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An Evaluation of the Main Elements in the Leading Proposals to Phase Out the Multi-Fibre Arrangement

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Two approaches took the lead in the negotiations to dismantle the Multi-Fibre Arrangement (MFA): (1) a phaseout within the framework of the MFA, proposed by developing countries, the EC, Japan, and the Nordic countries, and (2) a new transitional structure relying on global quotas with country allotments for current quota holders, suggested by the United States and Canada.

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This paper — a product of the International Trade Division, International Economics Department — is part of a larger effort in PRE to provide technical support to the developing countries in the Uruguay Round of Multilateral Trade Negotiations under the auspices of the GATT and to contribute to the analysis of substantial issues therein that pertain to the broad development objectives of the World Bank. Copies of this paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Grace Ilogon, room S8-038, extension 33732 (46 pages, including tables).

Under both scenarios, accelerated quota growth is the main device for phaseout. Country quotas, in the first approach, and global quotas in the second, will have to expand in such a way to avoid a "shock" when they are abolished at the end of the phaseout.

To negotiate a quota-growth scenario — whether this be in the framework of the MFA or through global quotas — the parties need points of departure, such as base-year quota levels or quota growth rates. The guideline in the MFA was a 6 percent annual quota growth. Developing countries consider this a concession obtained from industrial markets and request it as the minimum base-year quota growth rate.

In fact, there were large variations in quota growth across products and suppliers, as well as across markets, and on the whole quotas expanded at a significantly lower rate. For the phaseout, the negotiating parties may therefore consider allowing some differentiation in quota growth rates, particularly across product categories.

The second most important element in the phaseout proposals — beside expanding quotas and abolishing them at the end of the phaseout period — is scrapping them along the way according to some predetermined criteria and scheme. In the proposals, this is defined in terms of country characteristics (such as new entrants and least developed countries), specific products, product characteristics (such as type of fibers or degree of processing), or some criterion pertaining to the historical record, such as quota use.

The historical record reveals that growth in highly utilized (that is, filled and binding) quotas was significantly lower compared with unfilled quotas. Phaseout scenarios based on quota growth may have to take into consideration this distinction to achieve an effective relaxation. In this context, scrapping unfilled quotas in stages, depending on their use record, would hasten the dismantling of the MFA by allowing the concentration of efforts to deal with binding quotas.

An MFA-based phaseout is appealing to many developing countries because, in principle, the "acquired rights" of the exporters can be preserved. Not for long, however. When substantial quota expansions take place, as the quotas on efficient suppliers become redundant, quota holdings will be worthless. Interestingly enough, an accelerated quota growth not differentiated across suppliers, as suggested by the developing countries, would do exactly that.

There is one important virtue in a phaseout based on the current structure of the MFA. Not only are the mechanisms in place familiar to the negotiating parties, but so are the magnitudes of most of the parameters: current quota levels, quota growth rates over the last few years, and their use ratios. If this approach is adopted, however, the parties have to make a concerted effort to keep in mind that this is not an extension of the MFA, but its abolition.

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AN EVALUATION OF THE MAIN ELEMENTS IN THE LEADING PROPOSALS TO PHASE OUT THE MULTI-FIBRE ARRANGEMENT

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I. INTRODUCTION

The Multi-Fibre Arrangement (MFA) is a framework of "voluntary export restraints" regulating textile and clothing exports of most developing countries entering nearly all major industrial markets.[1] The main instruments of the MFA are bilaterally negotiated quotas in narrowly defined product categories. Although the first MFA was signed in 1974, its origins go back to 1937, when the US imposed restrictions on Japanese textiles under the guise of a "gentlemen's agreement". In the 1960s, similar but more encompassing arrangements on cotton textiles were concluded which were extended to include the major developing country suppliers.

The 1974 MFA was consequently extended three times, and currently covers products made of wool, silk, vegetable fibers and man-made fibers, as well as cotton (see, e.g., Goto's (1989) survey). More than half of all textile fibers, textiles and clothing imported from developing countries by industrial nations are subject to MFA quotas (see Erzan, Goto and Holmes (1990)). The MFA

** The views expressed in this note are those of the authors and do not necessarily reflect the views of the World Bank. In particular, the arguments and examples presented in the paper have no prejudice whatsoever as to the position of any country or territory or any grouping of such, or any other institution.

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[1] See Raffaelli (1990) for a complete list of developed and developing country signatories of the MFA, and bilateral restraint agreements concluded accordingly.

is one of the most comprehensive and discriminatory deformations of the international trading system: it discriminates against developing countries' most important manufactures in a selective manner, and it prescribes managed trade. While the MFA contradicts both the letter and the spirit of the GATT (General Agreement on Tariffs and Trade), the latter has until now endorsed this derogation.

The current MFA (MFA IV) is due to expire on July 31, 1991, seven months after the scheduled conclusion for the Uruguay Round of Multilateral Trade Negotiations under the auspices of the GATT. One of the factors which convinced the developing countries to take an active part in this round of negotiations, and which enabled the inclusion of new areas such as services in the negotiating agenda, was an agreement on finding ways to dismantle the MFA. The Punta del Este Declaration of September 1986 which formally launched the Uruguay Round stipulated that "[N]egotiations in the area of textiles and clothing shall aim to formulate modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines, thereby also contributing to the objective of further liberalization of trade."

In early 1989, the negotiations regarding modalities for integrating textiles and clothing into the GATT started. It was agreed in April that the MFA restrictions, and its rules and provisions which are inconsistent with the GATT should be phased out beginning in 1991, with the conclusion of the Round. Following a transitionary period, trade in textiles and clothing would be integrated into the GATT proper.[2] The Contracting Parties were asked to table their proposals to achieve this result, and since then a number of proposals have been circulated for discussion and eventually for negotiation. While we shall summarize these proposals, a conceptual typology is useful to discuss them.

Following Wolf (1990), various approaches in eliminating the MFA can be grouped into three broad categories: "i) liberalization within the framework of the MFA, ii) an immediate fall-back onto a revised GATT; and iii) hybrid schemes, such as tariff quotas and auctioned quotas, which modify the MFA, while still maintaining features of it" (p. 225). The proposals tabled by the developing countries, as well as the EC, the Nordic countries and Japan, fall largely into the first category, i.e., a phaseout within the framework of the MFA. A pure case is Sweden, which announced that it would terminate all its bilateral quotas when the current MFA expires in July 1991. The US and Canadian proposals, on the other hand, depict a new transitional structure mainly relying on global quotas. Although the numerous proposals contain many other elements concerning the complex provisions of the MFA, there is an increasing polarization around the MFA-based phaseout versus the global quota-based transitional structures. The conciliatory Swiss suggestion that each country can be allowed to choose its own way apparently has not reduced this polarization in the negotiations.

[2] The GATT-consistent instruments are tariffs with bound rates. Temporary measures are allowed only in exceptional and well-defined situations, and are subject to strict procedures.

A thorough evaluation of alternative approaches to returning textiles and clothing to normal GATT trading rules is found in articles by Bagchi, Raffaelli, Sampson and Takacs, and Wolf in a recent World Bank publication entitled Textiles Trade and the Developing Countries: Eliminating the MFA in the 1990s (Hamilton, ed., (1990)). The analyses in the volume cover almost all important conceptual aspects of the current phaseout proposals despite the fact that they were tabled at about the time of the book's publication.[3] The study concluded that "irreversibility, simplicity, flexibility and some degree of continuity is the formula for abolishing the MFA".

Besides giving a very brief account of recent phaseout proposals, the purpose of this paper is to investigate the main instruments and suggested parameters of the two leading approaches by exploring their implementation with actual data, with all the detail and practical problems that are involved. Under both scenarios, whether the MFA will be phased out within its current framework or there will be a new transitional structure with global quotas -- quotas would remain to be the central instrument. In the first case, country quotas, in the other case, global quotas will have to expand in such a way to avoid a "shock" when they are abolished at the end of the phaseout. According to the outstanding proposal on global quotas, current quota holders will have allotments during the phaseout period. Depending on the choice of base year quota levels, growth rates, etc., there will be losers and gainers in terms of these transitional quota allotments. By applying the proposals to actual data, this paper focuses

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[3] This is not a complete coincidence; the volume is the result of a workshop in June 1989 which brought together researchers, textile experts and negotiators.

on their modi operandi, raising some critical issues that must be addressed during the course of the negotiations.

