

The Global Political Economy of Trade Protectionism and Liberalization

Trade reform and economic adjustment
in textiles and clothing

Tony Heron

ROUTLEDGE/RIPE STUDIES IN GLOBAL POLITICAL ECONOMY

The Global Political Economy of Trade Protectionism and Liberalization

Given the widely-accepted premise that free trade is the best means of maximizing overall societal welfare, why has it proven so difficult to achieve in certain industries? This book tackles arguably the most perennial and deep-rooted of all questions in political economy, and questions the incumbent orthodox liberal theories of collective action.

Using a historical institutionalist framework to explore and explain the political economy of trade protectionism and liberalization, this book is based on detailed case studies of the textiles and clothing sector in the EU, the United States, China, the Caribbean Basin and sub-Saharan Africa. From this, the book expands to discuss the origins of trade protectionism and examine the wider political effects of liberalization, offering insight into why a successful conclusion to the WTO 'Doha' Round has proven to be so elusive. The book argues that the regulation of global trade – and the economic consequences that this has for both developed and developing countries – has been the result of the particular way in which trade preferences are mediated through political institutions.

The Global Political Economy of Trade Protectionism and Liberalization will be of interest to those studying and researching international politics, development studies, economics and law.

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For Clare, Lucas and Jessie

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Tony Heron
Sheffield, UK
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Abbreviations

ACP	African, Caribbean and Pacific Group of States
ACTIF	African Cotton and Textile Industries Federation
AfT	Aid for Trade
AGOA	Africa Growth and Opportunity Act
ATC	Agreement on Textiles and Clothing
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
CAFTA	Central America Free Trade Agreement
CARICOM	Caribbean Community and Common Market
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CBTPA	Caribbean Basin Trade Partnership Act
CCP	(EU) Common Commercial Policy
CEEC	Central and Eastern European countries
DDA	Doha Development Agenda
DFQF	duty-free, quota-free
DSM	(WTO) dispute settlement mechanism
EBA	Everything But Arms
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
EEC	European Economic Community
EIEA	Export Industry Encouragement Act (Jamaica)
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
EPZ	export processing zone
EU	European Union
FDI	foreign direct investment

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GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNI	gross national income
GSP	Generalised System of Preferences
GTAP	Global Trade Analysis Project
HST	hegemonic stability theory
HTS	(US) Harmonized Tariff Schedule
ICTSD	International Centre for Trade and Sustainable Development
ILO	International Labour Organization
IMF	International Monetary Fund
IPE	International Political Economy
ISI	import-substitution industrialization
ITCB	International Textiles and Clothing Bureau
ITO	International Trade Organization
LDBC	(AGOA) Lesser Developed Beneficiary Country
LDC	least developed country
LTA	Long Term Arrangement Regarding International Trade in Cotton Textiles
MFA	Multi Fibre Arrangement
MFN	most favoured nation
NAFTA	North American Free Trade Agreement
NAMA	non-agricultural market access
NIDL	The New International Division of Labour
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPT	outward processing trade
OTEXA	(US) Office of Textiles and Apparel
PWC	post-Washington Consensus
SAP	Special Access Programme
SDT	special and differential treatment
SEA	Single European Act
SSA	sub-Saharan Africa
STA	Short Term Arrangement Regarding International Trade in Cotton Textiles
SYE	standard yard equivalent
T&C	textiles and clothing
TNC	transnational corporation

TSUS	Tariff Schedule of the United States
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
USAID	United States Agency for International Development
USITC	United States International Trade Commission
USTR	United States Trade Representative
WTO	World Trade Organization

1 Introduction

1 January 2005 was meant to be one of the most momentous dates since the creation of the General Agreement on Tariffs and Trade (GATT) in 1947 – perhaps more so than even the establishment of the World Trade Organization (WTO) in 1995. It was on this date that the Multi Fibre Arrangement (MFA), the protectionist trade regime governing textiles and clothing (T&C) that had become a byword for the hypocrisy and double standards beneath the advocacy by rich countries of the virtues of free trade, officially came to an end. The liberalization of T&C had been agreed to as part of the 1993 Uruguay Round, whereafter the MFA was dismantled in four progressive but unequal stages culminating in the removal of the most sensitive quotas on 31 December 2004. But the story did not end there. In fact within a few months of the abolition of the MFA both the USA and the European Union (EU) had introduced new trade restrictions against Chinese imports. Although these measures were justified on the grounds of offering a ‘temporary’ transition period so as to allow producers affected adversely by liberalization further time to adjust to freer trade – precisely the same rationale used to justify the original MFA – what this effectively meant, for China at least, was that the MFA was being extended for a further three years. More to the point, these new trade restrictions appeared to contravene the basic principles of the new multilateral order. In other words, although the Uruguay Round formally brought an ‘end to a special and discriminatory regime that has lasted for more than 40 years’ and created the WTO wherein T&C would be ‘governed by the general rules and disciplines embodied in the

2 Introduction

multilateral trading system' (Panitchpakdi 2004), the sector still appeared to be something of a law unto itself. It is this uniqueness that this book seeks to trace and to explain.

The textiles and clothing sector

In many ways, T&C can be regarded as the quintessential 'global' industry, constituting the most geographically dispersed forms of manufacturing across both developed and developing countries (Dicken 2003; Dickerson 1999). The industry is made up of a number of distinct economic activities, each with its own specific technological and structural characteristics, ranging from the supply of raw materials and intermediate inputs at one end of the supply chain to the transformation of these inputs into end-use products and their eventual distribution and retail at the other end (see Figure 1.1).

Although the 'upstream' segment of the T&C chain is now generally characterized by high levels of technological innovation and capital intensification, in the 'downstream' clothing segment of the chain – the main focus of the book – the impact of technological innovation, especially in sewing and assembly stages of production that account for approximately 90 per cent of labour costs, has been minimal. As a consequence, the clothing industry's association with low-cost barriers to entry and labour-intensive employment remains synonymous with 'sweatshop' employment practices, global outsourcing and trade conflict between rich and poor countries.

Theoretical speaking, T&C has arguably been at the forefront of two of the most important debates in International Political Economy (IPE) in the last 30 years. The first of these centred on the 'new international division of labour' first proclaimed by Folker Fröbel *et al.* in 1980. While this idea predated the globalization debate by a number of years, it nonetheless offered a precursor to precisely the sorts of concerns that would come to dominate IPE from the late 1980s onwards. In *The New International Division of Labour* (NIDL), Fröbel and his colleagues identified a qualitative shift in the nature of the political economy of North-South relations, away from an 'old' international division of labour wherein developing countries were restricted mainly