round, the Uruguay Round, that after long and difficult negotiations brought it to an end with the Agreement on Textiles and Clothing (ATC). Notwithstanding, the implementation of the first step of the integration process seems to have been driven by the desire to further postpone the liberalization of the sector. In the meanwhile, the rank of preferences of the EU has changed. Our empirical analysis shows that, if after 1991 Europe Agreements have assured a potential better market access to MFA products coming from CEECs. These countries have been able to increase their share in the European Union MFA imports only in the outward processing traffic regime, while direct trade is still dominated by the presence of the Asian countries.

I — Introduction

The present work focuses on the EU commercial policy in the textiles and clothing (T&C) sector, which, in the context of Uruguay Round negotiations, caused so many problems to be compared to the agricultural one. Trade between the North (industrialized countries) and the South (less-developed countries) of the world is in this sector regulated by tariff and non-tariff barriers adopted often in open contrast with GATT general principles on international trade.

From a historical point of view, the development of the T&C industry has always been a necessary step of the industrialization process of every economy, as was the case in Britain in the industrial revolution period, and in the United States and in Japan in the 1950s.

Both the nature of textiles² — a wide consumption good able to satisfy elementary need in quite poor markets — and the kind of manufacture they require — relatively

¹ While this work is the result of close cooperation and joint research by the authors, sections I, III, IV and VII can be attributed to Laura Resmini and sections II, V, VI, VIII and IX to Alberto Brugnoli. The authors wish to thank Silvia Bonati and Cristina Scarpa for their useful comments and their research assistance in processing the data.

² Textile and clothing products are defined as the sum of categories belonging to chapters from 50 to 63 in the tariff and statistical nomenclature of the Community (Combined Nomenclature).

highly intensive in labour — have made it one of the most vital industries for less-developed countries (LDCs), where labour is generally cheap and available in great quantities. Beside a generally middle-low quality profile of production, it exists also as a subset of firms belonging to the industry that, being in the position to receive the benefits of technological progress is now able to satisfy the most demanding consumers in terms of quality. These firms are traditionally localized in the industrialized countries (ICs), where they have easy access to capital and are nearer to the requests of high quality products consumers.

T&C firms generally turn natural or artificial fibres into final products allotted to the final consumption (clothing, home-linen, furniture) and also into half-finished products used by other industries. From the first to the last step of the manufacture, these industries are bound by a common economic interest — being the main customers of every step downstream of the same ‘textile activities’ chain — which leads to consider them naturally as a set of peculiar economic activities.

This consideration explains why, despite technological progress which has made the textiles sector relatively more intensive in capital and has then allowed for the segmentation of the markets where developed and developing countries may compete, ICs have always suffered from LDCs’ competition and have tried to limit it by regulating international trade in T&C.

This paper aims at describing the role and the effects of the EU’s trade policy on international trade flows. It is already clear that trade policy concerns mainly LDCs and quantitative restrictions against their T&C exports towards the EU countries; it is the history of these market constraints and their evolution over time that still affect the environment in which international exchanges of T&C take place.

The paper is structured as follows: Section II points out the present situation as far as the hourly cost of labour is concerned, since labour definitely seems to be the main source of competitive advantage in the sector; Section III briefly sums up the recent history of international trade regulation in T&C industry, while Section IV stresses the relevant features of the present situation; Section VI describes the fundamental aspects of the outward processing traffic (OPT) regime, while in Sections V, VII and VIII we present the main indexes and results obtained in our analysis both for direct trade (DT) and OPT, outlining also some limits of our approach; Section IX sums up the main conclusions.

II — The cost of labour: critical success factor

What keeps on characterizing the industry is the cost of labour in relation to the added value. According to this, it is possible to distinguish two different groups of activity and, at the same time, to stress the main distinction between textiles and clothing:

- the production of intermediate (threads, fabrics and clothes) and finished products for home or industrial use, with a relatively high investment in capital;
- the production of sewed or knitted clothes, more intensive in labour.

The source of the differences that characterize T&C and that explain the peculiarity of the whole sector is just one and lies in the theory of comparative advantages when it states that the market forces commit the production of a good to the producers having an advantage in comparison with others, such as the possession of low-cost factors of production or of a winning technology. Labour, which is definitely abundant and cheap in the LDCs, is their comparative advantage.¹ It is a huge advantage, which makes their competition on the richest markets ruinous for local firms, forced to use more expensive labour.

Table 1 shows the hourly cost of labour — in US dollars — for some countries, relevant in this context, with their rank in parentheses. The comparison seems to be meaningful.

Table 1: Hourly labour cost in the textile industry

| <i>(USD)</i> | | | | | |
|-------------------------|--------------------|-----------------|--------------------|---------------------|--------------------|
| EU members ¹ | Hourly labour cost | Other ICs | Hourly labour cost | LDCs | Hourly labour cost |
| Belgium (3) | 21.32 | Japan (1) | 23.65 | Taiwan (22) | 5.76 |
| Denmark (4) | 21.32 | Switzerland (2) | 22.32 | Hong Kong (24) | 3.85 |
| Netherlands (5) | 20.82 | Austria (7) | 18.81 | South Korea (26) | 3.66 |
| Western Germany (6) | 20.50 | Norway (8) | 18.46 | Singapore (27) | 3.56 |
| France (10) | 16.49 | Sweden (9) | 17.22 | Argentina (31) | 2.47 |
| Italy (11) | 16.20 | Canada (13) | 13.34 | Hungary (34) | 1.80 |
| Eastern Germany (12) | 14.17 | USA (15) | 11.61 | Brazil (37) | 1.46 |
| United Kingdom (17) | 10.27 | | | Czech Republic (38) | 1.43 |
| Ireland (18) | 9.18 | | | Peru (39) | 1.43 |
| Spain (19) | 7.91 | | | Slovakia (41) | 1.29 |
| Greece (21) | 7.13 | | | Malaysia (42) | 1.18 |
| Portugal (25) | 3.70 | | | Thailand (44) | 1.04 |
| | | | | Philippines (45) | 0.78 |
| | | | | India (47) | 0.56 |
| | | | | Pakistan (49) | 0.44 |
| | | | | Indonesia (50) | 0.43 |
| | | | | Sri Lanka (52) | 0.39 |
| | | | | Vietnam (53) | 0.37 |
| | | | | China (54) | 0.36 |

¹ The European Union is considered as EUR 12, since the empirical analysis refers to pre-1995 figures.

Source: Werner International, *Hourly labour cost in the primary textile industry*, summer 1993.

¹ The theory of comparative advantages shortly presented inspired the GATT's creation. Many critics were moved to this formulation by scholars more inclined to think that the classic model of international trade does not fit the real world. Consequently, where the market fails, the hand of the government must visibly intervene to protect an industry which otherwise would disappear. See, among others, Krugman and Helpman (1989). In the case of the industry here analysed, this formulation is supported by the manufacturers' associations and by the ICs' authorities, because it can justify the present restrictions.

Firstly, the highest hourly cost, observed for Japan, is about 66 times higher than the lowest one, recorded in China.

Secondly, it is clear that EU countries systematically operate with much higher costs than LDCs, even though Taiwan and Hong Kong have recently overtaken Portugal (while South Korea and Singapore are very close to doing the same), which is anyhow far from the other EU countries.

Finally, it is easy to observe that among LDCs the recent industrialized economies of the Far East have the highest costs. Immediately after them we find Latin American and East European countries, followed by the other Asian ones, among which the most competitive are Vietnam and China, the last two countries with which the Community has recently negotiated agreements to restrain exports into its market.

