

THE SUB-SAHARAN AFRICAN TEXTILE INDUSTRY POST-ATC: EARLY INDICATIONS AND SOME SPECULATIONS¹

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1. INTRODUCTION

The textile industry has been vital in the industrialisation process of the developed countries and has likewise acted as sunrise industry in the development efforts of the Newly Industrialised Countries (NICs). It is also an important source of employment and foreign exchange in other developing countries, hoping to benefit from industrialisation and freer trade.

The question is, however, as Anderson (1994:83) put it: *“Will advanced industrial countries continue to make room for further generations of NICs seeking to export their way out of poverty?”*

To answer this question, it helps to look at history, i.e. what do we know about the responses of industrialised countries to increased competition? These responses can be placed into two broad categories:

- Attempts to facilitate restructuring in the textiles and clothing industry in industrialised countries, and
- Attempts to protect domestic textiles and clothing from foreign competition.³

The attempts by developed countries to protect their industries and the persistent efforts of developing countries to penetrate those markets, led to a regulatory framework for textile trade that has distorted and complicated world trade in textiles and clothing. The abolition of this framework has now released

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³ Some countries, of course, pursued both, making categorisation a question of degree.

forces of change, which could completely reshape the landscape of global textiles and clothing production. Section 2 reviews the evolution of this framework and the unintended consequences that eventually would lead to its demise, where after the implications of the new trade regime for textiles in SSA will be considered. Bearing in mind the nature of the textiles and clothing sector in SSA, we analyse other global trends in textiles, such as preferential access arrangements that offer opportunities for survival in the post-ATC world. Section 5 concludes the paper.

2. THE EVOLUTION OF THE PROTECTIONIST FRAMEWORK

2.1 *Early protection*

Although attempts at protection have a very long history,⁴ these attempts gained in determination in the period between the First and Second World Wars, when the then leaders in textiles (Britain and America) perceived their industries to be under threat from Japanese competition. Other developing economies to a lesser extent also posed a threat to the leaders. In 1932 Britain instituted protective measures against Japanese exports into her markets. Other countries followed suit and by 1936, there were quantitative restrictions on Japanese exports in 40 out of 106 markets (GATT, 1984, quoted in Dickerson, 1995: 321).

The Second World War gave British and American textiles a respite from the competition emanating from Japan, but the latter's rapid recovery after the war soon had the protective hackles up again in the US. In addition, increased competition from the NICs (for example, Hong Kong and South Korea) spurred the American Cotton Manufacturing Institute into action. They commenced earnest efforts to limit textile imports (Dickerson, 1995:322).

However, when Japan became a member of the General Agreement on Tariffs and Trade (GATT) in 1955, the Voluntary Export Restraints (VERs) ran contrary to the GATT principle of non-discrimination and Japan could retaliate. After

⁴ The attempt by the British Parliament in the late 1600s to protect the young English textile industry by prohibiting Indian cloth imports is one of the earliest records of textile trade regulation (Dickerson, 1995:319).

persuading Japan to accept another VER in 1957, the United States in 1959 proposed that the protective measures⁵ that until then had been *ad hoc*, be made more formal. The result was the Short-term Arrangement (STA), which lasted from October 1961 to September 1962 (Meyanathan, 1994:8; Dickerson, 1995:329).

The STA covered only cotton textiles, but was, like its successor, the Long-term Arrangement (LTA), a very important departure from GATT rules. It meant that textiles and apparel would be the only sectors to have their own trade regime. The LTA remained in force for 11 years (Dickerson, 1995:330).

2.2 *The Multi-fibre Arrangement, counterpoint to the GATT*

The diverse *ad hoc* and bilateral arrangements to restrict developing countries' exports into the industrialised countries, primarily the US and the EU,⁶ were systematised and extended under the first Multi-fibre Arrangement (MFA), which came into effect in 1974 (Meyanathan, 1994). The language of the first MFA seemed benign enough. The basic objective of the MFA was "...to achieve the expansion of trade, the reduction of barriers to such trade and the progressive *liberalisation* of world trade in textile products, while at the same time ensuring the orderly and *equitable* development of this trade and the avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries." (Article 1, paragraph 2, quoted in Meyanathan, 1994:9, emphasis added). The history of the MFA discussed below shows that it was neither an instrument of liberalisation, nor of equitable development of trade in textiles and clothing.

The MFA set the general rules, while the quotas and export volumes were negotiated under bilateral agreements. The rules allowed for flexibility in that some swing (switching between product categories), carry-forward (advance use of following years' quotas) and carry-over (use of quotas not utilised in previous

⁵ While the US made use of VERs, Britain tried to restrict cotton textile product imports 'voluntarily' under the Lancashire Pact and the other European nations used a variety of measures under Article XII of the GATT (Dickerson, 1995:326).

⁶ At this stage still the European Economic Community, but we use the term European Union throughout, providing clarifications where confusion from such use may arise.

years) were permitted (Meyanathan, 1994:9). It was under the bilateral negotiations, however, that the import-restraining countries turned on the screws and hardly any flexibility remained in the bilateral agreements. The consecutive renewal of the MFA became both more restrictive and extended its terms to cover an ever wider range of textile products beyond cotton textiles. Renewals in the 1970s and 1980s came against the background of deepening industrial crises in the industrialised countries. The industrialised countries were facing increasing job losses, loss of market share domestically and internationally and increasing costs. In addition, given the generally poor economic conditions (first and second oil shocks and their consequences) investment levels in the industry were falling and profitability of many firms was poor (Underhill, 1998:3). Textile producers in developed countries complained of 'unfair' competition from low-cost developing countries. In France, *employers* protested in the streets against 'cheap imports' (Underhill, 1998:243). As a result, the governments of the import-restraining countries were under pressure to tighten protective measures; and tighten them they did.

