

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## DRAFT REPORT OF THE WORKING GROUP ON ADJUSTMENT MEASURES

### Introduction

1. At its meeting in December 1979, the Textiles Committee decided that a Working Group be requested to carry out a detailed examination of adjustment measures with reference to the objectives as set out in paragraph 4 of Article 1 of the Arrangement<sup>1</sup>, and to present a report thereon to the Committee for its meeting to be held in July 1980. It was further agreed that the Working Group of the Textiles Committee would be open to all participating countries (see COM.TEX/15, paragraphs 78 and 84).

2. The Working Group established a Technical Sub-Group to obtain and examine relevant information.<sup>2</sup> On 13 March 1980, the Sub-Group sent out two airgrams setting out points on which information was sought: the first, GATT/AIR/1611, requesting information on adjustment measures relevant to Article 1:4 of the MFA; the second, GATT/AIR/1612, seeking information on production, trade and developments in the textiles and clothing sector as required by Article 10:2 of the Arrangement.<sup>3</sup>

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<sup>1</sup> Paragraph 4 of Article 1 reads as follows: "Actions taken under this Arrangement shall not interrupt or discourage the autonomous industrial adjustment processes of participating countries. Furthermore, actions taken under this Arrangement should be accompanied by the pursuit of appropriate economic and social policies, in a manner consistent with national laws and systems, required by changes in the pattern of trade in textiles and in the comparative advantage of participating countries, which policies would encourage businesses which are less competitive internationally to move progressively into more viable lines of production or into other sectors of the economy and provide increased access to their markets for textile products from developing countries".

<sup>2</sup> The following members participated in the work of the Sub-Group: Brazil, Canada, Colombia, Egypt, the EEC and member States, Finland, Hong Kong, India, Indonesia, Japan, Malaysia, Pakistan, Peru, Switzerland, Sweden and the United States.

<sup>3</sup> See Annex 2 to COM.TEX/21.

3. The initial report of the Working Group, which was drawn up on the basis of the information thus collected, was sent to the Textiles Committee in July 1980 (COM.TEX/16). Paragraphs 15, 16 and 17 of that report contain certain substantive observations by the Working Group in the light of the information available. Paragraphs 18 and 19 set out various points on which the Group felt further information would be required, and also note the need for information from those participants who had not at that time replied to the Working Group's request.

4. At its July meeting the Textiles Committee agreed that the Working Group and Sub-Group should continue their work with a view to supplementing and carrying forward the analysis and evaluation of the information contained in COM.TEX/16.

5. The additional information provided by participating countries, as well as data provided by governments to the secretariat in the context of the regular reporting scheme for textiles and clothing<sup>1</sup>, were incorporated in a revised summary (COM.TEX/16/Rev.1) which was submitted by the Working Group, together with a progress report (COM.TEX/18), to the Textiles Committee in October 1980. The progress report notes that while the Working Group had made some progress towards developing a more definitive report, this was not sufficient for it to submit a new substantive contribution to the Textiles Committee. In its report, (COM.TEX/19), the Textiles Committee endorsed the Working Group's recommendation, set out in its progress report, that the Working Group and the Sub-Group be empowered to continue their efforts with the objective of presenting the Group's report to the Textiles Committee in early 1981.

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<sup>1</sup> COM.TEX/W/76 to 78

6. Following the October meeting, and in the light of informal consultations with members of the Sub-Group, it was decided to complete the information contained in COM.TEX/16, and Addenda, and Rev.1, by seeking clarification of specific elements or additional information which was lacking in previous submissions. In this connexion, the secretariat addressed specific questions to individual developed countries.<sup>1/</sup> Developing countries were also contacted with a view to seeking supplementary information on plans for expansion and development of the industry. Additional information was also received from three countries which had not previously supplied any.
7. All the information collected is summarized in document COM.TEX/21<sup>2/</sup>, which has been completed by a section on market access prepared by the secretariat in consultation with delegations and based on documents prepared by the Textiles Surveillance Body for the major reviews in 1976 and 1980 (COM.TEX/SB/196 and 610).
8. The present report is based on the information summarized in COM.TEX/21. The Working Group notes and welcomes the substantial additional information which has been made available by governments since the October meeting of the Textiles Committee and incorporated in this document. The Group also notes that even though there may be gaps in this information, the data contained in COM.TEX/21 represent all that governments felt themselves in a position to make available at the present time.

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<sup>1</sup>The questions addressed informally to the countries concerned are available in the secretariat for consultation by interested delegations.

<sup>2</sup>Original submissions are contained in COM.TEX/16 and Addenda 1-11. Submissions have been received from all participating countries except Bolivia, Czechoslovakia, Dominican Republic, El Salvador, Ghana, Haiti, Jamaica, the Philippines, Romania, Thailand and Trinidad and Tobago.

9. The Working Group has carried out its examination of adjustment policies and measures in the context of the objectives of Article 1:4, taking into account relevant information on trends in production, employment, investment and trade in both developed and developing countries, as well as available material on market access and the evolution of restrictions since the coming into force of the MFA.