The paper is organized in the following manner. Section II gives a brief account of the phaseout proposals tabled by developed and developing countries. In Section III, the historical MFA quota growth in the EC and the US is analyzed. Past quota growth is a key input for an agreement on any phaseout scenario based on transitionary quotas. Section IV depicts a phaseout within the framework of the MFA which relies on accelerated quota growth based on the historical record. Also considered is a stage-wise scrapping of underutilized quotas which would hasten the elimination of the restrictions. Section V deals with a phaseout based on global quotas along the lines of the US proposal. We investigated the immediate consequences of this proposed shift by applying it to the US market. Finally, Section VI underlines some of the critical issues the negotiators might have to address in their future consideration of the two leading proposals. We distinguish the differences between the way MFA-based versus global quota-based phaseouts would affect trade during the transition period. As important in determining the nature of the regime, however, are the parameters that would have to be agreed upon.

II. PHASEOUT PROPOSALS TABLED

The main elements of the proposals to phase out the MFA which were submitted to the Negotiating Group on Textiles and Clothing are summarized in this Section. Some of the earlier statements are omitted, and amendments to outstanding proposals are merged with the initial proposals. We ordered the presentation in the following manner: First we took up industrial country proposals, then those tabled by the developing countries; within each group we followed the chronological order of the submissions.

Industrial Country Proposals

In July 1989, the EC proposed that from August 1, 1991, existing MFA restrictions should be progressively and gradually eliminated in stages, contingent on strengthened GATT safeguard rules. However, it has been insistent that the phaseout should include a transitional safeguard mechanism against cases of market disruption which would allow emergency actions and bilaterally agreed selective quotas.[4] Accordingly, during an injury investigation, if a preliminary determination were made that a large increase in imports from a specific country was causing serious injury to domestic producers, consultations would be held within ten working days to reach bilateral agreement on the level of that country's exports to the EC. If agreement is not reached, the importer would be able to unilaterally impose a temporary quota on imports from that country.

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[4] "Selectivity" or discrimination in safeguards is a long standing request of the EC, not only in the context of the MFA. Wolf (1990) warns that "there is a danger that the price of liberalizing the MFA would be acceptance of some of its basic features within the GATT itself".

If injury were determined at the conclusion of the investigation, the two parties would enter into consultations, but the importer would be able to apply safeguard measures in the meantime. The resulting measures would be temporary, and remain in place for a certain number (as yet undetermined) of months. Least developed countries would be exempt from the transitional safeguard measures.

In June 1990, the EC submitted a communication further clarifying its position. The phaseout would take place in stages within the framework of the MFA. At each stage, a certain percent (to be yet decided) of the total volume of existing quotas would be abolished. The participants could choose to phase out quotas by type of fiber, type of product, by country, by "liberalization of certain types of trade," or a combination of these methods. Remaining quotas would be subject to escalating growth rates. Regarding transitional safeguards, the EC proposed that they should be based on a multilaterally agreed test for real risk or actual market disruption. The EC has not yet taken a position on the duration of the phaseout.

Finland, on behalf of Nordic countries, in December 1989, proposed using the current MFA regime and the existing quotas as a point of departure for the phaseout of the MFA; beginning on August 1, 1991 and ending no later than December 31, 1999. Components of the phaseout would include special safeguards for textiles and clothing; a faster phaseout for the least developed and small suppliers; immediate removal of aggregate quotas and quotas on items with no domestic production; immediate elimination of quotas that were less than 50 percent filled; and at an early stage, removal of the quotas on handloomed items, handicrafts, and children's clothing. The proposal envisaged an accelerated quota growth for the remaining products under restrictions. Proposed yearly growth rates for the eight year period were, consequently, 7, 8, 10, 12, 14, 16, 18 and 20 percent.

In February 1990, Japan proposed ending the MFA as it expires in July 1991, with the stipulation that any existing bilateral quotas could remain until the end of 1991. The transition of textile and clothing trade to GATT's general safeguards provisions should take no longer than 8 years (i.e., the end of 1999) through yearly liberalizations of the restrictions and by the imposition of more stringent transitional measures. The proposal suggested that quota levels should be determined by adopting the actual import or quota level as the base and multiplying it by a factor that increased each year. It also contained provisions for increased flexibility in enforcing the quotas.[5] As for transitional measures, the proposal envisaged the formation of a multilateral surveillance board, like the current GATT Textiles Surveillance Body. On a case-by-case basis, this board would authorize transitional measures, i.e., temporary quotas. As the phaseout proceeds, the board would make it more difficult to invoke transitional measures.

The United States tabled two alternative yet related proposals in February 1990, both based on global quotas for MFA product categories; envisaging a ten year phaseout. Nonetheless, the US noted that it was prepared "to

[5] The "flexibility" provisions of the MFA, i.e., "swing", "carry-over" and "carry-forward", allow use of unutilized portions of quotas across product categories and over time, within certain limits.

continue work in [the Negotiating Group on Textiles and Clothing] on a system extrapolated from the MFA, as suggested by many participants".

The US proposal comprised global quotas with a comprehensive volume limit for each MFA category. The total quantity for each item would then be divided between allocations for current quota holders, and a common basket for the rest of the world (excluding Canada and Israel which have free trade agreements with the US). The global basket would expand annually with a growth factor which would be differentiated according to the "sensitivity" of the product group. It was envisaged that there would only be a couple of sensitivity classes for all products; quotas on some categories deemed non-sensitive would be abolished. The base level of each global quota would be determined by the actual average US imports, plus some margin. Current MFA quota holders would be entitled to allocations within the global quotas. These would be based on each country's share in total imports, but limited to 15 percent of the global quota in each category. While exporters would continue to administer their own quota allocations, the global basket would be run by the importing country.

The original US proposal envisaged that the country allocations would shrink by 10 percent (of the initial base quota) annually, with this reduction transferred to the global basket. The scheme would result in having only a global basket at the end of the phaseout, with no country allocations. In a recent modification to its proposal, in May 1990, the US declared that the minimum exporter quota allocations would stay constant during the duration of the phaseout. Consequently, the global basket would grow more slowly than originally envisaged. The recent communique explicitly stated that the "country minimum guarantees would be fully tradeable among exporting countries."

The initial US proposal of February 1990 also contained an alternative approach relying on global tariff-quotas. However, this was described in a sketchy manner and has not been articulated since.[6] The basic setup would be the same as described above, but this approach "... would feature a two-tier tariff system with country allocations and a global basket for the lower tier (with lower tariffs), shifting over time toward the global basket. Imports within the quantitative limits of the lower tier would enter at applicable duty rates. However, additional imports above and beyond these quantitative limits would be permitted at substantially higher penalty tariff rates".

Canada's March 1990 proposal for terminating the MFA upon its expiration foresaw special safeguard measures for the transition period that should be patterned after GATT's Article XIX, with two temporary derogations: i) substituting the concept of market disruption (or real risk thereof)[7] for Article XIX's serious injury concept, and ii) eliminating the Article XIX requirement for compensation due to an exporter if a safeguard measure is put in place.

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[6] The US communique of May 1990 does not take up the global tariff-quota approach.

[7] "Market disruption (or real risk thereof)" is quite different from the "serious injury" concept. It is an MFA invention according to which a specific supplier's "low prices", i.e., its competitiveness, can be a cause of market disruption. Hence, it is a selective, discriminatory mechanism.

The special safeguard measures would be applied to global quotas on specific products. The global quotas would be progressively liberalized by gradually removing items from the global quota list and by providing minimum growth rates for items under quota. "Special treatment" would be given to least developed countries.