Referring to the first two MFAs, Raffaelli (1990:60) concludes: “ *...in both textile Arrangements the notion of comparative advantage was ignored, and competitiveness became something ‘threatening’: low cost (Incidentally a much used term that does not appear in the MFA) is implied to be the result of disreputable manoeuvres, such as paying slave wages, receiving hidden subsidies, and so on.*” (Emphasis added).

Two particular ‘innovations’ to allow further restrictions stand out.⁷ The first was the introduction of the idea of ‘cumulative market disruption’, which permitted import-restraining countries to limit even the imports from small suppliers, provided aggregate import levels had reached a specified ceiling. The second was the clause on ‘agreed reasonable departures’ from MFA I. This permitted the reduction of import levels below those agreed upon earlier (Meyanathan, 1994:9). The Protocol for MFA III, which came into effect in January 1982, did away with this ‘reasonable departures’ altogether and added an ‘anti-surge’ provision to restrict export growth of a product whose quota had

⁷ Underhill (1998) and Raffaelli (1990) give a fascinating account of the interplay and collaboration between governments and industry associations to achieve this result.

not been utilised. One restrictive instrument was thus simply substituted for another. Upon the third renewal of the MFA (MFA IV), the United States insisted that all natural products be incorporated under the MFA, and imports from major suppliers be fixed to make room for increased imports from poorer developing countries. The flexibility provisions referred to above were made more restrictive (Meyanathan, 1994: 9). Thus, when the protocol for MFA IV was signed, the protectionist groups in the developed countries seemed firmly in the driving seat. After considering the impact of the MFA, we will examine the factors that led to the agreement to return textiles and clothing to the fold of GATT principles.

2.2.1 *The consequences of the MFA*

Much has been written about the consequences of the MFA (See for example, Dicken, 1987; Meyanathan, 1994, Dickerson, 1995; Raffaelli, 1990; Hamilton, 1990; Trella and Whalley, 1990; and Martin and Suphacalasai, 1990 for extensive accounts).

As early as the beginning of the 1980s the immense effects of the MFA were evident:

“The MFA has become the key to trade flows of textiles and apparel and has had a particularly significant impact on the growth of textile and clothing exports from the NICs. The data show a marked slowing in the growth of clothing exports from developing countries, principally the NICs, after the MFA came into effect in the mid-1970s. From 1963 to 1976, the real growth in exports of clothing was about 21% per annum, whereas real growth from 1976 to 1978 was about 5% per annum. The impact of the MFA is unmistakable, since 1976-78 was a period of general economic recovery...” (McMullen, 1982: 91, quoted in Dicken, 1987:249).

The MFA had to a certain extent made life more difficult for producers in developed countries in that:

- It encouraged production in developing countries, which before the introduction of the MFA had virtually no textile and clothing industry. As producers in search of unused quotas and lower production costs settled in these countries, new competitors for the industrialised countries were born.
- It led to diversification into manufactured fibre (MMF) products, in direct competition with developed-country producers who had found competitiveness in this branch of the industry. The MFA initially covered cotton, so to escape the limitations on cotton exports, developing-country producers turned to other products, including manufactured fibres. Countries such as China, South Korea and Taiwan invested heavily in MMF production capacity.
- The reduction of imports from restrained exporters were replaced by imports from developed countries and developing countries with whom they had preferential trade agreements, such as the Mediterranean countries for Europe and the Caribbean for the US. The United States for example, was a major beneficiary of the restrictions on the NICs in the EU market. The US increased its volume of textile exports to the EU by 64 % between 1977 and 1979, while its exports of clothing grew by an impressive 90 % during the same period (Dicken, 1987:250).
- It encouraged the development of supply-chains between developed and developing country producers, undermining the interests of developed country firms who would not, or could not adopt this strategy. In the US for example, the result of outsourcing provisions (re-imports under special legislation) made up only 5% of the textiles and clothing imports in 1987. By 1997 these imports had increased more than fivefold (Levinsohn and Petropoulos, 2002:7).
- It prevented much-needed structural adjustment in the developed-country textile and clothing industries. The United States and France are prime examples of instances where the necessary restructuring to regain competitiveness did not take place to a satisfactory extent (Underhill, 1998).

2.3 *The MFA and the Uruguay Round of GATT negotiations*

By 1986, at the launch of the Uruguay Round of GATT negotiations, the capture of the global textile and garment trade regime by protectionist groupings seemed as unbending as ever. This was evident in the fact that the US initially refused point blank to have the MFA put on the agenda for the Uruguay Round negotiations and the EU put it on the agenda with a myriad of provisos (Faini, et al, 1997:109)

However, some changes had been brewing, which eventually moved the entrenched interests in the developed countries to accede to what became known as the Agreement on Textiles and Clothing (ATC) under GATT auspices. These changes and their impact on the negotiations are discussed in the next sub-section.