Trends in production, employment, investment, trade etc.

10. In developed countries, in line with the pronounced slowing down of total consumer expenditure, consumption of textiles and clothing generally increased in real terms since 1973, though sluggishly and unevenly. Production in developed countries, taken together, after having declined in 1974 and 1975, recovered in some of the following years practically regaining in 1979 its previous peak of 1973. There were, however, considerable variations among sectors and countries.

11. Employment in textiles and clothing generally declined in the developed countries between 1973 and 1979, at a rate which was steepest in the recession year 1975; thereafter the rate of decline was in several cases less pronounced. Associated with the declines in employment there were productivity gains in nearly all developed countries resulting, inter alia, from technological innovation. The annual flow of investment appears to have generally declined during this period. However, the capital stock, especially if related to the number of persons employed, increased in most industrial countries.

12. In developing countries, consumption of textiles and clothing expanded at a considerably higher rate than in the developed areas between 1973 and 1979. Production of both textiles and clothing continued to rise in most developing

countries throughout this period, largely as a result of the increase in consumption in many of these countries. In most developing countries for which data are available, employment also showed a rising trend after 1973. These trends were however not uniform for all developing countries.

13. In dollar value terms global imports into developed countries of textiles and clothing showed a strong rise between 1973 and 1979. The share of developing member countries in the value of the developed member countries' total imports of textiles and clothing, after having risen between 1973 and 1975, and even accelerating in 1976, declined in each of the three subsequent years, while the share of developed countries, of developing non-members and of the Eastern trading area increased. Similarly, there was a break in 1977 in the hitherto rising trend of clothing imports as a proportion of total imports of textiles and clothing by developed countries. There were considerable variations from one country to another.

14. Developed countries were at the same time importers and exporters of both textiles and clothing, but the net trade position varied greatly between sectors and countries. For textiles some developed countries were net exporters, while others were net importers and over the period their trade balances showed no uniform trend. For clothing all developed countries, with one exception, were net importers and over the period their import surpluses have been growing.

15. In most developing countries net exports of clothing increased between 1973 and 1979. Among these countries some were at the same time substantial, and growing, net importers of textiles.

Evolution of restrictions and market access

16. From information on the evolution of restrictions the Working Group noted that all developed countries with the exception of Japan and Switzerland, apply restraints under the MFA on imports from a number of developing countries; the Working Group also noted that with one exception similar restrictions were not applied by developed countries on their mutual trade in textiles and clothing, though other forms of restrictions had been applied. These countries already had certain restrictions on such imports at the commencement of the Arrangement; some of these were terminated, some were brought under the MFA umbrella, while certain new restraints were also introduced.

17. The Working Group also noted that during the extended period of the MFA, on the whole there had been an expansion in the product coverage as well as in the number of developing countries subject to restraints. In the case of certain countries some of the restraints on textile items had been terminated, while those on clothing had been intensified. Some developed countries which had previously selective agreements had now more comprehensive ones. Under the extended MFA, the EEC had negotiated comprehensive agreements covering the complete range of MFA products. The agreements negotiated by Sweden covered all clothing and made-up items. Other participants had continued more or less the previous structure of their agreements, i.e. comprehensive in the case of the United States; selective in the case of Austria, Canada and Finland. On the whole, it appears that there are more restraints in existence now as compared with the first period of the MFA.

18. Growth and flexibility provisions had generally been lower during MFA II as compared with MFA I, while base levels were generally higher than past trade or restraint levels. However, in some cases there were reductions in base levels and, hence, in net access.

19. At the same time, in their submissions, Austria and Finland had noted that a number of quantitative restrictions applied by them have been progressively terminated over the last few years. Canada had stated that the replacement of GATT Article XIX global quotas on certain textile and clothing items by bilateral agreements concluded with developing countries meant that fewer items and imports from fewer sources among developing countries were now under restraint. Finland had stated that imports (in terms of dollar value) of some of the items under restraint had increased faster than total imports of textiles and clothing. In its submission, the United States stated that imports of apparel from developing countries had increased by per cent during the period 1973-1979 within the network of negotiated quotas, while restraints on textiles had been progressively reduced.

#### Adjustment and market access

20. Developed countries provided information with respect to the autonomous adjustment that has taken place in the textile and clothing industries. The information provided indicated that this adjustment had taken the form of changes in production structures, technological innovation, development of new marketing techniques, specialization in terms of fashion and new end-uses, educational and training programmes, development of exports, etc. In general, while employment in developed countries had declined, productivity had increased through new investment, and improvements in machinery and equipment. Changes had also been reported in the size and number of firms.

21. Governments also provided information on a wide range of policies and measures adopted by them relating to adjustment, from which the textile and clothing industry may benefit. Some of these measures were applicable to industry in general, some had been adopted in pursuance of regional development programmes or schemes of assistance for smaller firms, while in some countries adjustment policies and measures had also been developed specifically in relation to certain sectors or segments of the textiles and clothing industries. In certain countries all of these three kinds of policies or measures had coexisted.