III — From MFA to ATC: 20 years of trade policy in the industry

Since the early 1960s, ICs have raised highly protecting barriers against imports from LDCs. In order to put an end to a period of strain and confusion, characterized by worrying imports' growth rates and by attempts to stop them through bilateral quotas, discriminatory quantitative restrictions against LDCs were established in clear contrast to the spirit of the GATT, which have been regulating the international trade relations since the end of the Second World War. This institutionalization, after some intermediate expressions, crystallized into the Multifibre Arrangement (MFA).

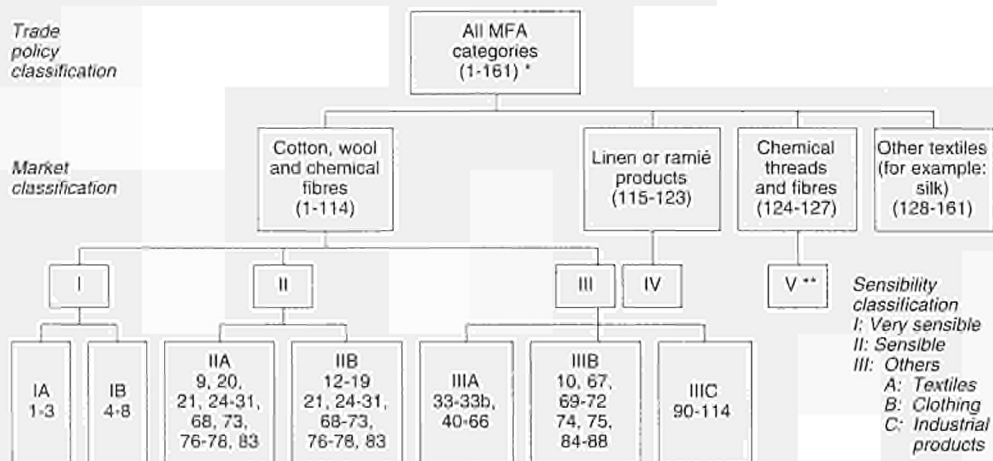
The bilateral plan chosen for the definition of quotas has greatly affected the structure of the scheme: on the one hand, it has made the protection from the more vital countries easier through the application of very severe quotas while, on the other hand, it has guaranteed the survival of inefficient exporters by keeping some space for them; finally, it has been a favourable circumstance for ICs to take control on the main outlets — exactly represented by ICs' markets — for the production of an important sector in many developing economies and to use it as economic weapon both in political matters and in trade disputes.¹

Since the origins of the quota system, T&C products have enjoyed a peculiar categorization in order to apply restrictions on imports. This categorization, founded on a market sensibility evaluation of each product, as shown in Figure 1, has also been extended to the set of rules concerning the tariff side of trade relations — the Harmonized System (HS) introduced in 1988 — on the basis of the prevalence of protection by quotas.

During the time, the countries involved as EU counterparts have increased. Figure 2 shows the situation set up by MFA IV.

¹ The political variable has marked the relationships with the ex-communist bloc: the trade matter has asserted itself above all with two Asian countries gravitating in the economic sphere of the United States and which were led to discriminate against the EU in favour of the latter in trade relations: Taiwan and South Korea.

Figure 1: T&C product classification under the MFA



The categories 'textiles' will turn into MFA categories, following the evolution of the patterns of trade.

* Category 163 is subject to quotas only in the relationships with the Republic of China.

** Group V appears after the fourth MFA renewal, see Regulation (EC) No 195/94.

The coverage of the bilateral agreements is generally bound to categories 1-114; in the relationships with Central and East European countries, the coverage is extended to 123, while in the latest negotiations the categories covered were 1-161 (except for the Russian Confederation — 1-123).

Source: Authors calculations with EU data.

Figure 2: EU counterparts in MFA IV bilateral agreements



¹ Countries whose exports into the EU are free but in case of market disruption (or threat of it) will negotiate with the Union to find appropriate solutions, eventually through agreements as for the other MFA countries.

² Countries subject to all the dispositions in standard bilateral agreements and with no quotas as yet.

³ Taiwan is subject to an MFA-type regime for diplomatic reasons.

⁴ Due to the political situation, the States belonging to the former Yugoslavia are bound to the EU with unsettled agreements.

⁵ After a popular referendum, Czechoslovakia split up into the Czech Republic and Slovakia.

⁶ The USSR was subject to an independent regime until 1989. Since 1990 it has belonged to the conventional regime. The nations quoted in the figure have signed bilateral agreements, while the remaining are subject to specific surveillance measures.

Source: Authors calculations with EU data.

The MFA, although considered as 'temporary' since the beginning, being intended as an instrument to make less painful the adjustment in the industrialized countries, officially expired on 31 December 1994. The 20th birthday of the most long-lived agreement which had disciplined this share of international trade took place in concomitance with the conclusion of a fundamental GATT negotiating round, the Uruguay Round (UR), that after long and difficult negotiations brought it to an end with the Agreement on Textiles and Clothing (ATC).

According to it, the T&C sector will be integrated into the 'GATT 1994' discipline over a 10-year period from 1 January 1995. The integration process consists of three steps during which a specific percentage of trade — computed on 1990 levels — must be brought under normal GATT rules. Consequently, no quotas can be applied on imports of those products. Moreover, the growth rates for the remaining quantitative restrictions will have to be increased at the beginning of each phase by 16, 25 and 27% respectively, as is shown in Table 2. At the end the transition period, the MFA will no longer exist.

Table 2: MFA phasing-out scheme

| | Year | Factor of increase (%) | Growth rate in bilateral agreement: 3% | Basis: quota = 100 | Growth rate in bilateral agreement: 5% | Basis: quota = 100 | Growth rate in bilateral agreement: 6% | Basis: quota = 100 |
|-----------------|------|------------------------|--|--------------------|--|--------------------|--|--------------------|
| Step I | 1 | 16 | 3.48 | 103.48 | 5.80 | 105.80 | 6.96 | 107.00 |
| | 2 | | 3.48 | 107.08 | 5.80 | 112.99 | 6.96 | 114.40 |
| | 3 | | 3.48 | 110.81 | 5.80 | 119.54 | 6.96 | 122.40 |
| Step II | 4 | 25 | 4.35 | 115.50 | 7.25 | 128.21 | 8.70 | 133.00 |
| | 5 | | 4.35 | 120.52 | 7.25 | 137.50 | 8.70 | 144.57 |
| | 6 | | 4.35 | 125.76 | 7.25 | 147.47 | 8.70 | 157.15 |
| | 7 | | 4.35 | 131.23 | 7.25 | 158.16 | 8.70 | 170.82 |
| Step III | 8 | 27 | 5.52 | 138.47 | 9.21 | 172.70 | 11.05 | 189.70 |
| | 9 | | 5.52 | 146.11 | 9.21 | 188.61 | 11.05 | 210.66 |
| | 10 | | 5.52 | 154.18 | 9.21 | 205.98 | 11.05 | 233.94 |

Source: *The GATT Uruguay Round: a negotiating history.*

This last prescription seems to be a consequence of the experienced longevity of the MFA and it has been thought to give more time for the adjustments in the ICs. It is a big bet, where the credibility of the organization that followed the GATT — the World Trade Organization (WTO) — itself is involved and so are the international trade climate and the dynamic of the world production, with all the implications on the quality of life for both industrialized and developing countries.¹ The steps forward took in the context of the Uruguay Round seem to express, from many different standpoints, a common will to drive the evolution of the international economy in a cooperation climate, forgoing as much as possible the mercantilist view unwilling to change the structure of the comparative advantages and, consequently, to shift the production from one side of the planet to the other.