2.3.1 *The changing landscape of textile trade, inertia and the role of institutions*

The changes to the global textile and clothing trade landscape included:

- Increased use of Outward Processing Trade (OPT) instruments by firms in developed countries; the result being that much of the import competition was generated by domestic firms and their activities abroad (Firms from Holland, Germany, and Belgium were the first to use this strategy; the US, France and Italy followed later).
- Firms involved in OPT found their quota access for certain categories of products into their home markets inadequate and thus felt constrained by the MFA (German firms in particular had this problem, but some American ones were in the same boat, too).
- A new export mix from LDCs and NICs, including products made from fibres other than cotton and products with higher value-added (Dickerson, 1995:431).

- ‘Quota-hopping’, creating more producer countries, who then as members of GATT gave the developing-countries more bargaining power (e.g. as part of the International Textile and Clothing Bureau).
- The desire of some developed country governments to use the MFA as leverage to wring market access from developing-country negotiators. This made them amenable to eventually agree to the dismantling of the MFA, when it was way past its peak of usefulness for the textile and garment interests in developed countries (Underhill, 1998:243).

Despite this reality on the ground, the institutions⁸ in developed countries continued to lobby for protection and their governments assumed a protectionist stance at the GATT negotiations. It was only after about three years into the GATT negotiations that their attitude started to soften. But, textiles (in particular ramie) still stopped the clock on the last day of negotiations.⁹ Underhill (1995: 95) calls the reluctance of the developed-country institutions to adapt a form of inertia:

" the dynamics of demand and international trade called for change and adaptation; organisational ineptitude and the traditional practices of firms resulted in inertia."

Dickerson (1995) concurs with this view.

While the developed-country institutions thus seemed unable to look beyond calls for protection, the developing countries, however, had their own

⁸ The French industry associations — the Union des Industries Textiles (UIT) for textiles and the Union des Industries de l'Habillement (UIH) — were already during the successive rounds of renegotiating the MFA renewals very successful in winning the French government over to their cause. This expertise they employed successfully to capture the EU trade policy on textiles through their dominance of the European textile organisations (COMITEXIL and the Association Européenne des Industries de l'Habillement). In the United States the American Textile Manufacturers Institute (ATMI) and the American Apparel Manufacturers Association were powerful lobbying organisations, sponsoring several pieces of protectionist legislation even during the Uruguay Round of negotiations (Underhill, 1998:197-230). The Apparel association in the US gradually became less enthusiastic about maintaining restrictions under the MFA, but the textile association was unrelenting until the very last day of GATT negotiations.

⁹ When the deadline for the conclusion of negotiations arrive, the staff at the WTO (previously GATT) headquarters in Geneva stop the clock at one minute before midnight and the negotiations continue until an agreement is reached. When this is achieved, the clocks are started again. On the last day of the Uruguay Round negotiations, the United States representatives, at the behest of fibre producers in the US, insisted on additional fibre coverage under the new agreement. This position was fiercely opposed by China and India, for whom ramie had become an important fibre (Dickerson, 1995:343).

institution acting on their behalf at the negotiations. While much has been made of the role of the Cairns group in advancing the interests of developing countries, the efforts of the International Textile and Clothing Bureau (ITCB) had received much less attention. But, it is worth noting that the ITCB consists entirely of developing country representatives, which presented a united front during the negotiations (Underhill, 1998:226 and ITCB, 2002). This organisation was instrumental in resisting the developed countries' attempts at maintaining the MFA or to demand a phase-out period of 15 years instead of 10.¹⁰ When the Agreement on Textiles and Clothing was finally reached, the ITCB undertook to monitor the phasing out of the separate regime for textiles and clothing. At the time they believed that the biggest advantage of the Uruguay Round for the developing countries would come from the integration of textiles and clothing under GATT rules (ITCB, 1999:1).

2.3.2 *The ATC: a victory for liberalisation?*

The Agreement on Textiles and Clothing (ATC), which came into effect on 1 January 1995, and expired on 31 December 2004, rests on six pillars. The first pertains to the products covered under the agreement, the definitions of which are set out in an Annex to the ATC. The second pillar involves the integration of the sector into GATT, which is to take place in four steps over ten years. On the 1st of January 1995 each party had to integrate into GATT products from the list in the ATC, which accounted for not less than 16% of its imports in 1990. This means quotas on these products need to be removed and trade in these products be governed by GATT rules. At the beginning of phase two (1 January 1998) products, which accounted for not less than 17% of 1990 imports had to be integrated and on 1 January 2002, a further 18% had to be integrated. The rest (49%) would be integrated in the last phase (by 1 January 2005). The process is thus heavily back-loaded in that almost 50% of the integration is left to the very last phase. At every stage products should be chosen from each of the following categories: tops and yarns, fabrics, made-up textile products and clothing.

¹⁰ Although the GATT negotiations dragged out so long that, counting from the end of MFA IV (1991) to the end of the Agreement on Textiles and Clothing (31 December 2004), they almost had their 15 years (Underhill, 1998:243)

For products remaining under quota restraints, progressive liberalisation is required. For the first phase, the annual growth rate (enlarging the quota) should not be less than 16% higher than the rate applicable under the previous MFA. For phase two the annual growth rates should be 25% higher than the rates in stage one, while for phase three it should be 27% higher than the phase two rates. This is the third pillar.

The fourth pillar is the recognition that some members maintain non-MFA restraints on imports that do not comply with GATT provisions. Such restrictions should be adapted to GATT rules within a year of the commencement of the ATC or be phased out by 1 January 2005.