Developing Country Proposals

At a very early stage, in February 1988, Pakistan suggested a four phase process to integrate textiles and clothing into the GATT. In the first phase, restrictions on non-apparel products would be removed, and the criteria of "low prices" for invoking "market disruption" would be scrapped. In the second phase, restrictions on apparel would be applied only in accordance with Article 3 of the MFA, which provides for measures taken when market disruption occurs. In the third phase, these restrictions would be activated only with the approval of the Textiles Surveillance Body, in cases when actual market disruption had been established. In the final phase, all restrictions on apparel would also be eliminated.

India's October 1989 proposal for a phaseout envisaged that upon the expiration of MFA IV, the restrictions on the following would be eliminated immediately: imports from least developed countries, new fibers added under MFA IV, handloomed and handicraft products, group and aggregate quotas, and quotas with less than 50 per cent utilization. India proposed that the quotas on the other products should be scrapped in five years: 20 percent of them each year;

and the quotas remaining in place should grow by 15, 20, 25, 30 and 35 percent each year. Safeguards during the phaseout would be GATT Article XIX safeguards provisions.

Bangladesh, on behalf of the least developed countries, in November 1989, proposed that all existing restrictions facing least developed countries, should have an accelerated phaseout. Also no transitional regimes should apply to them. Furthermore, they should be exempt from any new safeguard measures.

In December 1989, Indonesia, acting also on behalf of Malaysia, the Philippines, Singapore, and Thailand, proposed that the transition period begin in August 1991, and end by the year 2000. Their proposal called for an immediate removal of quotas on vegetable fibers, silk blends, handloomed and handicraft products, and items not produced in the importing countries. They also requested the removal of some of the special, restrictive provisions of the MFA (antisurge provisions, outward processing traffic limits, group and aggregate quotas, and the basket extractor mechanism). The proposal envisaged that the phaseout would take place by expanding the remaining quotas at progressively increasing growth rates, starting with a minimum of 6 percent, accompanied by greater flexibility provisions.

In December 1989, the International Textiles and Clothing Bureau (ITCB), the major grouping of textile and clothing exporting developing countries and territories, made its proposal.[8] The ITCB proposal envisages a phaseout within the existing structure of the MFA. This would take place through a progressive quota elimination based on type of fiber and degree of processing, as well as a minimum growth rate of 6 percent from the base quota levels. Quota expansion would accelerate throughout the transition, and new entrants and cotton and wool producing countries would enjoy higher quota growth rates in their native products.

The minimum viable production[9] concept would be eliminated, as would other restrictions (such as limits on outward processing traffic and aggregate and group quotas). Limits on flexibility provisions would be removed. While ITCB had no objections to strict and well defined transitional safeguard measures for categories remaining under restrictions, they proposed that normal GATT safeguards apply to items not currently covered by quotas, and those liberalized during the transitionary period.

The ITCB proposed least developed countries receive "special treatment". Also certain products, such as children's clothing, handlooms, handmade and folkcraft products, and products with no domestic production, would be subject to preferential treatment.

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[8] ITCB consists of 21 developing countries and territories: Argentina, Bangladesh, Brazil, Colombia, China, Egypt, El Salvador, India, Indonesia, Jamaica, Rep. of Korea, Macao, Maldives, Mexico, Pakistan, Peru, Hong Kong, Sri Lanka, Turkey, Uruguay and Yugoslavia.

[9] Minimum viable production is a Nordic concept based on national security concerns.

In June 1990, ITCB tabled "a framework for phasing out MFA restrictions" which articulated its previous proposal. It laid down a six-year, four-stage phaseout: the first and second stages extending 2 years each, and the third and fourth stages one year each. Annual volumes of quotas expiring on July 31, 1991 would constitute the base levels. In the first year of the phaseout, they would expand at least 6 percent "provided that such increase shall in no case be at a rate lower than that established in the bilateral agreement applicable immediately before the commencement of this Agreement". In the second year, the increase would be 8 percent, and in the following years, 11, 15, 20 and 25 percent. Two percentage points would be added to these growth rates for the cotton products of cotton producers. By the end of the sixth year, all quotas would be scrapped.

The proposed scheme includes a detailed list of products defined in terms of the new "Harmonized Commodity Description and Coding System" for progressive elimination of quotas over the four stages. The "special treatment" which would be accorded to least developed countries and to some products envisaged in ITCB's initial proposal is also spelled out. All restrictions on them would be abolished at the very start of the phaseout. Together with these, all restrictions on products made of vegetable fibers, their blends, and silk blends -- items which were put under restriction in MFA IV -- would be scrapped. Also quotas on small producers, defined as those which account for less than one percent of total textile and clothing imports in a market, would be abolished upfront. Finally, the proposal articulated the flexibility provisions, the transitional safeguard measures, and the monitoring body which would supervise the implementation of the phaseout.

Hong Kong's proposal of December 1989 to phase out all quota restrictions on textiles and clothing was along the lines of the ITCB and the Nordic proposals. In a phaseout based on export control within the MFA framework rather than a new transitional system, Hong Kong suggested a greater market access for all exporting countries, including the major suppliers. Hong Kong had a preference for India's five year phaseout period.

III. HISTORICAL QUOTA GROWTH RATES

To negotiate a quota growth factor, whether this be in the framework of the MFA or through global quotas, the parties need points of departure. The guideline in the MFA was a 6 percent annual quota growth. Developing countries considered this a concession obtained from industrial markets, and envisaged in their phaseout proposals that the minimum base year quota growth rate would be 6 percent. In fact, however, there were large variations in quota growth across products and suppliers, as well as across markets, and on the whole quotas expanded at a significantly lower rate. In this Section we study the US and EC's quota growth in the most recent years for which we have data. Our examination underlines a number of measurement problems. Although they are simplistic, they are relevant to the negotiations.

EC

Since the EC publishes its MFA quotas in advance, we have the figures up to 1991. Our computations based on these unadjusted rates -- not adjusted for revisions and application of the flexibility provisions -- indicate that overall growth of quotas had a 2.7 per cent annual average for the period 1983 to 1986. This is in terms of total metric tons for all MFA categories and suppliers. The average was roughly the same, 2.8 percent, for the 1987-1991 period.

Table 1: SUMMARY STATISTICS ON AVERAGE QUOTA GROWTH AND QUOTA UTILIZATION RATES IN MFA CATEGORIES OF THE EC AND THE US

	No. of MFA Categories	Mean	(Weighted)[e]	Median	Minimum	Maximum	Standard Deviation
EC							
-Quota growth rate[a],% (1987-1991)	58	3.7	(2.8)	3.6	1.0	6.8	1.5
-Average utilization[b],% (1985-1987)		63.0	(75.3)	64.3	0.0	111.6	28.7
US							
-Quota growth rate[c] (1986-1988)	98[d]	5.5	(3.7)	2.5	-22.7	86.3	16.1
-Average utilization[c] (1986-1988)		61.8	(84.1)	75.7	0.0	99.7	33.9

Source: The World Bank computer files on the MFA.

Notes:

a Based on initial published quotas.

b Based on published quotas; revised upwards so as not to allow utilization greater than 115 percent.

c Based on adjusted actual quota levels.

d Number of MFA categories for which the averages could be computed. The total number of MFA categories was 145.

e While the statistics presented in the table relate to individual MFA categories disregarding their relative importance, the weighted averages are obtained by aggregation of product categories using metric ton (EC) and square yard (US) equivalents.

Initial quotas are often subject to adjustments. In the case of the EC, these are published in the EC Journals as they occur, but to our knowledge are not incorporated into any statistical series. To take into account these adjustments to some extent, we revised the quotas upwards when shipments exceeded the volumes of the initial quotas. With this adjustment, we arrived at a 3.9 percent average annual growth for the 1983-1986 period. This is 1.2 percentage points greater than the unadjusted figure, nevertheless, considerably lower than the 6 percent mark.