As far as the CEECs are concerned, trade policy in the T&C sector has been affected by the Europe Agreements. These aim — as is well known — at establishing 'free trade areas, in the sense of Article XXIV of the GATT, over a maximum period of 10

¹ Compare with Sutherland, P. (1994), 'Trade with developing countries is good business', *International Herald Tribune*, 21 December 1994.

years'¹. As regards T&C, specific rules applied since it is considered a 'sensible sector', i.e. a sector which is more sensible to foreign competition. Protocol I of the Interim Agreement states that tariffs on T&C products will be eliminated over a six-year period while quantitative restrictions will be eliminated in five years starting from 1993, half the period agreed upon with the other countries in the GATT talks. It follows that trade in T&C between CEECs and the EU will be completely liberalized in 1998. While these changes are surely important, their impact on trade flows may not be drastic, at least in the short term, as will be shown in the following sections.

IV — The first phase of the integration process: the present evolution

The ministerial resolution adopted on 15 December 1993 by the Trade Negotiation Committee, inserted in the ministerial declaration of 15 April 1994 signed in Marrakech, states that 'each Member² shall integrate into GATT 1994 products which accounted for not less than 16% of the total volume of 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 following four groups: tops and yarns, fabrics, made-up textile products and clothing' (ATC, Article 2:6).

The present situation is a direct consequence of this Article and its implementation; to understand that, it is important to notice what follows.

Firstly, even though the statistic base to compute the percentage of imports to integrate in the different steps has been identified, there is no duty to present the data on imports. Canada did not notify the 1990 data at all, while the United States corrected formerly presented data by 7% upwards, on the basis of the inclusion in the statistics of a few lines not belonging to Section XI of the HS (i.e. not fully made of textiles and probably not responsible for the growth as a whole). Besides, the same two countries use their own 10-digit system, while the EU, following GATT rules, uses a six-digit system. This lack of transparency does not demonstrate a real will to liberalize T&C trade.

Secondly, from a commercial point of view, importers' preferences for products to liberalize were mostly directed to products such as umbrellas, parachutes, watch-straps, safety seatbelts and others not yet included in Section XI of the HS. The International Textiles and Clothing Bureau (ITCB) proposed to remove these products from the Agreement's objective coverage fearing their use to boost import volumes and make the liberalization meaningless. The EU percentage of this kind of product amounts to 58% of the products appointed for the first step; from this point of view the EU seems to have been more restrictive than North American countries (13.31% for the USA and 12.8% for Canada). However, since the

¹ GATT document L/6992, 3 April 1992.

² That is the importing industrialized countries such as Austria, Canada, the EU, Finland, Norway and the United States. Norway took a position similar to that of the EU, while imports of Austria and Finland, following their accession to the EU, must be considered as already represented by the EU. This means that, besides the European standpoint, the relevant positions in this field are those of the two big North American countries.

integration of pure textile categories could be considered as a sign of liberal will, it is necessary to note that Europe also selected categories 69, 75, 85, 94, 134, 148A, 149, 150 and 153, while the United States does not integrate any HS line belonging to a traditional textile category (some of them were part of textile categories created in 1994). As far as Canada is concerned, it is impossible to establish it, due to the non-publication of the correlation between HS lines and textile categories and the writing of the notification for lines.

Thirdly, with reference to the requirement of the belonging of the integrated products to all the four segments of textile production, it has to be noticed that this rule does not specify in which share. Clothing, which has the highest comparative advantage for low-cost countries since it is more labour-intensive, has been involved only marginally. The selection of the integrating products has by no means followed the composition of real flows; on the contrary, it seems to have been driven from the desire to postpone further, after 30 years of formal short-term agreements, the liberalization of the sector as it is shown by Table 3.

Table 3: Selected integrated products in the first phase

| Segments | (%) | | | | | |
|--------------------------|---------|---------|---------|---------|---------|---------|
| | EU | | Canada | | USA | |
| | Im 1990 | In 1994 | Im 1990 | In 1994 | Im 1990 | In 1994 |
| Tops and yarns | 13.37 | 26.8 | 12.61 | 59.2 | 2.70 | 52.60 |
| Fabrics | 18.09 | 49.7 | 21.52 | 26.7 | 14.31 | 14.89 |
| Made-up textile products | 15.55 | 21.2 | 17.93 | 7.8 | 21.81 | 20.33 |
| Clothing | 28.72 | 2.3 | 21.42 | 6.3 | 39.66 | 12.18 |

Im = imports; In = integration

Source: *The textile integration programme of the first stage*, ITCB.

The EU shows the least attention to clothing, while, if compared with the two other big markets for LDCs, it is more interested in fabrics than in the very first step of the textile production chain. This last, being more capital-intensive, does not worry the producers of the high-labour-cost countries, with the result that it has been excluded from the benefits of the OPT regime. The EU preferred the inclusion of jute and lamé textiles, which cause no particular damage to internal industry.

Futhermore, in evaluating how effective the first phase of the liberalization process has been, it has to be noticed that, apart from categories 69 and 75, subject to regional quotas already abolished with the introduction of the common market, none of the liberalized categories was subject to restrictions in the previous years. This means that trade in these categories was already free and that the EU only gave up its right to restrain them in the future, even though market disruption may occur.

Moreover, by fixing in volume the division of the products subject to the different phases of an integration plan, it is possible to give the importer countries a wide operating margin. In fact, if the added value was homogeneous in the textile products covered by the new international textile Agreement, then the requirement of the

integration of the 16% volume of trade would be equal to the removal from the restrictive regime of the 16% value of trade in the same reference year; on the contrary, it would not be too difficult to compute that the EU's share is less than the 16% value of textile imports from LDCs to Europe, since not only were heavy and low-value products chosen, but also it completely utilized the inclusion, in the appendix to the UR Agreement, of goods partially made of textiles.

Finally, as far as the ex-lines are concerned, they lines of the Harmonized System belonging to chapters 30-49 and 64-96, while the mere textiles are in chapters 50-63. The convention chosen in the appendix of the UR textile Agreement is the six-digit outline for HS lines; in contrast to the two North American countries, the EU respected that rule. The point is that, at six-digit level, in many cases the textiles represent only a part of the total; also by going into detail (eight digits), it is difficult to identify them and isolate the related sub-lines from the remaining part. For the computation of 16%, on the contrary, the statistics related to the six-digit line were added. As a consequence, it is easy to state that the effective percentage of integrated textiles is lower than 16%.

These considerations prove that main importing countries are not seriously involved in the integration process. On the contrary, they seem interested in further postponing the liberalization. This strategy, in the short run, makes the T&C industry of importing countries grow to the same level of protection as before. However, it might be very dangerous in the future, because it tends to accumulate tensions linked to the transition towards free trade in the very latest phases of the process.