The fifth pillar is the provision of a transitional safeguard mechanism to deal with further surges in imports causing serious damage or threatening to do damage to the domestic industry. This allows the importing country to impose temporary restrictions on specific exporting countries, provided it can prove damage as a result of increases in imports from all sources and a sharp and substantial increase from the country against whom they want to impose restrictions. The safeguard measures can be implemented either by mutual agreement following negotiations, or even unilaterally. Such restrictions are subject to review by the Textile Monitoring Body (TMB). The TMB supervises the implementation of the ATC and reports to the Council on Trade in Goods of the WTO, which reviews the implementation of the Agreement before each new step of the integration process.

The ATC makes provision for special treatment for certain categories of countries, such as least-developed countries, cotton-producing countries, small suppliers and new market entrants. It further contains rules and procedures concerning circumvention of quotas, through for example, transshipment, rerouting, false declaration of origin or fraud with respect to official documents. The agreement also established the principle that members should make provision for continuous autonomous industrial adjustment and increased competition in their markets.

At the time of the agreement, at least two points of concern had been raised regarding the first two pillars. First, since import-restraining countries are free to choose the products for integration, they could select from ‘a list of all products under restraint anywhere in the textile and clothing trading system, whether imported by that country or not, or indeed whether a threat to the domestic industry or not.’ *“It was fully possible to ‘liberalise’ imported products a country did not even produce or trade and had never restrained or intended to restrain, depending on how the list was manipulated.”* (Underhill, 1998: 242, emphasis in original). Secondly, the developing countries could not help but be sceptical about the developed countries’ commitment to fulfil the requirements for full integration in the last stage.

The comprehensive report of the TMB (2001) for the review of the ATC implementation process by the Council on Trade in Goods, revealed some interesting developments, which the mouthpiece for the developing countries, the ITCB, was quick to seize as justification for their scepticism. First, it was clear that although the minimum percentages to be integrated had been achieved¹¹, little attention was paid to the implicit encouragement in the ATC to accelerate the process of integration (Table 1).

The figures indicate a preference for integrating less value-added products, with clothing not quite reaching a share of 5% for any of the members. If we further look at the percentage that the freed products make up of the total imports under restraint in the two largest members (the EU and the US), it could be inferred that very little really meaningful phase out of quotas has so far occurred (Table 3.13). According to the ITCB, eight years into the agreement, very few quotas have been eliminated, leaving the bulk until the end of the last phase: 701 out of 758 in the US, 167 out of 219 in the EU and 239 out of 295 for Canada. If the quotas applicable to China and Chinese Taipei, who have only recently become members of the WTO, are added, the picture looks even

¹¹ The EU had to re-evaluate and correct its programme for first stage integration following a complaint by Colombia to the TMB that the programme included certain products not eligible for integration, implying that the exclusion of these products will result in the EU’s integration programme accounting for less than 16% of the total volume of 1990 imports. The TMB essentially concurred with Colombia’s view (TMB, 2000:16-17).

bleaker: 851 out of 932 in the US, 222 out of 303 in the EU and 292 out of 368 in Canada (ITCB, 2002:3).

TABLE 1: INTEGRATION PROGRAMMES: FIRST SEVEN YEARS OF TRANSITION PERIOD OF ATC (As percentage of 1990 import volumes)

WTO member	Yarns	Fabrics	Made-up textiles	Clothing	Total
USA	16.46	4.15	8.73	3.90	33.24
EU	16.04	9.47	5.27	2.53	33.31
Canada	10.26	6.43	15.50	2.78	34.98
Norway	10.10	14.26	14.66	4.32	43.34

Source: ITCB, 1999:6 (Based on TMB notifications)

TABLE 2: RESTRAINED TRADE FREED OF QUOTAS (As % of imports)

YEAR	EU		USA	
	In volume	In value	In volume	In value
1995	4.74	4.28	6.23	6.40
1996	4.92	4.34	6.03	6.14
1997	4.77	4.18	6.00	6.12

Source: ITCB, 1999:8

On the positive side, both Canada and Norway have made progress beyond the minimum requirements for integration. Norway, in fact, has lifted all quotas that it imposed under the MFA as of 1 January 2001 (TMB, 2000:2).

In their submissions to the Council on Trade in Goods, dealing with the implementation issues under the Doha Round, developing countries voiced their concerns regarding a number of instances where they believe the developed countries' behaviour was not in line with the letter and spirit of the ATC. One concern is about the use of the special safeguard measure to introduce new restrictions.

The special transitional safeguard mechanism was invoked on 24 occasions in 1995 by the US, eight times in 1996 (7 times by Brazil and once by the US), twice by the US in 1997 and nine times by Colombia and once by the US in 1998 (WTO, 2003). Since 2000 the use of these measures had declined. On several occasions

members have simply ignored a ruling by the TMB to rescind a restriction imposed under the transitional safeguard provisions (The USA and Colombia were the most prominent cases). This forces the exporting countries to request a review panel at the WTO Dispute Settlement Body (TMB, 2002:71). Even in cases where the TMB or on appeal the WTO's Appellate Body found that the new restrictions were unjustified, the damage to exporting countries have been substantial. In the event that an import-restraining member requests a consultation with the view to using the special safeguard measure, the exporting country is already disadvantaged in that it has to seize exports of the particular product until the consultations are concluded¹². Thus, whether the safeguard mechanism is eventually applied or not, the exporting country stands to lose.