In the more detailed presentation of EC quota growth (Tables 1 and 2), we used the 1987-1991 published quotas. While this somewhat underestimates actual quota growth, our choice is based on the fact that this is a consistent series during which the same quotas prevailed. The overall (weighted) average annual growth rate was 2.8 percent, but this rate varied from 1.0 to 6.8 percent across the MFA categories. Table 2 reveals that the range for quota growth by exporter was between 0.8 percent (China) and 7.3 percent (Sri Lanka).

<u>US</u>

Unlike the EC, the US does not publish its MFA quotas in advance, but the annual adjustments in quota levels are incorporated in the published statistics. Consequently, av ilable quota growth rates for MFA IV stop short of 1991, and we analyzed only 1986 to 1988. As many new quotas were introduced during this period, to arrive at a consistent estimate for overall quota growth, we based our computations on bilateral quotas which were in place in all the three years: 1986, 1987 and 1988. With this qualification, the (weighted) average annual quota growth turned out to be 3.7 percent.[10] The variation across product groups and suppliers was erratic. Across products, the range was from minus 23 to (plus) 86 percent (Table 1); and across suppliers (Table 2), the figures were even more erratic with major quota reductions as well as expansions.

To sum up the major measurement problems, we should repeat that: i) which years to take as benchmark, ii) how to incorporate quota adjustments, and iii) how to deal with discontinuities/new quotas, made quite a difference.

A Common Denominator?

We observed that there was no quota growth rate which came close to a common denominator across markets, across product groups or suppliers. Nevertheless, developing countries interpret the somewhat fictitious 6 percent quota growth guideline inscribed in the MFA as a concession obtained from the industrial countries. Certainly this is a bargaining chip in the negotiations. However, more realistically, developing countries like to consider the actual growth of their quotas in various markets -- similar to their sheer quota levels -- as an acquired right. This is certainly not without qualification. Quota growth rates were closely and inversely related to quota levels, and the performance of the exporters in filling them (see Erzan, Goto and Holmes (1990)). Hence, large and efficient exporters (with the exception of some politically motivated cases), have experienced major declines in their quota growth.

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[10] Given the new quotas imposed during this period, the 3.7 percent annual quota growth rate is an overstatement of the developments in the US.

The counterpart of the "acquired rights" argument from the importing industrial countries' point of view is the "sensitivity" of the products involved, and the size and potency of the suppliers. Hence, the differentiation in quota growth rates across products presumably reflected adjustment problems, while differentiation across suppliers checked the "risk of injury" by avoiding import surges.

The current proposals either explicitly or implicitly endorse a differentiation in quota growth rates across products. The US proposal envisages that there would be a couple of sensitivity classes, while the developing countries, by mentioning minimum growth rates, seem to accept an eventual variation. Across suppliers, however, the only exceptions are for least developed countries and the proposal requesting higher quota expansion rates for new entrants and (cotton products of) cotton producers and (wool products of) wool producers.

Other than these exceptions, neither the developed nor the developing countries propose to discriminate among the suppliers in terms of quota expansion rates. Indirectly, however, the suggestions concerning a transitory selective safeguards mechanism --- such as the one emphasized by the EC -- would likely boil down to lower quota growth rates for the large and efficient suppliers. Nevertheless, keeping this as an ad hoc mechanism rather than building it into the phaseout scenarios might make sense.

Table 2: PAST QUOTA GROWTH AND UTILIZATION RATES, AND PROJECTIONS UNDER ACCELERATED QUOTA GROWTH - PHASEOUT SCENARIOS, PERCENT

Market: US

Exporter	1986-1988 average quota utilization rate[a]	1986-1988 average quota growth rate[a]	A phaseout scenario with accelerated quota growth:[b] annual average quota growth rate
Bangladesh	93.9	15.92	35.6
Brazil	60.6	47.48	31.7
Burma	37.8	6.00	23.1
China	94.6	9.35	24.5
Colombia	25.4	324.00	37.9
Costa Rica	57.9	..	10.5
Dominican Republic	50.2	..	15.5
Egypt	93.7	19.17	28.7
El Salvador	79.1	0.00	3.9
Guam	91.1	3.70	15.5
Guatemala	20.7	3.70	15.5
Haiti	84.2	-11.73	4.5
Hong Kong	93.3	3.04	14.7
India	96.1	13.98	30.2
Indonesia	94.7	-5.89	21.0
Jamaica	55.9	..	13.1
Korea, Rep. of	86.5	4.91	15.5
Macao	72.7	5.19	23.0
Malaysia	60.7	32.47	30.2
Mauritius	80.2	14.11	21.5
Mexico	55.3	10.11	24.3
Nepal	49.8	6.06	26.2
Pakistan	82.3	-0.94	20.7
Panama	32.0	-9.91	3.9
Peru	19.0	9.48	24.1
Philippines	79.4	10.56	32.9
Poland	15.6	..	15.5
Romania	43.9	0.25	16.2
Singapore	67.0	1.81	18.4
Sri Lanka	92.4	-18.14	18.5
Taiwan (China)	82.0	5.18	21.5
Thailand	78.4	6.50	22.6
Trinidad and Tobago	0.7	..	14.1
Turkey	95.4	2.60	16.6
United Arab Emirates	100.0	..	15.5
Uruguay	77.9	-4.65	[illegible]
Yugoslavia	87.4	2.15	[illegible]
All countries above	84.1	3.7	2[illegible]

(cont.)

(Table 2 concld.)

Market:EC

Exporter	1985-1987 average quota utilization rate[c]	1987-1991 average quota growth rate[d]	A phaseout scenario with accelerated quota growth:[b] annual average quota growth rate
Argentina	34.4	4.4	18.3
Brazil	72.6	2.8	12.4
China	102.3	0.8	8.0
Hong Kong	74.1	1.2	6.9
India	58.5	3.0	13.0
Indonesia	77.8	4.1	16.6
Korea, Rep. of	80.6	2.6	12.1
Macao	78.6	1.4	6.0
Malaysia	49.5	4.6	18.5
Pakistan	104.9	3.0	13.5
Peru	102.8	5.7	22.3
Philippines	59.8	5.3	21.5
Romania	52.9	4.3	17.7
Singapore	35.2	3.9	16.0
Sri Lanka	80.5	7.3	27.9
Taiwan (China)	79.6	2.6	11.1
Thailand	75.6	3.8	15.5
Yugoslavia	79.5	3.1	14.4
All countries above	75.3	2.8	12.6

Source: The World Bank computer files on the MFA.

Notes:

a Based on adjusted actual levels of quotas which were in place in all the three years: 1986, 1987 and 1988.

b A five stage scenario where at each stage the preceding quota growth rate is increased by 50 percent. The base rate is the average historical quota growth record. In the US, when historical quota growth rates could not be calculated for new quotas, the overall average quota growth of 3.7 percent was plugged in. When growth rates were negative, a minimum average positive growth rate of one percent was adopted to serve as the base rate.

c Based on published quotas; revised upwards so as not to allow utilization greater than 115 percent.

d Based on initial published quotas.

IV. A PHASEOUT WITHIN THE FRAMEWORK OF THE MFA

We observed that modalities of a phaseout within the framework of the MFA had four elements: (i) measures to increase the "flexibility" of the application of the MFA -- flexibility in both the specific and general usage of the term, ii) upfront removal of the restrictions on some specifically defined products and suppliers (mostly dealing with the smaller and poorer exporters), iii) acceleration of the quota growth rates, and iv) elimination of quotas in stages according to a set of predetermined criteria. The latter was defined in terms of country (such as new entrants, least developed countries), specific products or product characteristics (such as type of fibers or degree of processing), or based on some criteria pertaining to the historical record, such as quota utilization.

Since implementation of the quota elimination proposals would still leave the bulk of the quotas intact, the main element in such a transition would come from accelerated quota growth. The quotas would have to expand in such a way to avoid a "shock" when they are abolished at the end of the phaseout. A "phaseout" without radical quota growth would therefore be a mere extension of the MFA.