V — Empirical analysis: the effects of EU trade policy on direct trade

The focus of this section will be to assess the effects of the EU trade policy in T&C on LDCs exports from 1988 to 1993 and the subsequent EU attitude towards this sensible sector. In order to attain this goal, we have gathered MFA exporters into four groups according to their geographical location (Latin American countries, CEECs, former USSR, Asian producers) and we have looked at the following elements:¹

- market share on EU imports of MFA products (S);²
- number of MFA categories subject to quotas (nQ) with particular attention to binding quotas, that is quotas utilized by not less than 85%. We consider the number

¹ Among the MFA exporters, we have not considered Vietnam, Mongolia and the former Yugoslavia. Vietnam is subject to a different system of quotas, defined for groups of categories; Mongolia is just subject to one restriction, while international relationships, trade and respective figures with the former Yugoslavia have suffered from the recent events. As far as the former USSR is concerned, we report data and indexes computed on the figures available but, since they are not completely reliable, we abstain from any comments. Anyway, they seem to suggest that the EU attitude towards these countries has greatly changed in recent years becoming more and more similar to that involving the CEECs. Data on trade and quotas are in volume terms.

² The European Union must be considered as EUR 12.

of binding quotas (nB), the share on constrained trade (B/Q) and on total trade in MFA products (B/T);

- share of trade in restricted categories on total MFA imports (Q/T);
- average quota utilization rate, computed both as a simple mean of quota utilization rates of each category ($AQUR$) and as a weighted mean, in order to consider the different size (in volume terms) of each category ($AQUR^*$);
- average quota growth rates.¹

Tables 4 and 5 sum up the main results obtained for direct trade (DT). It emerges that, while the CEECs have recently enjoyed preferential treatment with respect to the other groups of MFA exporters, their market share on EU imports of MFA products has not change considerably over the period. At the same time, the Latin American share has dramatically dropped, while the already large Asia share has further increased.

CEECs' nQ has fallen from 48 in 1988 to 28 in 1993, while for the other MFA producers it has risen over the time. Actually, with regard to market share, it is evident that in 1988 CEECs' exporters were particularly discriminated against, having to face more or less the same number of restrictions as the Asian producers — who, instead, enjoyed a much more relevant market share (66%) — and many more restrictions than Latin American countries, which enjoyed a larger market share (13%). At that time it is clear that these last countries were particularly favoured by the EU and actually they are still the ones which have to face the lowest number of quotas (11). It is, however, important to stress that since now the recent preferential treatment granted to the CEECs seems to have come to an end: in the 1994-97 period, nQ has not changed, since none of the 28 quotas has been liberalized in the first phase of the MFA dismantling.²

Among the CEECs, a more disaggregated analysis shows that Romania and the former CSFR (Czech and Slovak Federal Republic) are more restricted than the other CEECs, with, respectively, 20 and 23 restrictions out of 28. Nevertheless, the former CSFR has been the country that profited the most from the liberalization process promoted by the EU through the Europe Agreements. nQ , in fact, has enjoyed the largest reduction (38%) since 1991.

¹ They have been computed considering only restrictions in place for the whole period. For each country or group of countries the average quota growth rates have been computed as a simple mean of the average growth rates of each quota in the period under consideration. These latter have been computed as geometric means, according to the following formula:

$$g_{Q(1988-95)} = \left[\sqrt[7]{\frac{Q_{1995}}{Q_{1988}}} - 1 \right] \times 100.$$

² The total number of restrictions regarding each country or group of countries may be higher, since we have considered only the quotas whose data on trade were available. Categories 2A, 3A, 32A, 37A, 67A, 97A and 121 have therefore been eliminated from the analysis.

Table 4: Direct trade (indexes, 1988-93)

| | S | nQ | nB | nB/nQ | B/T | Q/T | B/Q | AQR | AQR* |
|---------------------|------|----|----|-------|------|------|------|------|------|
| 1988 | | | | | | | | | |
| Total Latin America | 0.13 | 8 | 1 | 0.13 | 0.16 | 0.30 | 0.54 | 0.50 | 0.57 |
| Total CEECs | 0.10 | 48 | 11 | 0.23 | 0.10 | 0.35 | 0.29 | 0.42 | 0.44 |
| Total ex-USSR | 0.11 | | | | | | | | |
| Total Asia | 0.66 | 50 | 20 | 0.40 | 0.27 | 0.49 | 0.54 | 0.69 | 0.75 |
| Total MFA | 1 | 65 | 26 | 0.40 | 0.21 | 0.40 | 0.52 | 0.58 | 0.69 |
| 1989 | | | | | | | | | |
| Total Latin America | 0.14 | 8 | 2 | 0.25 | 0.06 | 0.26 | 0.23 | 0.47 | 0.55 |
| Total CEECs | 0.10 | 48 | 10 | 0.21 | 0.09 | 0.33 | 0.27 | 0.39 | 0.41 |
| Total ex-USSR | 0.12 | | | | | | | | |
| Total Asia | 0.64 | 50 | 20 | 0.40 | 0.26 | 0.47 | 0.56 | 0.58 | 0.68 |
| Total MFA | 1 | 64 | 24 | 0.38 | 0.18 | 0.37 | 0.50 | 0.51 | 0.63 |
| 1990 | | | | | | | | | |
| Total Latin America | 0.14 | 8 | 2 | 0.25 | 0.17 | 0.28 | 0.62 | 0.41 | 0.60 |
| Total CEECs | 0.09 | 48 | 7 | 0.15 | 0.04 | 0.32 | 0.28 | 0.35 | 0.36 |
| Total ex-USSR | 0.09 | 24 | 5 | 0.21 | 0.00 | 0.07 | 0.00 | 1.00 | 0.50 |
| Total Asia | 0.68 | 50 | 22 | 0.44 | 0.33 | 0.45 | 0.74 | 0.56 | 0.74 |
| Total MFA | 1 | 64 | 27 | 0.42 | 0.25 | 0.37 | 0.68 | 0.47 | 0.66 |
| 1991 | | | | | | | | | |
| Total Latin America | 0.12 | 8 | 1 | 0.13 | 0.16 | 0.28 | 0.56 | 0.54 | 0.57 |
| Total CEECs | 0.09 | 48 | 11 | 0.23 | 0.09 | 0.33 | 0.28 | 0.35 | 0.36 |
| Total ex-USSR | 0.11 | 10 | 0 | 0.00 | 0.00 | 0.05 | 0.00 | 0.24 | 0.46 |
| Total Asia | 0.68 | 50 | 23 | 0.46 | 0.33 | 0.43 | 0.76 | 0.57 | 0.75 |
| Total MFA | 1 | 64 | 25 | 0.39 | 0.25 | 0.36 | 0.70 | 0.48 | 0.66 |
| 1992 | | | | | | | | | |
| Total Latin America | 0.08 | 8 | 1 | 0.13 | 0.03 | 0.26 | 0.12 | 0.34 | 0.34 |
| Total CEECs | 0.10 | 37 | 5 | 0.14 | 0.06 | 0.29 | 0.20 | 0.33 | 0.33 |
| Total ex-USSR | 0.17 | 10 | 0 | 0.00 | 0.00 | 0.03 | 0.00 | 0.27 | 0.44 |
| Total Asia | 0.65 | 51 | 23 | 0.45 | 0.28 | 0.41 | 0.68 | 0.52 | 0.66 |
| Total MFA | 1 | 61 | 24 | 0.39 | 0.19 | 0.32 | 0.60 | 0.45 | 0.56 |
| 1993 | | | | | | | | | |
| Total Latin America | 0.05 | 10 | 1 | 0.10 | 0.06 | 0.31 | 0.18 | 0.38 | 0.24 |
| Total CEECs | 0.10 | 28 | 4 | 0.14 | 0.06 | 0.31 | 0.18 | 0.36 | 0.35 |
| Total ex-USSR | 0.15 | 34 | 7 | 0.21 | 0.03 | 0.06 | 0.55 | 0.22 | 0.36 |
| Total Asia | 0.70 | 53 | 24 | 0.45 | 0.32 | 0.49 | 0.66 | 0.52 | 0.65 |
| Total MFA | 1 | 58 | 26 | 0.45 | 0.24 | 0.40 | 0.60 | 0.47 | 0.56 |

Source: Authors calculations with EU data.