Developing countries are also concerned that importing countries will be using anti-dumping duties on a massive scale after quotas have been eliminated. The recent WTO Dispute Settlement Body's ruling against India regarding their complaint against the EU anti-dumping duties on Indian bed linen is considered a decisive indicator of things to come for developing-country exporters (Textile Topics, 2002:14). The Foreign Trade Association (based in Belgium) in its submission for the WTO Ministerial Conference (2002) underlines the fact that the number of anti-dumping cases has risen sharply over the last few years. Anti-dumping seems to be viewed as an acceptable way to protect domestic industries in the face of reduced tariffs and disappearing quotas. An increasing number of former targets of this policy (e.g. Mexico, India, Argentina and Egypt) now also embraces this view of anti-dumping measures as a 'tool for all seasons', joining the US and the EU in their use of this instrument for protection against 'undesired' imports (Foreign Trade Association, 2002:3).

The developing countries also assert that import-restraining countries have eliminated restrictions on non-WTO members (e.g. Russia), while maintaining them on WTO members. They further allege that countries under import restraints have benefited relatively little from healthy growth in demand in developed countries. To support their argument, the ITCB (2003a:1-7) has

¹² During the first implementation stage, the TMB received notification of 33 requests for consultations (26 from the US and 7 from Brazil), while the number was down to 29 in the second stage (TMB, 2002).

shown that between 1990 and 1994 imports of textiles and clothing from preferential suppliers¹³ into the EU 15 market has grown by 12.63%, slowing to 7.51% between 1994 and 2001. For restrained suppliers¹⁴ however, growth has been much more subdued: 6.10% between 1990 and 1994 and 3.30% between 1994 and 2001. Imports of textiles only from preferential suppliers grew at a slower rate (5.44%) but picked up to 9.81% since the implementation of the ATC between 1994 and 2001. For restrained suppliers EU 15 textile imports grew by 5.46% in the first period, slowing to 4.34% between 1994 and 2001. During the same periods intra-EU imports of textiles declined by 2.83% and 0.27% respectively. For the United States the picture is different. While its imports of textiles from the world market grew by 9.40% between 1990 and 1994 and 6.97% between 1994 and 2001, the most significant growth was in imports under specific arrangements (CBI¹⁵ and NAFTA): 18.95% and 13.74% respectively. In contrast, imports from restrained suppliers¹⁶ grew by 9.94% between 1990 and 1994, then slowed down to 7.21% between 1994 and 2001 (ITCB, 2003b:1-7).

With respect to the special provisions in the ATC for small suppliers, there is some dispute over the interpretation of the requirement that the small suppliers be advantaged by the advancement of one stage of the growth rates for products remaining under constraints applicable to other members (see page 29 for details). The EU interpreted this to mean that in the first stage, the pre-ATC quota growth rate should be increased by 16% + 25%, whereas Canada and the US ignored the cumulation and simply substituted the second stage growth factor for the initial one, i.e. instead of 16+25% they simply used 25% (ITCB, 2002:5). The latter resulted in lesser access for small suppliers in the US and Canada. As

¹³ Preferential suppliers include 10 exporters: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak, Malta, Morocco, Tunisia and Turkey (ITCB, 2003a: 7).

¹⁴ Suppliers whose imports are restrained by the EU include 16 exporters: Argentina, Brazil, China, Chinese Taipei, Hong Kong (China), India, Indonesia, Korea (Rep.), Macao (China), Malaysia, Pakistan, Peru, Philippines, Singapore, Thailand and Vietnam (ITCB, 2003a: 7).

¹⁵ The Caribbean Basin Initiative includes 25 exporters: Anguilla, Antigua, Aruba, Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Rep., El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitt-Nevis, St. Lucia, St. Vincent/Grenadines, Trinidad and Tobago (ITCB, 2003b: 7).

¹⁶ Restrained exporters into the United States include 45 exporters: Bahrain, Bangladesh, Brazil, Bulgaria, China, Chinese Taipei, Colombia, Costa Rica, Czech Republic, Dominican Republic, Egypt, El Salvador, Fiji, Guatemala, Haiti, Hong Kong (China), India, Indonesia, Jamaica, Kenya, Korea (Rep.), Kuwait, Macao (China), Malaysia, Mauritius, Oman, Pakistan, Philippines, Poland, Qatar, Romania, Singapore, Slovak, Sri Lanka, Thailand, Turkey, U.A. Emirates, Uruguay, Myanmar, Cambodia, Laos, Macedonia, Nepal and Ukraine (ITCB, 2003b:7).

far as provisions in favour of least-developed and cotton-producing exporting countries are concerned, the US and Canada stand accused of completely ignoring the provisions for least developed countries, while all three remaining restraining members apparently ignored the provisions for cotton exporting members (ITCB, 2002:3). In addition, the US changed its rules of origin for textiles and clothing effective from July 1996. The result was that the coverage of cotton made-up articles was enlarged, e.g. products with as little as 16% cotton by weight are now classified as cotton products. This change had widespread disruptive effects on trade, also detrimental to the EU¹⁷ (ITCB, 2002:3).

With reference to the dismantling of the MFA, Underhill (1998:344) concluded:

“ Globalisation was here to stay, for a good while anyway. At the end the MFA had few real friends in the Round and few look back today.”

2.4. THE END OF THE ATC AND THE RETURN TO PROTECTIONIST MEASURES

With hindsight and taking into account the progress with implementation, and the repeated calls for increased protection from developed-country institutions, one is tempted to conclude that Underhill’s conviction of the demise of what the MFA stood for was premature.

