

## READY MADE GARMENTS

## - New US Global Quota Plan a Setback for Asian Developing Countries

Ready-made garments and textile exports now account for over one quarter of the country's merchandise export earnings and had even overtaken tea exports by 1986. The significance of garment exports in recent years may be observed from the fact that (despite the high import content) earnings from this export item in 1972 brought in only Rs 7 million; in 1975 Rs 25 million, and by 1978 it had reached nearly Rs 500 million; but by 1982 earnings had shot up to Rs 3,500 million and by 1984 export earnings had nearly doubled from the 1982 figure reaching Rs 7,500 million; and by 1986 earnings topped Rs 9,600 million. In terms of percentage of total exports: in 1972 ready made garments provided only 0.4 per cent of Sri Lanka's total export earnings, in 1980 it reached 10 per cent, in 1982 it was 16 per cent and in 1984 it went up to 20 per cent; but in 1986 it was a record 28 per cent. The importance of garments exports in Sri Lanka's foreign exchange earnings is apparent from these trends, but exports in Sri Lanka's fastest growing market, namely, USA, which takes over 70 percent of the country's exports, now seem to be threatened.

Ever since the developing countries moved towards the strategy based on export oriented industrialization these countries have faced the constraints of protectionism. This protectionism has been adopted particularly by the Developed Market Economy countries on which the exporter developing countries must depend for the markets for their manufactures. Perhaps the most offensive measure of protectionism operated by the buyer countries is the quota system, which has been increasingly strengthened in recent years.

The apparel products industries in

which the developing countries have comparative advantages, with their cheap labour and other inputs, have become pivotal to their economic growth. The income generated from exports of these products has helped considerably to alleviate the foreign exchange shortages these countries have been persistently facing, while helping to generate an unprecedented volume of employment.

Apparel products exports to a large extent are governed by the Multi Fibre Arrangement and bilateral agreements reached under this international agreement in terms of which most of the exporting countries are granted export quotas. Thus, the quota holding countries (provided their prices and products are of acceptable standard) could enjoy a guaranteed market. Supply sources have been spread out to a level where all the participating countries could benefit, although these countries are not content about the volume of quotas and the annual growth rates permitted.

Some importer countries such as Australia operate a global quota system, whereby the importers within the country are allowed a definite portion of the quota under each product variety to be imported from any source. This system does not encourage any obligation to particular countries. If the buyers find that they benefit they may concentrate on a fewer number of countries as buying sources or they may spread their buying among a large number of countries. It does not differentiate between the countries at a high level of industrialization, and those either at the middle or the lower level.

Under the country quota system, the country differences are taken into consideration and this has given countries with nascent industries and struggling to grow, an opportunity to build

up their exports. The United States, the largest individual importer of apparel products, hitherto operated on the country quota system, safeguarding a large number of low-level industrialized countries against the high level industrialized countries. Even under this country quota system American politics have played a considerable influencing role, and now with political pressures building up the US is planning to turn towards a global quota system, which could create a setback for the exporting countries trailing behind the newly industrialised countries (NICS).

The US President, who attempted to soften the country's antiprotectionist policies has been regularly pressurized by the labour movement and domestic industrialists to cut down the influx of cheap goods from the developing countries. The President in all such instances has expressed his reservations since he advocated free international trade as a means of strengthening the economy and conserving the value of the dollar. He has had successes from these policy operations with large flows of capital into the country despite continuous budget deficits and the US dollar has been able to maintain its position as a global reserve currency despite high interest rates.

The strengthening of the US dollar has been cited as one of the causes which led to the influx of a large volume of commodities from developing countries and which has been detrimental to the low efficiency industries within the US. The President has used his veto power, whenever the legislation has been passed, to include Acts that would hurt the international trade in apparel products. The Democratic majority of the legislature has brought in many limiting Acts such as those for operation of a "rule of country of origin", regulating of "social dumping" and operating of "trigger levels" and a "basket extractor mechanism".

Further new trade legislation has now been proposed in the US, and is being introduced with the support of

about one hundred co-sponsors which is expected to seek broad based import relief for U.S. textile interests by imposing global quotas. A new Bill, the "Textile and Apparel Trade Act of 1987", has been planned in such a way as to gain sufficient Congressional votes to over ride another expected Presidential Veto.