The number of restrictions is a rather crude measure of restrictiveness and shows only the width of the MFA coverage. Quota growth rates seem to be quite useful to complete the analysis. On average, they have been very different, not only among countries, but also over the time for the same country (see Table 5).

Table 5: Direct trade (average quota growth rates, 1988-95)

| | Period | Mean | Minimum | Maximum | Standard deviation |
|---------------------|----------------------|-------|---------|---------|--------------------|
| Total Latin America | 1988-95 | 4.32 | 2.93 | 6.53 | 1.09 |
| | 1988-89 | 3.53 | 1.7 | 6 | 1.58 |
| | 1990-92 | 5.11 | 2.23 | 9.38 | 2.31 |
| | 1993-95 | 4 | 1.7 | 6 | 1.56 |
| Total CEECs | 1988-95 | 14.45 | 6.49 | 30.97 | 5.27 |
| | 1988-89 | 4.09 | 1.06 | 6.03 | 1.24 |
| | 1990-92 | 19.26 | 4.39 | 47.99 | 10.6 |
| | 1993-95 | 4.74 | 1.99 | 6.01 | 1.27 |
| Total ex-USSR | 1990-95 | 2.34 | - 6.91 | 8.04 | 4.86 |
| | 1990-92 | 3.47 | 2.84 | 4.04 | 0.44 |
| | 1993-95 | 4.24 | 3.31 | 5.03 | 0.57 |
| Total Asia | 1988-95 | 4.09 | 1.58 | 8.47 | 1.51 |
| | 1988-89 | 5.51 | 1.6 | 34.41 | 5.45 |
| | 1990-92 | 3.71 | 0.11 | 9.75 | 1.76 |
| | 1993-95 | 3.71 | 0.18 | 6.39 | 1.51 |
| Total MFA | 1988-95 ¹ | 5.12 | - 0.63 | 14.87 | 2.83 |
| | 1988-89 ¹ | 5.26 | 1.85 | 28.84 | 3.97 |
| | 1990-92 | 6.87 | - 1.44 | 28.87 | 5.33 |
| | 1993-95 | 4 | 0.90 | 6.39 | 1.39 |

¹ Without ex-USSR.

Source: Authors calculations with EU data.

The favour granted to CEECs by the EU is even more evident. From 1988 to 1995, their quotas have grown yearly, on average 14.45%, while the other MFA exporters have shown average growth rates always lower than 5%. There are, however, a lot of differences over time. In the late 1980s, the latest years of the MFA IV, the average quota growth rates have been lower than 6% for all the MFA exporters; Latin American producers faced the lowest one (+ 3.53%), while the Asian countries faced the greatest (+ 5.51%). In the early 1990s the CEECs' transformation began and, thanks to the EU's efforts to promote the transition of the CEECs towards a market economy, quota growth rates grew remarkably (+ 19.26%),¹ while the other producers experienced average growth rates lower than 6%. Finally, after 1993, CEECs' quota growth rates became very low, + 4.74% on yearly average, a value just above the MFA average, and very close to that of the other exporters and, surprisingly, nearer to the pre-transition value than to the post-transition one.

¹ This effect is less evident for Romania and Bulgaria, since Europe Agreements came into force in 1993.

Also from this point of view, the former CSFR was the most involved country in the liberalization process promoted in Central and Eastern Europe by the EU. In the early 1990s it shows, besides the dramatic reduction in nQ, the highest average quota growth rate (+ 51.76%), even though this trend is characterized by a great variability among the categories. Hungary and Poland, which negotiated together with the former CSFR each step for a better trade integration, show similar quota growth rates (+ 29.15% and 30.54% respectively), not too far from that enjoyed by the former CSFR. Also Bulgaria and Romania, which had similar political and economic experiences, present analogous values (+ 11.23% and 6.2% respectively), but they differ from the other three countries both for the lower quota growth rates and for the less variability among the categories of the MFA products. On the contrary, after 1993 the quota growth rates of the five countries come back to being very similar, showing that after that time the European policy has also become quite homogeneous towards the CEECs singularly considered.

The analysis of the other measures of restrictiveness points out that EU trade policy has always been very cautious towards Asian countries, while it has never been particularly restrictive for Latin American countries and CEECs and, over the time, it has become less and less binding for their export capacity.

This is shown by:

- firstly, the low value and the generally decreasing trend of Latin American and CEECs' average quota utilization rates, both simple and weighted (AQUR and AQUR*), always lower than those of the Asian countries;
- secondly, the number of binding quotas (nB), almost stable and very low for Latin American countries (just one, the 10% of nQ in 1993), fallen from 11 in 1988 (23% of nQ) to four (14% of nQ) in 1993 for the CEECs and increased in the same period from 20 (40% of nQ) to 24 (45% of nQ) for the Asian countries;
- thirdly, the evolution in the share of trade in categories subject to quotas on total MFA trade (Q/T), fallen, for the CEECs, even if not along a linear trend, from 35% in 1988 to 31% in 1993 (although Q/T and AQUR trends allow one to say that most of the categories liberalized in the period were marginal in size), almost stable for Latin American countries around the low value of 30% and stable, but around a more relevant percentage of 50%, for the Asian exporters;
- finally, the trends and the levels of the share of trade in binding quotas over the total trade in MFA products (B/T) and over the trade subject to quota (B/Q) that have decreased respectively from 10 and 29% in 1988 to 6 and 18% in 1993 for CEECs and from 16 and 54% in 1988 to 6 and 18% in 1993 for Latin America, while they have increased respectively from 26 and 54% in 1988 to 32 and 66% in 1993 for Asian countries.

As far as the CEECs are concerned, these indexes confirm that the former CSFR was initially more severely treated by the EU because of its greater competitiveness, but differences with the other CEECs have slowly reduced over the time.

These observations can be drawn from:

- the AQUR values, always greater than those of the other CEECs (except for Bulgaria in 1992) but gradually moving closer to them;
- the number of binding quotas (seven, almost 20% of nQ), greater than that of all the other CEECs in 1988, but equal to one in 1992, a value lower or equal to that of the others;
- the share of restricted trade on total trade (Q/T), 49% in 1988, a percentage far from that of the other CEECs, and 31% in 1992, a value lower than that of Romania and close to those of the others;
- the share of trade in binding quotas over total MFA EU imports (B/T), 22% in 1988, a value much greater than the percentages of the other CEECs, and 4% in 1992, a share lower than that of Bulgaria and Romania and very close to that of the other two countries;
- indexes computed for 1993 which seem to show that the greater competitiveness of the former CSFR was due only to the Czech Republic's performance.

These results allow the conclusion that the Europe Agreements have assured a potentially better market access to MFA products coming from CEECs, due to a gradual reduction in the number of restrictions and to the significant increase of the quota levels still in force. However, other considerations might weaken the strength of such a conclusion. Specifically, the formal relaxation of the EU's trade policy seems — up to now — restricted to the short term, since it is not confirmed by the 1993-95 evolution.¹ Moreover, an in-depth analysis of the liberalized categories shows that, besides regional quotas, only superfluous restraints, that is quotas utilized less than 10%, have been liberalized; binding quotas have only been enlarged to allow the CEECs to increase their exports into the EU to the levels of the other MFA producers.² Nevertheless, the recent favourable opportunities offered to CEECs by the EU are undoubtedly a matter of fact.