2.4.1. Winners and losers

Who will emerge as winners and losers in the aftermath of the end of the quota regime, will depend largely on the preparations made during the ten year phase-in of the ATC, the use of opportunities offered by a freer market in T&C and various preferential access arrangements with large importing countries. Studies¹⁸ to estimate the impact of the implementation of the ATC

¹⁷ Because of the change in the rules of origin based on the definition of 'cotton', products that previously did not face import restrictions were now classified as cotton and subject to trade restrictions (ITCB, 2002:3).

¹⁸ Studies based on the Global Trade Analysis Project (GTAP) model ought to be interpreted with caution. Although such studies are useful, several shortcomings have been pointed out: estimates of gains vary widely, depending on the underlying assumptions, some measure only static gains and not dynamic gains, too; some models over-estimate the size of quota-rents, etc (UNCTAD, 2004:7; Nordås, 2004:).

found welfare gains for both developed and developing countries (Although models used were specified slightly differently).

The gains would, however, be distributed unevenly. China, India, and to a lesser extent, Bangladesh, Pakistan, Vietnam and Sri Lanka are identified as the most likely winners, while countries that did not face import restrictions, and or had preferential access into the US and EU markets are the most likely losers (Nordås, 2004; Nathan and Associates, 2002; UNCTAD, 2004).

2.4.2. Return to protectionism

Barely five months after the abolition of quotas, the United States announced that they would avail themselves of the safeguard measures provided for under China's accession to the WTO agreement to re-impose quotas. They offered a surge in Chinese imports in certain textiles and garment categories as justification (Borak, 2005:1). Currently, the US is negotiating with Chinese authorities to formulate a more comprehensive agreement on textiles and clothing exports to the US, in order to avoid further conflict and uncertainty (Borak, 2005:1).

Concurrently, textiles and clothing producers in the EU were lobbying for the use of the safeguard measures on the same grounds. The EU negotiated what amounts to a 'voluntary export restraint' agreement with China in order to limit the latter's exports of specific categories. China, however, found a loophole in this agreement, which resulted in large shipments of Chinese textiles and clothing being blocked by the EU. These two parties are now also in talks to resolve the matter (Borak, 2005:1-2). In the meantime, China expects that other importing countries, including developing countries, will invoke the special safeguard measures and anti-dumping procedures against Chinese imports (People's Daily online, 13 August, 2005).

Of all the textiles and clothing producing regions in the world, Sub-Saharan Africa is probably the most vulnerable to increased competition following the

end of quotas (Lande, et al, 2005: 5). Next, we consider SSA and the challenges its textiles and clothing sectors are facing.

3. TEXTILES IN SUB-SAHARAN AFRICA

3.1. An overview

The share of SSA in global textile and garment production and trade is relatively small, but a closer look at individual countries reveal a nuanced picture, in that some countries rely heavily on the cultivation and export of raw cotton, while others such as Tanzania, Nigeria, Kenya, Zimbabwe, Namibia, South Africa and Mauritius have textile production capabilities, and the latter two, together with Lesotho and Madagascar are active garment exporters (Hyvärinen, 2004: 2).

Textiles and clothing production operations in SSA are further plagued by low productivity, high production costs (such as energy, communication and transport costs), relatively small scale plants, poor infrastructure, inefficient bureaucracies and high tariffs, which prevent vertical integration into a raw material-yarn-fabric-garment pipeline across borders (USTR, 2005: 15). Below, we discuss trends in textiles and clothing that could offer opportunities for SSA producers to face the challenge brought about by the abolition of quotas. It is important to note that these trends in themselves could be challenging, especially since they occur simultaneously.

4. TRENDS IN TEXTILES: SOME SPECULATIONS ON OPPORTUNITIES FOR SUB-SAHARAN AFRICA

4.1 Proliferation of regional and bilateral trade agreements

The proliferation of regional blocs, bilateral free trade agreements and preferential access treaties¹⁹ threatens to undermine the multilateral trade

¹⁹ Examples abound: the United States have concluded or is in the process of negotiating a large number of free trade agreements (with South Korea, Vietnam, the Southern African Customs Union, several Central American countries, Taiwan, etc.), while the EU has recently concluded a free trade agreement with Pakistan,

regime under the WTO. It further makes for a very complicated trade administration system with differentiated duty structures and rules of origin requirements. This, of course, adds to administration costs in the importing and exporting countries and imposes extra compliance costs on firms. From the exporting firm's point of view this becomes another trade barrier.

On the other hand, the increased market access may allow for better utilisation of resources and specialisation in textile producing countries. One such form of market access, the Africa Growth and Opportunity Act (AGOA)²⁰ is seen as a timely lifeline to Sub-Saharan African (SSA) countries. AGOA is not a negotiated trade agreement, but rather like a gift with strings attached. AGOA is part of the American Trade Development Bill (2000)²¹. It gives preferential access²² to exporters of specified goods from eligible countries. To be eligible countries must meet a comprehensive list of conditions. Rules of origin requirements, especially for clothing, are quite stringent. Whilst AGOA offers a welcome opportunity for SSA countries to accelerate economic growth through exports, some commentators argue that the benefits would have been so much more substantial if the terms of market access were less restrictive. Mattoo, et al (2002:3), for example, estimated that the benefits from AGOA could have been in the region of US\$0.54 billion of additional non-oil exports, rather than the expected US\$100-\$140 million in the presence of the restrictions. The restrictions referred to are the triple transformation (or 'yarn-forward') rule, which is more stringent than the MFA rules of origin, and the exclusion of certain items. Textiles, for example, benefits only indirectly through garment exports.