#### Textiles and Apparel Trade Act of 1987

The proposed legislation mandates that import growth in each category of textiles and textile products be held to no more than one per cent a year. The global quota would not mandate limits or restrictions on any individual country; instead specify the quota for each textile category for the calendar year 1986.

According to Butler Berrich the new Chairman of the 102-member US House of Representatives textile canvas and chief sponsor of the Bill "such legislation is needed to deal with the dramatic increase in the growth of U.S. textile imports during the last 10 years".

Derrick said that textile and apparel imports rose to an all-time high in 1986 - the sixth consecutive year of record import levels. Imports were up 17.2 per cent last year over 1985 levels and were more than double their 1980 level, he said.

If this Bill is passed, the M.F.A. which has hitherto been treated as the steering wheel of the global trade in textiles and apparel will be virtually nullified and no exporting country would have the same claims for exporting into this largest of world markets. Since the importing options would totally devolve on the domestic importers in the US they would have the option of buying all their requirements from NICS which are generally more competitive both in terms of price and quality than countries like Sri Lanka. Countries such as Sri Lanka, which are dependent on U.S. markets to the tune of approximately 70 percent of their markets of apparel products, may have to cut down drastically on these exports and even stop production and

face the adverse effects on employment and foreign exchange earnings.

On the whole this new legislation seems like a device to restrict exports of all the Asian developing countries irrespective of their high or low levels of development and exports. A look at the American attitude to apparel imports from the Caribbean countries supports this charge. It appears as if there were substitute Caribbean goods for Asian products.

The London "*Financial Times*" of January 15, 1987 has reported that a "Textile Revolution" has taken place in the Caribbean countries. This trend was occurring while exporters of the Asian region were struggling against low quotas and insignificant growth rates. It is clear that American investment has moved in significantly into the Caribbean countries and this capital and US interests must be safeguarded at any cost. Evidence of this situation may be seen in these extracts of a report which records the new US policy and attitude towards textile and apparel products imports from Caribbean countries.

"A virtual revolution is taking place in the Dominican Republic's garment industry as a result of market opportunities created by a new US imports policy. But the spectacular growth in shipments registered by the Republic and elsewhere in the Caribbean is making the US industry more than a little uneasy..... there were suggestions that the industry was the Caribbean's major source of supply in an attempt to slow what the Administration regards as excessive rates of growth in imports from the Far East.

The US has made it possible for the region, which in 1985 supplied 5 per cent of the country's garment imports, valued at \$ 590 mn, to increase its market share to what Caribbean trade officials suggest could be 12 percent by the middle of this year. Caribbean textile shipments to the US, between January and July of 1986, totalled 337 million square yards equivalent, 53.5 million more than during the corresponding period of 1985 and more than twice the average growth rates for all US imports.

#### Access Level

But the region has been making use of item 807 which allows the re-export of assembled garments and other products. Duty at low rates is charged only on the value added in the Caribbean.....a more recent facility is causing disquiet in the US industry. Caribbean states have been offered guaranteed access levels for garments assembled in the region from cloth made and cut in the US.....the Dominican Republic's shipments of garments to the US are worth \$ 200 m per year and that the country is now the 12th largest among 41 suppliers of man-made fabrics to the US and the 17th largest among 41 suppliers of cotton fabrics. The Dominican Republic, which has been attracting investors from the US and the Far East, is expected to increase garment exports to the US by 50 per cent this year, bringing employment in the garment industry to 150,000.

Jamaica's growth has been even more spectacular....total earnings from garment exports for 1986 were \$ 85 mn as against \$ 54 mn in 1985. Significant expansion is also expected in Haiti, Costa Rica, Barbados, El Salvador and Honduras. According to the US Commerce Department, the basis of expansion was laid through investment by US companies of \$ 28 million in apparel assembly operations over the 18 month period before June 1985.....Jamaica was the first country to sign an agreement with the US Commerce Department. Over a 16-month period ending December 1987, the island will be able to ship to the US 2,575 million dozen brassiers and 3.59 million dozen shirts and trousers of cotton and man-made fibre, representing a 107.6 percent increase on previous shipments.

The US National Knitwear and Sportswear Association and the American Textile Manufacturers Institute are concerned about an explosion in imports of cheaply-produced Caribbean garments through agreements such as these. The American Apparel Manufacturers Association is advocating a reduction in imports from the Far East to prevent injury to US producers".

T.B.K.