It is evident from our presentation in the previous Section that a single base rate to which some growth factor will be applied for all product groups, all markets and suppliers is very unlikely. There will have to be at least some differentiation by product characteristics.

An Accelerated Quota Growth

For demonstration purposes we took the extreme case of adherence to the current regime by adopting the actual historical growth rates of individual quotas as the basis for further expansion. Hence, we allowed for differentiation in quota growth rates across products, suppliers and markets. Using the 1987-1991 average quota growth rates for the EC, and the 1986-1988 rates for the US, we applied a growth formula in five stages starting in 1992 which can be interpreted to cover a 5- or a 10-year period (with two years for each stage in the latter). We first rounded up the historical quota growth rates (per product and supplier) to the nearest percentage point. Then, at each stage we increased the quota growth rate by 50 percent of the previous stage's growth rate. As the overall historical quota growth record is about 3 to 4 percent, this formula, if applied to the aggregate of existing quotas, would nearly double the level in 5 years (an effect which appeared not totally unacceptable to the negotiating parties). In the case of the US, where quotas had an erratic pattern, we adopted a number of assumptions to arrive at the base year quota level and quota growth.[11]

As an example, Table 3 depicts Indonesia in the EC market. The largest textile product Indonesia has under MFA quotas in the EC is fabrics of man-made fibers. Indonesia's 1991 quota for this category is about ten thousand

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[11] For quotas which were introduced in 1987, we took the 1987-1988 growth rates; for those introduced in 1988, we imposed the overall US average for 1986-1988; in the case of negative growth, we plugged in 1.0 percent; and finally, we imposed a 10 percent ceiling for quota growth rate. With these rates, we first hypothetically moved on to 1991, the base year for quota volumes.

metric ton equivalent. While quota utilization in this item exceeded 100 percent, quota growth was limited to 3 percent. In our exercise, we take this as a base rate, and increase it by 50 percent. Hence, in stage I the quota expands by 4.5 percent over the initial quota, and in stage II by 6.8 percent over the quota level of stage I, and so on. In this example, by the end of stage V, the average annual growth rate goes up from the initial 3 percent to 11.7 percent. Accordingly, at the fifth stage, if each stage lasted one year, the volume of the quota would be 74 percent greater than the base year (1991) quota. In case each stage covered a two year period, and the scheme stretched over 10 years, the annual average quota growth rate would be the same (11.7 percent). However, the quota for the tenth year would be around 200 percent greater than the base year quota.[12]

We applied the above formula to all bilateral MFA quotas in the EC and the US. The results are summarized by exporter in the last column of Table 2. In the case of the EC, it yielded an overall average annual growth rate of 12.6 percent over the span of the five stages. This average for Hong Kong's quotas was 7 percent, for China 8 percent and on the higher end, 28 percent for Sri Lanka. Across products, annual average growth rates were from 8 to 27 percent. In the case of the US, the overall average turned out to be 22.2 percent, while across its suppliers this rate varied from 4 percent (El Salvador and Panama) to 36 percent (Bangladesh).

[12] If the average annual growth rate, 11.7 percent, is applied cumulatively over 10 years, the resulting increase would be approximately 200 percent.

Table 3: AN ILLUSTRATIVE EXAMPLE FOR
AN ACCELERATED QUOTA GROWTH-PHASEOUT SCENARIO [a]
Market: EC Exporter: Indonesia

MFA category	1985-1987 avg. quota utilization %	End of stage when quota will be scrapped	1987-1991 avg. quota growth %	Five stage accelerated quota growth[b], %					Quota volume, thousand metric tons [c]						Annual average quota growth %
				I	II	III	IV	V	1991 base	Stage I	Stage II	Stage III	Stage IV	Stage V	
3:fabrics of man-made fibers	115.0	V	3.0	4.5	6.8	10.1	15.2	22.8	10.03	10.48	11.18	12.32	14.19	[17.42]	11.7
6:outer garments, woven	81.4	IV	6.0	9.0	13.5	20.3	30.4	45.6	3.51	3.83	4.35	5.23	[6.62]	9.92	23.1
7:outer garments, knitted or crocheted	54.4	I	6.0	9.0	13.5	20.3	30.4	45.6	0.93	[1.02]	1.15	1.39	1.81	2.63	23.1
8:undergarments men's and boys'	82.8	IV	6.0	9.0	13.5	20.3	30.4	45.6	1.81	1.97	2.23	2.69	[3.50]	5.10	23.1
All above	77.8	-	4.1	-	-	-	-	-	16.28	17.29	18.92	21.62	26.32	35.07	16.6

Source: The World Bank computer files on the MFA

Notes:
a See notes to Table 2.
b At each stage, the preceding quota growth rate is increased by 50 percent. The base rate is the 1987-1991 quota growth.
c In the case of quota scrapping, the brackets indicate the last quota amount.

The summary tables we provide are admittedly of very limited use. On the other hand, the detailed spreadsheets which depict for each supplier the expansion in its individual bilateral quotas under alternative assumptions were considered useful inputs by the negotiators. The main lesson we draw from this exercise is that, for all practical purposes, it may be necessary to agree on a stylized profile of base year quota growth. By examining growth in individual quotas, product categories and suppliers which fall into ranges such as up to 2 percent, between 2 and 4, 4 and 6, and 6 and 8, and above 8 percent can be tabulated. If items can be assigned to such categories, the phasing out could start with rounding up the individual quota growth rates in these categories, which would then serve as the base rate for further quota expansion.

The prominent developing country proposal subscribes to a (minimum) 6 percent fixed base year growth rate. As there is no differentiation across suppliers and products, the calculation of the resulting average growth in quotas is straightforward and requires no actual data. Applying the expansion formula we used above (with a multiplicative factor of 50 percent) gives an annual average growth rate of 23.1 percent. Nominally, this is almost equivalent to the aggregate result we got for the US, 22.2 percent (and nearly double the projection for the EC, 12.6 percent).[13] But effectively, it implies a far greater expansion in import volumes. In the scenario we simulated, which was

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[13] Actually, our scenario for the US which adopts historical quota growth rates -- with an overall average of 3.7 percent -- would yield a lower quota expansion compared to the scenario with a 6 percent base year growth. What make the two scenarios come up with similar aggregate growth rates are the assumptions we adopt in dealing with individual quotas. For any quota that had a <u>negative</u> growth, we plug in <u>one</u> percent as base year increase. Furthermore, we <u>round up</u> historical quota growth rates to the nearest percentage point.

based on historical quota growth rates, the high quota growth record of smaller suppliers and less "sensitive" products were further inflated in an accelerated fashion. In the aggregate, this compensated for the major suppliers' and "sensitive" products' lower quota growth record. While developments in actual shipments of the former group would in most cases fall short of the quota limit expansions, in the latter group, quotas would be largely filled. Therefore, the resulting shipments would be considerably less than what would take place if a fixed base year quota growth were applied across the board.

Finally, some practical points. In the example above, the quota growth rate expanded with a constant multiplicative factor (50 percent or 1.5) which yielded an accelerated quota growth. The recent communique of the developing countries (ITCB) submitted in June proposes growth rates of 6, 8, 11, 15, 20 and 25 percent for the six-year phaseout. These rates imply an almost constant multiplicative growth factor of about 33 percent (or 1.33).[14] The proposal would yield an annual average quota growth of 14 percent, and increase the quota level by 120 percent by the end of 6 years.

A more radical quota expansion would result from formulae with an accelerated expansion of the quota growth factor itself (such as a 50 percent increase in the quota growth rate in stage I followed by a 60 percent increase in the next stage). Although this is a simplistic point, it should be underlined that an additive (as suggested by some countries), rather than a multiplicative constant growth factor would yield a declining rate of quota growth over the span

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[14] The implicit growth rate multipliers are 1.33, 1.38, 1.36, 1.33 and 1.25 from the second to the sixth year.

of the stages. Also, growth induced by such formulae would be at a slower pace in categories with a relatively higher growth record. Certainly, it is worthwhile to consider a number of alternative formulae. The acceleration principle is the critical test.