In this scenario, the evolution of trade witnesses that, while Latin American countries are gradually becoming less and less competitive and CEECs do not seem to be able to exploit the opportunities offered to them, Asian producers show their economic strength, increasing their exports to the EU, despite its more restrictive trade policy.

¹ This fact may be explained by the poor performance of the AQURs in the previous years.

² After 1989 the political motive for discriminating against such countries as opposed to the other less-developed countries no longer exists.

VI — OPT: peculiarities of the statistical system and recent trends

Besides DT, there is another form of international exchange that is so relevant as to be disciplined by the MFA: the outward processing trade (OPT).

OPT involves remarkable advantages. Firstly, it allows the producers to exploit a low-cost labour force, while keeping control on the production procedures, as in any form of international delocalization of production. Secondly, it permits the payment of duties only on processing value and not on the whole value of the product.

Recent history shows that producers generally turn to OPT only after having exploited national subcontracting agreements. In other words, a firm that wants to become more competitive through the use of cheaper factors of production firstly delocalizes parts of production inside national boundaries through subcontracting agreements and, secondly, enlarges the set of delocalization options by going abroad to exploit the low-cost labour force through OPT.

Obviously, the main beneficiaries of OPT advantages are European producers,¹ but its global effects on the European T&C sector must be carefully evaluated, since in this trade regime the conflict of interest between labour and capital is even more evident. In fact, it is not only true that because of technological progress, which allows substitution between labour and capital, manpower bears the cost of protection in terms of higher consumer price, while producers benefit from it since they produce more, but also that OPT allows a direct and undeniable substitution between national labour force and foreign cheap manpower.

OPT results are particularly affected by geographical proximity. In 1988, one third of the European exchanges in the OPT regime involved the former CMEA countries, one third took place with the former Yugoslavia, while the other third was shared between the Mediterranean countries (16%) and the Asian exporters (10%), a result very far from their performance in the DT.

The situation has changed recently. The Berlin wall's fall has been followed by the introduction of an OPT regime for CEECs, the war in the the former Yugoslavia remarkably affected trade flows, and the increasing pressure of competition from low-cost producers has fostered European firms to exploit more and more this type of trade regime. These events, together with the need to adjust the discipline to the single market requirements, have brought a new discipline for OPT.

The new Regulation² has been the result of a long debate that had to reconcile the different opinions existing in Europe. Particularly, we refer to the position of the North European countries, traditional users of OPT, and that of Southern Europe

¹ There are, however, important differences among countries. In 1988, 70% of OPT orders came from RFT, 20% from France and the remaining 10% was shared among other countries.

² See Regulation (EC) No 3036/94.

ones, lacking in experience in this field but interested in exploiting its opportunities. The differences, strengthened over time, were very significant. Generally speaking, the first are more favourable to freer trade, while the second have a more protectionist view of trade policy. In OPT trade, instead, positions were reversed: southern countries of the EU looked for more space, and then more trade, in the OPT regime, while northern countries wanted to keep on severe and restricted rules, particularly with regard to the admission rules for new producers. The stake was the partition of the quotas between traditional users and the new ones coming from the south.

The most relevant points of the present OPT Regulation are the following:

- only producers and not traders can apply for the OPT regime;
- OPT quantitative restraints add to quotas provided for DT;
- OPT covers only clothing and not textiles;
- OPT quotas are defined on the basis of the product/country principle, as in the DT regime, and are allocated according both to 'past performance' and 'first come, first served' criteria.

A further peculiarity of the new OPT Regulation is its accent on the dynamics characterizing the recent evolution of the EU. First of all, the increasing worries about unemployment imposed to take greater care of its effects on it. Article 5 states that if the employment level of a firm decreases because of OPT operations, in the following year the EU can proportionally reduce quantities allowed under this regime. Secondly, the OPT Regulation seems to confirm the increasing role played by the CEECs, since they are the only countries individually quoted because of Protocol No 1 of the Europe Agreements. Thirdly, the enlargement towards northern countries has been taken into consideration because of the need to define the past performance of producers belonging to countries of more recent adhesion.

VII — Empirical analysis: the effects of EU trade policy on OPT trade

In 1988, OPT trade did not seem to worry the EU too much, given its very low absolute level (about 2% of the DT volume). Nevertheless, MFA exporters were treated differently by the EU in terms of number of restrictions. Latin American countries were not involved in this trade regime (their share was less than 1% of the OPT trade under the MFA), so they did not face any quantitative restrictions. Even the CEECs did not face any quotas, but their market share was about 83%. At that time, only Asian producers were subject to quotas (seven), even though they enjoyed a low market share (17%) if compared with that of CEECs. Indexes

and average quota growth rates are shown in Tables 6 and 7. These figures confirm, on the one hand, the importance of geographical proximity for OPT trade and, on the other hand, EU worries about the greater competitiveness shown by Asian producers, at least in certain categories.

Table 6: Outward processing trade

| | S | nQ | nB | nB/nQ | B/T | Q/T | B/Q | AQUR | AQUR* |
|---------------------|------|----|----|-------|------|------|------|------|-------|
| 1988 | | | | | | | | | |
| Total Latin America | 0.00 | | | | | | | | |
| Total CEECs | 0.83 | | | | | | | | |
| Total ex-USSR | 0.00 | | | | | | | | |
| Total Asia | 0.17 | 7 | 1 | 0.14 | 0.16 | 0.24 | 0.67 | 0.27 | 0.47 |
| Total MFA | 1 | 7 | 1 | 0.14 | 0.03 | 0.04 | 0.67 | 0.27 | 0.47 |
| 1989 | | | | | | | | | |
| Total Latin America | 0.00 | | | | | | | | |
| Total CEECs | 0.83 | | | | | | | | |
| Total ex-USSR | 0.00 | | | | | | | | |
| Total Asia | 0.16 | 7 | 1 | 0.14 | 0.19 | 0.30 | 0.63 | 0.29 | 0.53 |
| Total MFA | 1 | 7 | 1 | 0.14 | 0.03 | 0.05 | 0.63 | 0.29 | 0.53 |
| 1990 | | | | | | | | | |
| Total Latin America | 0.00 | | | | | | | | |
| Total CEECs | 0.86 | | | | | | | | |
| Total ex-USSR | 0.00 | 4 | 0 | 0.00 | 0.00 | 0.11 | 0.00 | 0.01 | 0.01 |
| Total Asia | 0.14 | 7 | 2 | 0.29 | 0.21 | 0.33 | 0.62 | 0.35 | 0.60 |
| Total MFA | 1 | 9 | 2 | 0.22 | 0.03 | 0.05 | 0.62 | 0.24 | 0.55 |
| 1991 | | | | | | | | | |
| Total Latin America | 0.00 | | | | | | | | |
| Total CEECs | 0.88 | 23 | 10 | 0.43 | 0.14 | 0.55 | 0.25 | 0.50 | 0.47 |
| Total ex-USSR | 0.01 | 4 | 0 | 0.00 | 0.00 | 0.19 | 0.00 | 0.24 | 0.29 |
| Total Asia | 0.11 | 7 | 2 | 0.29 | 0.24 | 0.37 | 0.65 | 0.41 | 0.71 |
| Total MFA | 1 | 24 | 10 | 0.42 | 0.15 | 0.52 | 0.28 | 0.49 | 0.48 |
| 1992 | | | | | | | | | |
| Total Latin America | 0.00 | | | | | | | | |
| Total CEECs | 0.88 | 17 | 6 | 0.35 | 0.10 | 0.50 | 0.21 | 0.43 | 0.41 |
| Total ex-USSR | 0.03 | 13 | 7 | 0.54 | 0.00 | 0.80 | 0.00 | 1.54 | 1.52 |
| Total Asia | 0.09 | 8 | 2 | 0.25 | 0.19 | 0.30 | 0.65 | 0.28 | 0.45 |
| Total MFA | 1 | 23 | 9 | 0.39 | 0.11 | 0.46 | 0.23 | 0.49 | 0.41 |
| 1993 | | | | | | | | | |
| Total Latin America | 0.00 | | | | | | | | |
| Total CEECs | 0.86 | 17 | 5 | 0.29 | 0.04 | 0.50 | 0.08 | 0.38 | 0.35 |
| Total ex-USSR | 0.06 | 17 | 0 | 0.00 | 0.00 | 0.77 | 0.00 | 0.12 | 0.16 |
| Total Asia | 0.08 | 16 | 5 | 0.36 | 0.32 | 0.42 | 0.75 | 0.35 | 0.35 |
| Total MFA | 1 | 24 | 8 | 0.33 | 0.06 | 0.51 | 0.11 | 0.28 | 0.32 |