22. Government adjustment policies varied considerably among MFA participants. Whilst most countries stated that it was the industry itself which has had the basic responsibility for making the necessary adjustments, in some countries government intervention was more substantial than in others. These measures of intervention also vary considerably in scope, nature and intent.

23. It was generally noted that the nature, pace and extent of adjustment processes that had taken place had been influenced by the trading environment and framework put into place by the MFA. The view was expressed by developing countries that since adjustment had taken place against the background of the MFA and the restraints established thereunder, such adjustment could not result in structural changes that fully reflected the comparative advantage of participating countries. It was also stated by developing countries that neither the autonomous adjustments made, nor the measures adopted by governments, had been undertaken with the objective of providing increased access for developing countries, or had produced this

result. These members believed that among the obligations set out under Article 1:4 was the duty to facilitate adjustment with a view to increasing such access. In their view, the majority of specific measures were by way of relief and assistance to industry with a view to rendering them more competitive and represented short-term responses to social and political pressures without due regard to the viability of specific sectors or segments, or the competitiveness of the assisted firms. They held that these measures were not in consonance with Article 1:4 as they actually or potentially had the effect of interrupting the adjustment process which would lead to greater access. The kind of adjustment which was needed to fulfil the provisions of Article 1:4 and to achieve an appropriate balance of rights and obligations under the MFA had not thus been achieved. It was necessary to proceed with trade liberalization in order that appropriate autonomous processes on adjustment could take place.

24. Developed countries stated that the process of industrial adjustment in the textile and clothing sector as it related to trade could not be divorced from the broader process of adjustment in their countries. The objectives of the adjustment process were to be seen, firstly, in terms of the continuing development of a competitive and efficient industrial structure and, secondly, in terms of a range of more specific social and political goals. They recalled that the provisions of Article 1:4 were to be applied in a manner consistent with the national laws and systems. Some developed countries stressed their rights under the MFA to safeguard their minimum viable production. The developed countries believed that the autonomous adjustment processes undertaken by the industry, and the supporting policies

and measures pursued by governments were serving to eliminate low value-added products and phase out non-viable units and thus were in accord with their responsibilities under Article 1:4. The changing structure of the industrial production patterns in these countries and the expansion of the textile industry in some developing countries showed that adjustment as required by the MFA was taking place.

25. The Group as a whole was unable to establish any specific causal relationships between adjustment measures and policies adopted by governments and changes in production, trade and market access. It was noted that the reporting countries themselves had not been able to do so, in part at least because of the difficulty in obtaining data.

26. Developing countries pointed out that in terms of Article 1:4 adjustment measures and policies had to be assessed against the increased access to developed countries' markets for textile products from developing countries. In their view, the information on market access provided to the Working Group revealed that there was no significant liberalization of trade in textiles and clothing products during the period 1973-1979. On the contrary, in some developed countries market access had been further restricted by restricting new entrants and small suppliers. The absence of such liberalization was evidence of the failure of developed countries to carry out adjustment envisaged by Article 1:4. It was recalled that over the same period a number of developing countries had taken measures to liberalize trade in textiles and clothing.

27. According to developed countries, while governments and enterprises might apply measures to achieve better adaptation of production to changes in external and domestic market conditions, it was not possible for them to ensure that the specific measures applied actually serve to achieve certain predetermined objectives in the direction of change in volume and patterns of imports, or with respect to market access. The difficulty in establishing cause and effect relationships had arisen also from the nature of the information which, in a large measure, dealt with qualitative rather than quantitative aspects, and with variables which were interdependent. They felt that developments in trade, as well as changes in access, should be considered when assessing the effects of adjustment measures and policies. They stated that the fact that the rate of growth of imports had been in excess of that of domestic consumption illustrated that adjustment had taken place. There had been a significant fall in the rate of growth in textile and clothing consumption. This, in their view, made the problem more difficult, whether from the point of view of adjustment or of restrictive measures.

28. Developing countries, while stressing that Article 1:4 referred to access, recalled that in major markets during MFA II imports from developing member countries expanded at a lower rate than imports from developed, developing non-members and Eastern trading countries. The information that has been supplied and the lack of information with respect to the nature of some of the measures adopted and their effects indicate that governments had not been sufficiently conscious of the objectives set out in Article 1:4 of the MFA, and that there was a need for pursuing these objectives more purposefully in the future.

29. The Working Group has been unable to go beyond the views recorded above in the examination carried out by it of adjustment measures with reference to the objectives set out in Article 1:4 of the MFA. There is, at the same time, broad agreement in the Group on the need to continue monitoring of adjustment policies and measures and of the process of autonomous adjustment so that the extent to which the provisions of Article 1:4 were being met can be kept under review. The Group accordingly suggests for the consideration of the Textiles Committee that governments be requested to co-operate in keeping the information in COM.TEX/21 as complete and up to date as possible so that the Textiles Committee is in a position to assess the situation periodically.