Stage-wise Scrapping of Quotas

An alternative to abolishing all quotas at the end of the phasing-out period is scrapping some of the quotas along the way according to some predetermined scheme. This could follow specific product lists or could be based on product characteristics such as type of fibers or degree of processing as proposed by some countries. Here we shall demonstrate that quota utilization rates is also an extremely relevant criterion in this respect, which also has a precedence. In MFA IV, developed countries agreed to scrap underutilized quotas, and there were some positive developments in this respect, particularly in the EC. Therefore, this need not be considered a new element in the negotiations to phase out the MFA.[15]

Quoca Utilization Rates and Quota Growth

In certain cases, well before quotas are filled, they have a chilling effect on exports, mainly due to inefficiencies in quota administration.[16] Nevertheless, utilization rates are a good proxy for the actual restrictiveness

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[15] Alternatively, scrapping underutilized quotas may be generalized under the Uruguay Round negotiations on non-tariff barriers.

[16] See Kumar and Khanna (1990) concerning India.

of quotas. Consequently, expansions in underutilized quotas would often not imply any relaxation in the regime. That is to say, it is not a major concession.

The overall quota utilization rate in the EC during the 1985-1987 period was 75 percent, and in the case of the US (for 1986-1988), 91 percent (see Table 2). When we discussed past and prospective quota growth in the previous Sections, we did not distinguish between highly utilized (binding) quotas and underutilized ones. When this distinction is made, we observe a major difference in their past growth rate. We defined binding quotas arbitrarily as those with utilization rates 90 percent or above. In the EC, while the overall average annual growth in published quotas (1987 to 1991) was 2.8 percent, for those that were binding (in 1987), this rate was half that, 1.4 percent. The situation was similar in the US during the 1986-1988 period. While the overall average quota growth was 3.7 percent annually, those which were binding increased by only 2 percent annually. These differences are quite instructive. The importing countries are much more careful in expanding those quotas which are actual effective restraints.

Stage-Wise Scrapping of Underutilized Quotas

What is the value of, for instance, a 10 percent annual quota growth when the quotas in that item were only half filled over the past three years? It is clear that the overall average quota growth we projected in our exercise for the five stage span of the phase out, 12.6 percent for the EC and 22.2 percent for the US, is partly filled with air.

What if some quotas were then scrapped at each stage depending on their utilization record? To avoid perverse incentives, this has to follow a predetermined scheme based on past performance during an agreed period. To demonstrate the point, we used the same data set as in the previous exercise. For the EC, we adopted as a "benchmark" the average utilization rates in the 1985-1987 period, and for the US, the 1986-1988 period.

Our illustrative scheme for scrapping the unutilized quotas is the following. In the beginning of 1992, the first year of phaseout stage I, we scrapped all individual bilateral quotas which had a utilization less than 50 percent in the benchmark year. Similarly, at the beginning of stage II, we dropped all quotas with utilization of less than 60 percent (in the benchmark year). Repeating this procedure, in the final stage, stage V, only those quotas which had a utilization rate above 90 percent are left. These are scrapped at the end of stage V.

The quota-scrapping scenario can be followed in Table 3 which depicts Indonesia in the EC market. Among the four MFA categories, the quota on the one with the lowest quota utilization, 54 percent, knitted or crocheted outer garments, would drop by the end of stage I. Quotas for two categories with utilization rates around 80 percent (women outer garments and men's and boys' undergarments) would drop by the end of stage IV. Finally, the quota on fabrics of man-made fibers, which was fully utilized, would last until the end of the phaseout.

Table 4 summarizes the results of applying this scrapping schedule to all exporters subject to quotas in the US and the EC. The first column gives the number of bilateral quotas at the base year. To follow up our previous example, Indonesia in the EC, this number is four. In the five consecutive stages, the number of remaining quotas are, respectively, 4, 3, 3, 3 and 1. For the efficient suppliers which have been filling most of their quotas, there would be relatively less quota scrapping, especially in the earlier stages. Nevertheless, for all exporters, the number of quotas imposed on them would diminish considerably. The overall effect of this scheme would be a drastic reduction in the number of bilateral quotas, by 66 percent (from 259 to 89) in the EC, and by 77 percent (from 1,312 to 297) in the US, from the base year to the last stage of the phaseout.

We should emphasize again that the main issue with underutilized quotas is not that there should necessarily be a rigid schedule in scrapping them. The point is that a quota growth scenario which does not address the issue of underutilized quotas leads to inaccurate representations as to the effective relaxation of the regime.

Stage-Wise Quota Scrapping Based on Other Criteria

We did not try scenarios using other criteria for stage-wise quota scrapping. However, to the extent that product categories or suppliers can be classified by some common characteristics -- and the stage at which the quotas would be dropped are determined -- it is a matter of inserting this information and rerunning the exercise. There might be some practical difficulties involved, however, because while MFA categories distinguish products by their level of processing, in certain markets, notably in the EC, product groups can cover goods made from different fibers.

Table 4: A FIVE-STAGE QUOTA SCRAPPING SCHEDULE BASED ON PAST UTILIZATION RATES OF INDIVIDUAL QUOTAS[a]

Market: US

Exporter	Number of Bilaterald Quotas[b]					
	Base Year[c]	Stage I	Stage II	Stage III	Stage IV	Stage V
Bangladesh	14	14	12	11	8	8
Brazil	24	14	12	11	8	8
Burma	1	0	0	0	0	0
China	85	78	72	64	58	49
Colombia	1	0	0	0	0	0
Costa Rica	2	1	1	0	0	0
Dominican Rep. of	6	4	2	1	1	0
Egypt	14	5	4	3	3	2
El Salvador	1	1	1	1	0	0
Guam	1	1	1	1	1	1
Guatemala	1	0	0	0	0	0
Haiti	13	5	5	5	4	1
Hong Kong	62	56	54	47	42	36
India	17	15	14	14	13	8
Indonesia	34	34	31	28	20	17
Jamaica	21	10	9	7	2	1
Korea, Rep. of	76	67	63	53	46	32
Macao	116	31	27	23	19	11
Malaysia	35	22	21	17	10	6
Mauritius	13	7	5	5	3	2
Mexico	94	34	28	21	10	6
Nepal	4	1	1	1	1	0
Pakistan	79	36	34	29	20	14
Panama	1	0	0	0	0	0
Peru	9	2	1	0	0	0
Philippines	34	26	26	22	15	7
Poland	114	12	1	1	1	1
Romania	130	20	17	3	1	1
Singapore	112	28	26	23	19	14
Sri Lanka	32	30	28	25	22	17
Taiwan (China)	78	72	65	56	41	22
Thailand	39	31	27	25	22	19
Trinidad & Tobago	8	0	0	0	0	0
Turkey	16	13	12	12	10	8
United Arab Em.	4	4	4	4	4	4
Uruguay	6	2	2	2	1	0
Yugoslavia	15	13	9	7	5	2
All countries above	1312	689	615	522	410	297

(Cont.)

Table 4 concld.)

Market: EC

Exporter	Base Year[d]	Stage I	Stage II	Stage III	Stage IV	Stage V
	Number of Bilateral Quotas[b]					
rgentina	3	1	1	1	1	1
razil	9	6	4	3	2	2
China	19	19	18	17	15	14
Hong Kong	28	22	20	14	11	9
India	11	7	4	2	2	2
Indonesia	4	4	3	3	3	1
Korea Rep. of	40	27	23	21	18	14
Macao	20	15	12	10	7	6
Malaysia	6	4	2	0	0	0
Pakistan	6	6	6	6	6	3
Peru	2	2	2	2	2	1
Philippines	11	6	5	3	1	1
Romania	28	18	16	16	11	9
Singapore	7	1	0	0	0	0
Sri Lanka	4	4	4	3	1	1
Taiwan (China)	36	28	23	19	16	14
ailand	14	12	10	10	9	8
Yugoslavia	11	9	8	6	5	3
All countries above	259	191	161	136	110	89

Source: The World Bank computer files on the MFA.