**Table 7: Outward processing trade
(average quota growth rates, 1988-93)**

| | Period | Mean | Minimum | Maximum | Standard deviation |
|---------------|----------------------|--------|---------|---------|--------------------|
| Total CEECs | 1991-95 | 36.19 | 23.18 | 52.29 | 9.80 |
| | 1991-93 | 58.70 | 4.50 | 131.76 | 38.25 |
| | 1993-95 | 8.06 | 4.83 | 11.10 | 1.59 |
| Total ex-USSR | 1990-91 | 6.85 | 6.67 | 6.94 | 0.13 |
| | 1990-95 | 133.80 | 112.31 | 161.64 | 21.92 |
| | 1991-93 | 419.28 | 326.29 | 548.86 | 99.76 |
| | 1993-95 | 6.10 | 4.56 | 7.16 | 0.75 |
| Total Asia | 1988-91 | 10.00 | 7.40 | 13.97 | 2.20 |
| | 1991-95 | 18.46 | 7.93 | 49.26 | 14.22 |
| | 1991-93 | 32.14 | 8.01 | 107.10 | 34.11 |
| | 1993-95 | 5.34 | 1.81 | 7.70 | 1.61 |
| Total MFA | 1988-91 ¹ | 10.00 | 7.40 | 13.97 | 2.20 |
| | 1991-95 | 44.62 | 23.18 | 161.64 | 32.67 |
| | 1991-93 | 89.68 | 6.22 | 548.86 | 115.59 |
| | 1993-95 | 6.94 | 4.45 | 11.10 | 1.69 |

¹ Without ex-USSR.

Source: Authors calculations with EU data.

In 1991, the EU's trade policy towards the CEECs became more restrictive: 23 quotas were imposed, 10 of which became binding. As a matter of fact, our analysis seems to demonstrate that the introduction of quotas aimed at hindering sudden explosions of OPT trade flows rather than at containing market shares. In fact, quota growth rates were particularly generous, mainly if compared with those granted to Asian exporters (+ 36.19% and + 18.46% respectively, on a yearly basis, in the first half of the 1990s), and the CEECs' market share increased to 86%, while that of Asian exports halved. This consideration is confirmed also by the evolution over time of nQ, fallen for CEECs from 23 in 1991 to 17 (five of which binding) in 1993 and increased for Asian countries from 7 to 16 (five of which binding) in 1993.¹ Eventually, CEECs and Asian producers faced a quite similar number of quotas despite very different trade performances.

Therefore, the OPT regime seems to confirm the preferential treatment granted by the EU to CEECs. These latter, differently to what happened in DT, were, however, able to profit from it, since their market share has been increasing since 1991. This result

¹ Differently to what happened in direct trade, the liberalization process enjoyed by CEECs continues during the next two years: nQ, in fact, drops to 14 in 1995.

is even more relevant if we consider that also the importance of OPT trade has increased, getting in 1993 about 5% of the DT volume.

CEECs present non-homogeneous situations in the early 1990s, where the countries most penalized for nQ enjoyed the highest quota growth rates as was the case of the CSFR and Romania. Once again, this fact witnesses the EU's will to take under control the vitality of the most competitive countries without smothering it. However, after 1993, differences in nQ and in average quota growth rates tend to be very small.

The analysis of the other indexes shows that Asian countries utilize mainly large categories (AQUR* is remarkably greater than AQUR till 1992), while this is not true for CEECs. Also, this fact can be considered as proof of the greater restrictiveness of the EU trade policy towards Asian producers, since they face quantitative restrictions above all in those categories of products in which they have a considerable comparative advantage and in which they could export larger volumes of those already relevant than they do. This peculiarity seems to disappear in 1993 where both Asian countries and CEECs show very low AQURs and AQURs* (about 35%) whose values are, however, less than those recorded in the previous years. As a matter of fact, trade policy keeps on being more restrictive for Asian countries than for CEECs. This can be shown by the share of trade in binding quotas on total trade in restrictive categories (B/Q), 75% and 8% respectively, as well as by trade in binding quotas over total MFA trade (B/T), 32% and 4% respectively in 1993.

VIII — Main limits of the suggested indexes

Our empirical investigation, although quite simple to read, must be carefully interpreted.

Firstly, nQ has been considered as a rough measure of the MFA coverage, but it presents more than one inconvenience. Not only does it not say anything about the width of quotas and the relevance of restricted categories, but also, since it encompasses all quotas, even unnecessary or underutilized ones, it can hide the exporter countries' will to preserve superfluous quotas in order to exploit the advantages connected to the mechanism of swing provision which allows the loosening of market restraints in those categories where binding quotas really suppress trade.

Secondly, the other index based on the computation of categories, nB/nQ, could paradoxically result high due to the fact that, according to what is stated by the MFA, restrictions were imposed only on the categories that really create or look like creating market disruption. If this were the case, a high value of nB/nQ would reflect a low degree of restrictiveness while a low value could suggest that the EU has protected itself beyond what the MFA intends to guarantee.

As far as the statistics resulting from the comparison among trade flows in the restricted categories, in the bounded ones and total trade flows (B/Q, Q/T, and B/T) are concerned, it is important to remark on the distortions generated by the analysis in volume (required by the MFA formulation itself), where categories including goods

with different added value are aggregated. The direct explanation of such a gap is to be found in the simple observation that a tonne of raw cotton and a tonne of fashionable shirts of a famous European stylist have different values. As a consequence, with no specification of the contribution of any type considered, a sum of them can be interpreted in value in an interval wide enough to be considered meaningless.

Moreover, a low value of AQUR may hide not only export capacity problems, but also monopolistic power or very large transaction costs.

Finally, there exist variables able to influence a country's performance but hardly represented by an index, such as:

- the inefficiencies in the export licence allocation system;
- the efforts made to promote exports on foreign markets — which, in turn, are a function of the size and the liveliness of the internal market, of the perception of the need of a strong currency and of the presence of desirable outlets in geographically and culturally nearer countries with no quotas, as happens for small Latin American countries that find in Brazil and Argentina this kind of market;
- the monetary institutions' stance towards a realistic exchange rate rather than towards an overevaluated one that may damage exports.