AGOA also foresees the creation of reciprocal Free Trade Agreements with SSA countries. Negotiations to form the first of these between the US and the Southern African Customs Union (SACU) commenced in 2003.

several North African countries and Canada's free trade agreement with Costa Rica is viewed as one of the most generous as far as textiles is concerned (Alden, 2003; Emerging Textiles, 23 October 2002 and 14 November 2002).

²⁰ AGOA and other trade agreements of particular importance to Southern Africa are discussed in more detail in Chapters 4 and 5.

²¹ AGOA has since been extended until 2015 and the special allowance for LDCs to use third-country fabric will only expire in 2007. Mauritius has also been granted least developed country status for a year (USTR, 2005:iv).

²² It offers quota and tariff-free access to specified products from eligible SSA countries until 2008. Only Mauritius and Kenya were under MFA quota restrictions. There are currently 38 eligible countries (Just Style, 2003: January 7).

Another offer of preferential access for less developed countries came from the EU in the form of the Everything-but-Arms initiative, which came into effect on 5 March 2001. It allows for duty-free access to the EU market for the 49 poorest countries, excluding weapons and certain sensitive agricultural products. The latter is a temporary barrier that should fall away for bananas in 2006 and sugar and rice in 2009 (Casadio, 2001).

Better market access, however, will not be SSA's salvation if the producers in the region are not able to improve production capacity, quality and delivery performance. Utilisation of duty-and quota free access into the EU market for example shows that Sub-Saharan African producers were not able to benefit greatly from such access (Hyvärinen, 2004:1).

4.2 Consumer tastes and preferences

If we consider that roughly two-thirds of the world's population live in developing countries where per capita income levels are such that the demand for commodity type products in the textiles for apparel market is likely to be at worst steady, there is scope for low-cost producers in developing countries to grow their textile and clothing industries. However, in the higher end of the market, Europe, North America and Japan will still substantially hold comparative advantage in products that offer specialised characteristics, high performance and quality. In addition, producers in these regions still have the leading role in innovation, customer service, flexibility, infrastructure, investment capabilities and the synergy derived from integrated markets such as the EU (Gatti and Vittori, 2002). Having said that, it should be noted that some first-tier NICs, such as Taiwan are restructuring and shifting resources to the higher end of the market. For example, after investing in updated equipment, Taiwanese producers started selling more sophisticated yarns, also entering the technical textiles market. Exports of high filament counts and blended textured yarns are gaining relatively more significant shares of total sales (Textile Trade News, 2002).

Since Sub-Saharan African producers are not currently able to face competition from China and other low-cost developing countries in terms of scale and costs, it is imperative that they put plans in place to diversify their output, concentrating on factors that would differentiate their offerings from run-of-the-mill mass-produced items. Paying attention to market segments with particular tastes and preferences (such as ecological and social responsibility values) in importing countries might be an option.

4.3 *Ecological and social responsibility concerns*

Consumers have also become more aware of environmental damage that could flow from textile production and demand not only good quality products but also environmentally safe products. In answer, clean production systems, recycling, ISO 14000 and eco-labelling have become important means of distinguishing one firm's products from another and this presents an extra edge in the market for early compliers. Consumer safety is also a major concern, for example avoiding textile finishes that may cause allergies. Some developed-country producers complain that they have to comply with stringent environmental requirements (e.g. EU legislation), yet imported products do not necessarily comply with these norms and are sold for less (Sala, 2001).

Although ISO 9000 and 14 000 certification had not been *as important* in developing countries as in industrialised countries, it is becoming much more so for firms exporting to developed-country markets.

Social standards (e.g. SA 8000) represent an issue that was left unresolved at the Uruguay Round of negotiations and that developed countries will certainly want on the agenda for the Doha round. From the developed country perspective, adherence to stringent social standards amount to an additional cost to firms, which they aver firms in developing countries do not have to incur. Developing countries worry that adoption of uniform WTO rules regarding social standards will hand the developed countries another potential non-tariff trade barrier.

Although SSA might not be able to pay attention to social responsibility concerns in the short to medium term, environmentally friendly cultivation of raw materials, such as organic cotton, and clean production methods, such as

recycling and waste minimisation in textiles, might give them an edge in developed country markets.

4.4 *Technological innovation and diffusion*

Whereas technological innovation was the salvation of the textile industry in industrialised countries, developing countries are at a disadvantage in the sense that they have many impediments to the acquisition and diffusion of appropriate technologies in textiles. Some of these problems are investment capabilities, inappropriate plant size and degree of integration of operations, education and skills, poor productivity and maintenance of equipment, wasteful use of inputs, especially energy, and lack of management and marketing skills.

The NICs and some other developing countries, however, have been upgrading their technology for years, as evidenced by the textile machinery shipments published by the International Textile Manufacturers' Federation (2001). For spinning machinery, by far the largest percentage for cotton spinning went to Asia, with India the largest investor (874 000 units), followed by China (612 000 units), Pakistan (476 000 units), and Bangladesh (394 000 units). Western Europe increased investment in wool spinning equipment by 84% (over 2000 figures), with Italy by far the largest investor. Asia's (especially China) investment in wool spinning machinery grew by 34%. The largest shipments of texturing, weaving and knitting machinery also went to Asia, with Western Europe receiving the second largest.

For SSA producers, however, some possibilities to improve production and trade capabilities exist. Almost every preferential trade agreement, such as AGOA and the EU initiative come with provisions for capacity building assistance. Assistance is also available from institutions such as the World Bank and the United Nations Conference on trade and development. Using such opportunities more extensively could assist SSA producers in improving capacities at the firm level, but also improve infrastructure and marketing efforts.