Notes:

At stage 1, all quotas with historical average utilization rates below 50 percent are scrapped. In stage II, the same is applied to quotas with utilization rates below 60 percent; and so on. In stage V, only those quotas with utilization ratios above 90 percent remain. By the end of this stage, all quotas are abolished. For the US, the utilization rates used are the averages for 1986-1988; for the EC, 1985-1987.
Number of bilateral quotas exclude aggregate group quotas.
For the US, the base year is 1988 actual quotas.
For the EC, the base year is 1991 published quotas.

V. A PHASEOUT BASED ON GLOBAL QUOTAS

The leading alternative to phasing out the MFA within its current structure is a new transitional mechanism based on global quotas proposed by the US. We applied this proposed mechanism using the US data to get some idea of its immediate consequences.

Briefly, the proposal envisages a ten year phaseout, starting with a shift to global quotas which would expand gradually. The current quota holders under the MFA would be entitled to allocations within the global quotas. These allocations would be based on actual import market shares, but limited to 15 percent of the global quota in each product category.

We constructed global quotas for each MFA category based on the average volume of US imports during the period 1987 to 1989, as suggested in the US communique of May 1990. Using square yard equivalents (SYE), we then computed the aggregate quota for each exporter. We compared these volumes with their actual quota holdings in 1988 (rather than 1989 due to the lag in data input). The first column in Table 5 gives the percentage change in exporters' quotas due to this shift in the base. Then we limited the exporters' shares to 15 percent of total imports in each product. The third column in Table 5 gives the resulting percentage reduction in aggregate quota volumes. Current quota holders, taken together, would lose about 31 percent of their quotas due to the

Table 5: CHANGE IN AGGREGATE QUOTA VOLUMES FOR CURRENT QUOTA HOLDERS UNDER THE US PROPOSAL OF GLOBAL QUOTAS

The US market, change from 1988, percent

orter 'anked by 'elative loss	Change due to new quota allocation based on actual shipments[a]	Change due to capping quotas at 15% of import share[b]	Total Change
uam	-100.0	0.0	-100.0
'rinidad & Tobago	-99.5	-0.0	-99.5
'oland	-89.5	0.0	-89.5
.omania	-78.5	0.0	-78.5
'eru	-73.0	-0.0	-73.0
anama	-71.9	0.0	-71.9
hailand	-66.0	-7.5	-68.6
apan	-54.3	-30.5	-68.2
urma	-66.5	0.0	-66.5
.aiti	-65.2	0.0	-65.2
pt	-64.5	0.0	-64.5
aysia	-63.5	-1.0	-63.9
amaica	-57.2	-5.0	-59.3
Colombia	-59.0	0.0	-59.0
.exico	-58.0	-0.8	-58.3
.acao	-58.0	-0.0	-58.0
Singapore	-52.4	-0.6	-52.7
ugoslavia	-50.7	-0.0	-50.7
epal	-45.5	0.0	-45.5
.orea, Rep. of	-20.4	-31.2	-45.2
'aiwan (China)	-22.4	-26.9	-43.2
.ong Kong	-27.8	-21.3	-43.2
Philippines	-35.3	-12.1	-43.1
zechoslovakia	-41.5	-0.0	-41.5
razil	-36.7	-5.1	-39.9
ungary	-38.0	0.0	-38.0
Salvador	-37.7	0.0	-37.7
Pakistan	-32.0	-6.5	-36.4
China	1.3	-33.3	-32.4
.auritius	-24.7	0.0	-24.7
ermany, E.	-23.7	0.0	-23.7
angladesh	-18.9	0.0	-18.9
ruguay	-8.0	0.0	-8.0
osta Rica	-5.3	-0.0	-5.3
India	16.5	-17.2	-3.5
ominican Republic	11.0	-0.3	10.7
donesia	42.6	-5.9	34.2
ited Arab Emirates	34.7	0.0	34.7
i Lanka	42.6	-0.0	42.6
rkey	68.6	-0.2	68.2
atemala	99.9	0.0	99.9
l Countries Above	-30.9	-19.5	-44.3

(Cont.)

(Table 5 concld.)

Source: The World Bank computer files on the MFA

Notes:

a The new quotas are set equal to the average of actual shipments during 1987 to 1989. The aggregations are based on square yard equivalents.

b The new country quotas are limited to a maximum of 15 percent of the import share for each MFA group.

new allocation based on actual shipments, and their quotas would suffer another decline of 20 percent, transferred to the unallocated basket, as a result of the maximum import market share constraint. Their overall quota loss in the first year would add up to 44 percent of their initial quota holdings.

On a country by country basis, from Table 5 it appears that almost all current quota holders would lose quota allocations due to the proposed transitional system. Most of the quota losses would be due to the shift in the base for quota allotments to the actual (1987-1989 average) shipments. The difference between old quota volumes and average shipment levels stems from quotas that were not filled by the exporters.[17] Countries that were "efficient" in filling their quotas would have smaller percentage quota losses as a result of this shift. Some countries would experience large quota losses due to the 15 percent capping provision. These are the major suppliers which hold very large shares of the US imports of certain items -- China, Korea, Japan, Taiwan, and Hong Kong.

The case of the six countries which appeared to make quota gains from the proposed transition -- the Dominican Republic, Indonesia, United Arab Emirates, Sri Lanka, Turkey, and Guatemala -- relates to a statistical shortcoming in our computations. New quotas imposed in 1989 affected large quantities of these countries' exports. This in turn inflated their 1987-1989 average shipments subject to restrictions. If we could use the 1989 quotas as

[17] Obviously, eliminating unfilled quotas is a potential, rather than an actual loss to the exporters.

the basis of our comparison for initial quota holdings rather than 1988, these countries would also show quota losses.

While the proposed transition to global quotas would reduce the reserved allocations, it should be remembered that loss in guaranteed quotas need not imply any loss in export volume or market share for an individual supplier. The efficient suppliers, after filling their own quotas, would also dip into the unallocated basket. For all exporters taken together, however, the transition to global quotas in this case is a major increase in the restrictiveness of the system.

To demonstrate this point, we have undertaken a numerical exercise. During 1988, the total amount of textile and clothing quotas in the US market was 11.2 billion SYE. As some suppliers did not fill their quotas, the overall imports against these allotments were 7.3 billion SYE. Nevertheless, the US was committed to absorb the full amount, 11.2 billion SYE, from these countries. On top of that, the US imported 3.6 billion SYE of textiles and clothing in the same categories from non-restricted exporters, mainly industrial countries. If we add the two, i.e., total quota holdings in 1988 plus imports from non-restricted countries, we arrive at 14.8 billion SYE which is the ceiling for "allowable" imports. As the volume of the global quotas would be based on actual shipments alone, exclusion of the unfilled portion of quotas, 3.9 billion SYE (11.2 less 7.3), represents the loss in allowable imports.

Table 6 ranks the exporters according to their relative quota share losses computed in line with the exercise described above. In parentheses are the shares of the suppliers in actual quota holdings. In the second column, the shares are adjusted by adding imports from the non-restricted countries to the denominator. These are then compared with the reserved shares in the new global quota, before and after applying the 15 percent capping provision. The results and the ranking of exporters in terms of their relative losses closely resemble those in Table 5.

Finally, we should note that, for demonstrative purposes, we adopted a conservative interpretation of the US proposal. In fact, the May 1990 modification to the initial proposal stated that "[T]he quotas for each product would be set at the average level of the last three years of total imports (1987-1989) plus an additional increment which would be applicable to all countries utilizing the modality and which would be multilaterally negotiated". If these "additional increments" would turn out to be substantial rather than incremental, the overall restrictiveness of the proposed approach could vanish.