IX — Final remarks

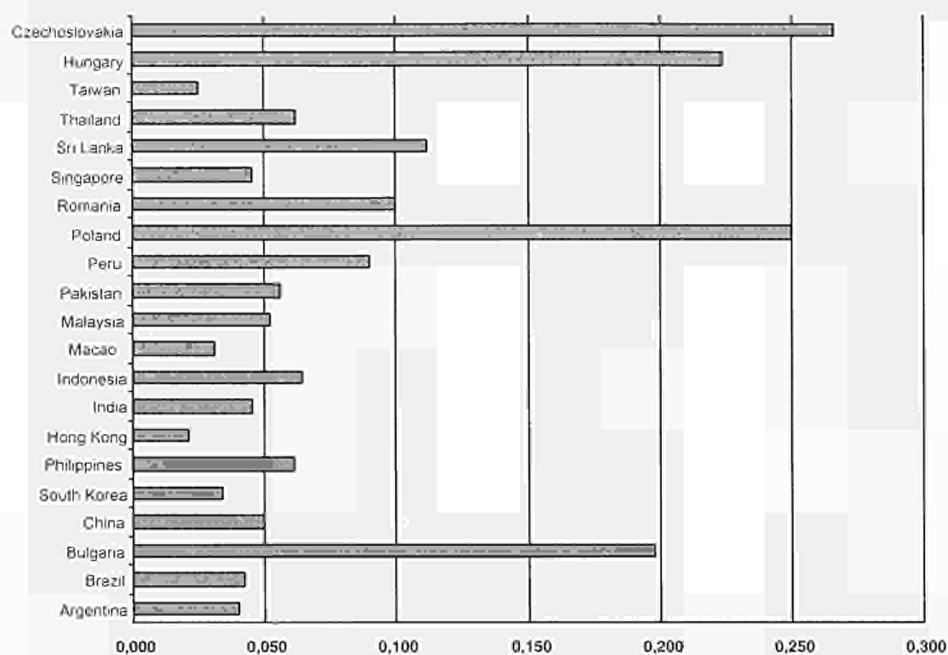
Our empirical analysis shows that, between 1988 and 1993, the MFA was considered by the EU as a system whose restrictiveness could be very different in relation both to the considered country and, above all as far as CEECs are concerned, to the related historical period.

The restrictiveness of EU trade policy seems to have had an aim, as always in a discriminatory system, and to be directed above all to the strongest exporters, the Asian countries, going from the traditional dominators (South Korea, Hong Kong, Macao, Taiwan) to China, Pakistan and India — which was one of the most interested parts in the abolition of the present system — and, to a lesser extent, to some other Asian countries. CEECs, on the contrary, have enjoyed preferential treatment both with respect to DT and OPT, but while in this latter regime they have consolidated their already large share of exports into the European market, they do not seem to have been able to exploit the new opportunities assured by the Europe Agreements in the DT.

The UR seems to have closed a 30-year experience of discriminatory quantitative restrictions notwithstanding the GATT in the T&C. The ATC, closed at that time, provides for the return of textile international trade to a normal situation by 2005, the GATT integration being completed for that time.

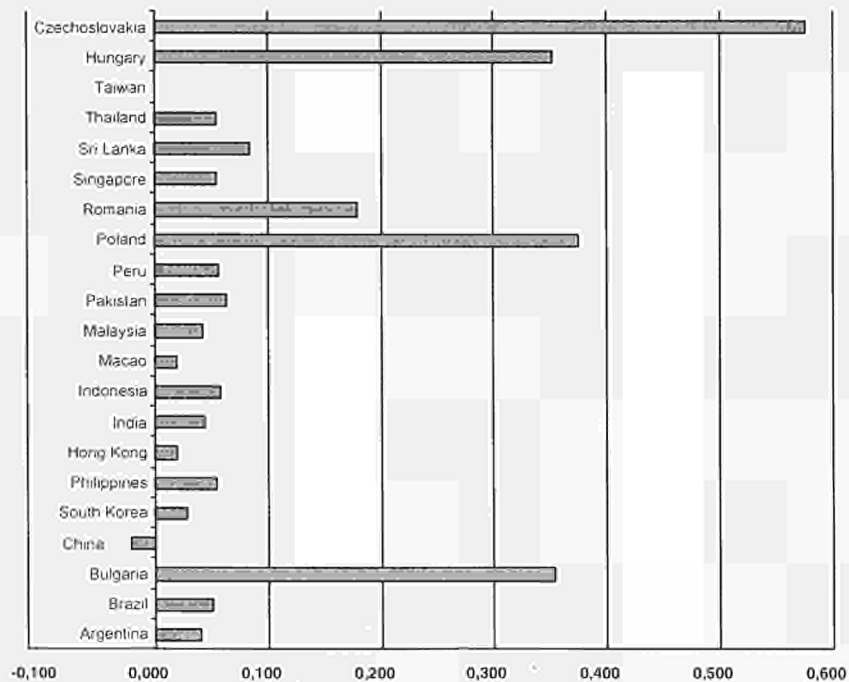
LDCs are worried by the fact that the implementation of the first step of the integration process confirmed that the ICs, used to postponing the adjustment, hoard the products whose integration would represent a real liberalization, i.e. the most sensible and

Figure 3: Yearly average growth rates in bilateral agreements (1988-93)



Source: Authors calculations with EU data.

Figure 4: Yearly average growth rates in bilateral agreements (1991-93)



Source: Authors calculations with EU data.

protected goods, especially for the penultimate and ultimate terms of the phase-integration. At that time, there will be the risk of strong pressures from the industry on its own government so that it protects the national employment by restricting low-cost imports; with the present worldwide employment crisis, this can cause a surviving of the quantitative system. Actually, sometimes, industry's worries on employment seem less sincere than they want to appear, since, in order to survive in a context of high wages, it has delocalized — as we have seen — part of the production with the OPT, reducing national employment. Notwithstanding, it is undoubtedly that the scenario just outlined is the most probable one.

What really emerged as clear from negotiations and permitted the impasse on the dispute on the quota bilaterality/globality to be overcome was the awareness of the importance of the integration process parameters in relation to the nature of quotas. Together with the distribution in time and the share of textiles to be integrated in every step of the process, the most important part is played by the quota growth rates. In fact, the danger of the accumulation of the most sensible restricted categories for the last steps seems to be less if the width of the growth in quota volumes has already decreased their binding.

For ATC participants, there exist, according to Article 2, exact increase percentages for the growth rates fixed in the bilateral agreements; percentages growing with the proceeding of the integration process. Their effectiveness in loosening the restrictiveness of the agreements depends, obviously, on the agreed growth rates (see Table 2). This does not seem to be too encouraging in the light of the results of our analysis, where it emerges that high growth rates are followed by low utilization rates, while, in the cases of strict restrictions, growth rates are low — above all in the most important international trade categories — if not negative, when the counterpart by-law allows because it does not yet belong to GATT, as Taiwan or China (see Figures 3 and 4 for a comparison in the yearly average quota growth rates).

After having verified that the EU and, more generally, the ICs tend to frustrate the gradualness of the essential points of the integration process and that the growth rates seem not to be able to dampen the tensions concerning the third step, we believe that the destiny of the textile and clothing industry will mainly lie in the international events of the next years until the abolition of the special regime. Both the world economic situation, above all in its influence on the textile demand and on EU employment, and, as always in textile history, the position of the United States in this matter will play a crucial role.

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