4.5 *Product innovation and market diversification*

Not all textile output is destined for apparel production; in fact only between 33 and 48% of textile output goes into apparel production. This end of the market is, furthermore, very crowded. It would thus make sense to consider other market segments for the output of textile manufacturers.

The application of textiles in spheres of life other than apparel has become an important growth area. Technical textiles have applications in, for example, home textiles, automotive textiles, new applications of non-wovens, geo-textiles and engineering, aviation, and medical fields (Planck, 1999:87). In biomedical engineering, for example, textiles are used in the operation theatre as protective clothing, patient covering or implants. As implantable materials, textiles have been used in several fields (see Planck, 1999:87). Technical textiles provide an avenue of escape from the decline in the traditional textile sector in industrialised countries. Very few industrialised countries have managed to remain competitive in this sector, but the technical textiles sector has been booming. As little as five years ago, the size of the sector was only about 9.3 billion tonnes (valued at US\$60 billion). Forecasters in the industry now predict that it will be worth US\$150 billion (24.4 billion tonnes) by 2005, roughly a quarter of the global textile market (International Journal of Clothing Science and Technology, 2002).

4.6 *Radical innovations in supply and distribution systems*

With the world becoming truly more integrated and textiles more internationalised, the trend is towards more integrated pipelines or supply chains, incorporating all players from fibre producers to end users. Retailers have in the last decades become much more powerful and have been applying a form of 'lean retailing' with the aid of ICT. Retailers require that producers be able to respond quickly (within days, at worst weeks) to re-orders and slight design changes. The implication for textile and clothing producers is that more of the risk e.g. of carrying stock (especially in fashion goods) is shifted back to them. For firms in developed and developing countries being in an appropriate

supply chain and managing relationships and information flows in the chain becomes a strategic matter. Studies on the impact of the end of the MFA, have emphasised the advantage of being in a supply chain, especially with the aim of supplying into the markets of the large retailers. It is argued that suppliers, who are not in such a chain, could easily be marginalised as buyers are spoilt for choice (Lande, et al, 2005: 24-25).

4.7 Labour: skills, productivity and costs

Most industrialised countries have a comparative disadvantage as far as labour costs are concerned, but they hold, by and large, the upper-hand in terms of labour productivity. Yet, they are experiencing shortages of skilled labour to use with their sophisticated technology and in R & D. Indications are that they will have to invest in drawing a new generation of labour from their own labour force, or source skilled labour internationally. A study by the OECD (2002:8) shows that international migration of skilled workers is on the increase as international competition for skills intensifies and industries become more knowledge-intensive.

The downside, at least in the short-term²³ for developing countries is that they will experience a 'brain drain' as skilled labour (already a scarce factor) leaves for greener pastures in developed countries. As developing countries acquire more advanced technologies they will have to invest more of their limited resources in education and training to improve productivity and quality.

If SSA producers are to improve their performance, implement new technology and diversify what they offer on the export market, they will have to invest in skills acquisition, including management skills (USTR, 2005:15).

4.8 The trade regime

Textile producers in developed and developing countries fear that textiles and clothing would once again be a bargaining chip at the Doha Round of WTO trade

²³ On the supposition that eventually workers return to the home country with more knowledge and experience.

negotiations, currently under way in Geneva. This fear is of course, fuelled by experiences in the past:

“ The importance of textiles and clothing as a basis for today’s newly industrialising and less industrialised countries, together with their continued, though much diminished importance in the older industrialised economies, have made these industries into an international football.” (Dicken 1987:222).

The developed countries want opening up of third-country markets, i.e. reciprocity. The United States, for example, is proposing that all trade restrictions on manufactured products be eliminated by 2015. This proposal has united some developing countries (notably India) and textile producers in developed countries in their resistance to completely free trade in textiles, especially given their fear of China, discussed above.

Within SSA cotton producers²⁴ have participated actively in the Doha Round and have managed to secure an agreement on cotton in July 2004. Cotton was initially not a specific item on the agenda for negotiations, but their efforts resulted in an undertaking to address cotton issues "ambitiously, expeditiously, and specifically" within the framework of agricultural negotiations (USTR, 2005: 26).

It is safe to say that the outcome of the Doha Round trade negotiations will, at least from the developing country point of view, depend crucially on how the matter of quotas post-ATC and further liberalisation of textile trade are handled.

5. SUMMARY AND CONCLUSION

The purpose of this paper was firstly, to give an account of the regime that regulated trade in textiles and clothing for more than four decades, and secondly, to consider the impact of the end of this system on textile producers in various regions, but specifically SSA. An attempt was further made to link the

²⁴ Benin, Burkina Faso, Mali and Chad (USTR, 2005: 25).

possibilities for survival of textiles in SSA to other trends in global textiles, which in themselves offer challenges, but also opportunities. It was argued that, given the nature of the textile industry in SSA, it would not be possible to face competition from China and other low-cost producers in the crowded lower end of the market for apparel inputs head on. It was suggested that SSA use the availability of new technologies, integrated supply chains and market access to differentiate their export offerings, also into non-traditional textiles, such as technical textiles.

In summary, the changing competitive environment in the post-ATC era will see some producers thrive, and others struggle and possibly disappear. None of this, however, is inevitable: it depends crucially on the willingness and ability of individuals in firms, governments, and institutions to act with competence and vigour.

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