Table 6: CHANGE IN RELATIVE QUOTA SHARES FOR CURRENT QUOTA HOLDERS UNDER THE US PROPOSAL OF GLOBAL QUOTAS

The US market, base year 1988, percent

Exporter ranked by relative quota share loss	1988 Actual quota share 0	1988 Adjusted quota share[a] I	Share in actual average shipments: the new base[b] II	Share in new quota allocation after capping at 15% III	Change due to shift to new base (II-I)/I IV	Change due to capping at 15% (III-II)/II V	Total change (III-I)/I VI
Guam	(0.05)	0.04	0.00	0.00	-100.0	0.0	-100.0
Trinidad & Tobago	(0.31)	0.24	0.00	0.00	-99.3	-0.0	-99.5
Poland	(1.29)	0.98	0.13	0.13	-86.5	0.0	-89.5
Romania	(1.53)	1.16	0.32	0.32	-72.4	0.0	-78.5
Peru	(1.06)	0.81	0.28	0.28	-65.2	-0.0	-73.0
Panama	(0.05)	0.04	0.01	0.01	-63.8	0.0	-71.9
Thailand	(2.86)	2.17	0.95	0.88	-56.3	-7.5	-68.6
Japan	(5.63)	4.27	2.51	1.75	-41.1	-30.5	-59.1
Mexico	(6.65)	5.04	2.72	2.70	-46.0	-0.8	-58.3
Burma	(0.05)	0.04	0.02	0.02	-56.9	0.0	-56.9
Haiti	(0.74)	0.56	0.25	0.25	-55.3	0.0	-55.3
Egypt	(2.11)	1.60	0.73	0.73	-54.3	0.0	-54.3
Malaysia	(3.66)	2.78	1.31	1.29	-53.0	-1.0	-53.5
Singapore	(2.98)	2.26	1.38	1.37	-38.8	-0.6	-52.7
Yugoslavia	(0.65)	0.50	0.31	0.31	-36.5	-0.0	-50.7
Jamaica	(1.52)	1.15	0.63	0.60	-44.9	-5.0	-47.6
Colombia	(0.05)	0.04	0.02	0.02	-47.3	0.0	-47.3
Macao	(1.50)	1.14	0.62	0.62	-45.9	-0.0	-45.9
Nepal	(0.17)	0.13	0.09	0.09	-29.9	0.0	-45.5
Taiwan (China)	(13.93)	10.56	10.55	7.72	-0.1	-26.9	-43.2
Philippines	(3.63)	2.75	2.29	2.01	-16.7	-12.1	-43.1
Pakistan	(3.81)	2.89	2.53	2.36	-12.4	-6.5	-36.4
Korea, Rep. of	(11.39)	8.64	8.85	6.09	2.5	-31.2	-29.5
Hong Kong	(11.21)	8.50	7.90	6.22	-7.1	-21.3	-26.8

(Cont.)

(Table 6 concld.)

Mauritius	(0.41)	0.31	0.30	0.30	-3.1	0.0	-24.7
Czechoslovakia	(0.00)	0.00	0.00	0.00	-24.7	-0.0	-24.7
Brazil	(2.35)	1.78	1.45	1.38	-18.5	-5.1	-22.6
Hungary	(0.32)	0.24	0.19	0.19	-20.2	0.0	-20.2
El Salvador	(0.35)	0.27	0.21	0.21	-19.8	0.0	-19.8
China	(11.72)	8.88	11.58	7.73	30.4	-33.3	-13.0
Uruguay	(0.06)	0.05	0.06	0.06	18.3	0.0	-8.0
Germany, E.	(0.01)	0.01	0.01	0.01	-1.8	0.0	-1.8
Bangladesh	(1.29)	0.98	1.02	1.02	4.4	0.0	4.4
Costa Rica	(0.19)	0.15	0.18	1.18	21.8	-0.0	21.8
India	(2.34)	1.77	2.66	2.20	50.0	-17.2	24.2
United Arab Emirates	(0.08)	0.06	0.10	0.10	73.4	0.0	34.7
Dominican Republic	(0.61)	0.46	0.66	0.66	42.9	-0.3	42.5
Sri Lanka	(0.82)	0.62	1.15	1.15	83.6	-0.0	42.6
Turkey	(0.69)	0.52	1.13	1.12	116.9	-0.2	68.2
Indonesia	(1.62)	1.23	2.26	2.12	83.5	-5.9	72.7
Guatemala	(0.05)	0.04	0.11	0.11	157.3	0.0	157.3
All Countries Above	(100.00)	75.83	67.49	54.33	-11.0	-19.5	-44.3
Rest of the World	-	24.17	32.51	45.67	34.5	40.5	46.8
World	-	100.00	100.00	100.00	0.0	0.0	0.0

Source: The World Bank computer files on the MFA.

Notes:

a In the denominator, actual shipments from the rest of the world in 1988 are added to actual quota holdings.
b Based on 1987-1989 actual average shipments.

VI. CONCLUSIONS

Accelerated quota growth is the main device to phaseout the MFA under both leading proposals, that within the framework of MFA or a transitional structure based on global quotas. According to the first approach, country quotas, in the other, global quotas will have to expand in such a way to avoid a "shock" when they are abolished at the end of the phaseout. To negotiate a quota growth scenario, the parties need points of departure, such as base year quota levels, quota growth rates, etc. The guideline in the MFA was a 6 percent annual quota growth. Developing countries consider this a concession obtained from industrial markets, and request it as the minimum base year quota growth rate. In fact, however, there were large variations in quota growth across products and suppliers, as well as across markets; and on the whole quotas expanded at a significantly lower rate. For the phaseout, the negotiating parties may, therefore, consider to allow some differentiation in quota growth rates, particularly across product categories.

The historical record reveals that growth in highly utilized, i.e., filled and binding quotas was significantly lower compared to unfilled quotas. Phaseout scenarios based on quota growth may have to take into consideration this distinction to achieve an effective relaxation. In this context, scrapping unfilled quotas in stages, depending on their utilization record, would hasten the dismantling of the MFA by allowing the concentration of efforts to deal with binding quotas.

There are some inherent differences in the way an MFA-based versus a global quota-based phaseout would affect trade during the transitionary period. One is the obvious fact that a global quota encompasses previously unrestricted suppliers. Secondly, the first-come-first-serve principle gives a relatively free hand to the efficient suppliers. Hence whatever happens in terms of losing or gaining quota allocations due to the shift to the global quota based structure, on an individual basis, countries may end up increasing their export volumes and market shares.

Global quotas introduce non-selectivity to the system. While this is a desirable element from the economic efficiency point of view, it has an equity aspect. It allows the importing countries to continue exercising their "historical rights" by determining the volume of trade, while denying (or diluting) the "guaranteed" market shares of individual exporters. This is a loss mainly for the inefficient suppliers whose performance is closely related to the existence of country quotas. Moreover, to the extent that global quotas are administered by the importing countries (the global basket in the US proposal), the exporters lose the possibility to appropriate quota rents.

An important distinction is that, while some exporters would be considerably worse-off under the US proposal based on global quotas, the overall restrictiveness of this transitory regime is related to (a conservative interpretation of) its suggested parameters rather than the inherent nature of this modality. In fact, global quotas could be set up quite generously, with a significant margin above the current import levels.

An MFA-based phaseout is appealing to many developing countries because, in principle, the "acquired rights" of the exporters can be preserved. Not for long, however. If the developing countries get their way and extract an agreement from industrial countries on substantial quota expansions -- which is necessary for a phaseout -- as the quotas on efficient suppliers become redundant, quota holdings will be worthless. Interestingly enough, an accelerated quota growth not differentiated across suppliers, as suggested by the developing countries, would do exactly that.

We see one important virtue in a phaseout based on the current structure of the MFA. That is, not only the mechanisms in place are familiar to the negotiating parties, but so are the magnitudes of most of the parameters involved. The record on current quota levels, quota growth rates over the last few years, and their utilization ratios provide a basis for a decision on the most important elements of this phaseout based on the present structure of the MFA. If this approach is adopted, however, the parties have to make a concerted effort to keep in mind that this is not an extension of the MFA, but its abolition.

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