Center for Global Development

CGD Brief

April 2005

Adjusting to the MFA Phase-Out: Policy Priorities

By Debapriya Bhattacharya and Kimberly Elliott *

In the years since developing countries succeeded in negotiating an end to rich-country quotas on textiles and apparel, excited anticipation has gradually turned to anxiety. Ending the Multi-Fiber Arrangement (MFA) was a major objective of developing countries in the international trade talks that ended in 1994. But that was before China joined the World Trade Organization (WTO) and before structural changes in the industry and in U.S. trade policy altered the competitive landscape. Now, it is not just workers and firms in high-wage countries that fear increased competition, lost jobs, and downward pressure on wages with the end of the MFA. Many poor countries now realize that a freer market also means more competition for them, with potential losses in market share and large adjustment costs for the low-wage, primarily female workers that dominate apparel assembly.

This brief reviews the Agreement on Textiles and Clothing (ATC) and the potential implications for the rest of the world of having to compete with China in a quota-free market. It examines the expected winners and losers among developing-country exporters as a result of phasing out the MFA trade restrictions and recommends steps that both rich and poor countries should take to ease the adjustment. We recognize that workers in the United States and other importing countries—again, mostly low-wage and female—will also suffer losses. Addressing these dislocations is an important policy issue, and we do not mean to slight this aspect of the adjustment process.[1]

For purposes of this brief, however, we focus on potential disruptions in poor countries and the policy priorities for coping with them. In particular, we recommend that the United States, which is the only rich country that does not grant tariff-free access for imports from all least-developed countries, provide this access as quickly as possible. In addition, to take advantage of any resulting opportunities, beneficiary countries must adopt domestic reforms to encourage greater productivity.

Implementation of the Agreement on Textiles and Clothing

The MFA was a complex system of country- and product-specific quotas on textiles and clothing; it was an institutionalized aberration under the General Agreement on Tariffs and Trade (GATT). It contradicted core GATT principles that promote non-discrimination and prohibit the use of quantitative restrictions. Eliminating the MFA was the principal demand of developing-country trade negotiators in the Uruguay Round of multilateral trade negotiations (1986-93).

The resulting Agreement on Textiles and Clothing (ATC) relied on two mechanisms for phasing out these trade restrictions: gradually eliminating quotas by categories, and raising growth rates for remaining quotas. Importing countries that wanted to postpone adjustment of their domestic industries for as long as possible insisted the phase-out be backloaded, so 49 percent of covered imports were left to the end (Table 1). Two other provisions allowed importers to slow the process even further. First, the annex that listed categories to be "integrated" included all textile and clothing products, not just those that were restricted under the MFA. Second, importing countries were permitted to choose the categories to be integrated in each phase. Because about a third of base-year imports in both the United States and the European Union were unrestricted under the MFA, these categories were "liberalized" first, and few binding quotas were included until Phase 3, beginning in 2002.[2] Coincidently, this phase began just after China joined the WTO, adding to the adjustment pressures for both importing and exporting countries and raising concerns about the effects of quota elimination in Phase 4.

* Debapriya Bhattacharya is the Executive Director of the Centre for Policy Dialogue, Bangladesh, and a Visiting Fellow at the Center for Global Development. Kimberly Elliott is a research fellow at the Center for Global Development and the Institute for International Economics.

In addition to the ATC and to China's joining the WTO, another development affected the patterns of textile and apparel trade in the 1990s. The United States and the European Union expanded and deepened regional and other preferential trade arrangements. Indeed, in the latter half of the 1990s, the U.S. textile industry's strategy for coping with the MFA phase-out included negotiating preferential arrangements with strict rules of origin. Given that the elimination of quotas was likely to accelerate the American apparel industry's long decline, the U.S. textile industry looked to regional arrangements to boost demand for its product. The key was to include rules of origin in trade agreements and other preference programs, stipulating that local or American-made materials had to be used from the "yarn forward" in order for apparel exports to receive tariff-free access in the U.S. market. For trading partners without domestic textile industries, however, having to incorporate relatively expensive U.S. inputs raises costs and reduces the value of preferential access to the U.S. market.[3]

Table 1: Implementation Schedule for the Agreement on Textiles and Clothing

Beginning date for each phase	Minimum import volume integrated, percent (cumulative total in parentheses)	Growth rate for remaining quotas, percent
I. January 1, 1995	16 (16)	16
II. January 1, 1998	17 (33)	25
III. January 1, 2002	18 (51)	27
IV. January 1, 2005	49 (100)	not applicable

Figure 1 shows the effects of these trends on U.S. imports of textiles and apparel. Overall, the dollar value of U.S. imports increased 80 percent from 1994 to 2000. But the growth of imports from Mexico and from the Caribbean basin, including Central America, was nearly three times that from the rest of the world, while imports from China, which was not a WTO member at the time, grew far more slowly than either of these groups. Figure 2 shows the changes in market shares, with both China and the rest of the world losing relative to nearby U.S. partners with preferences in this period.[4]

After China joined the WTO late in 2001, however, its market share increased sharply, doubling from 9 percent to 18 percent, while that of Mexico and the Caribbean dropped by a similar amount. In the European Union, China's market share rose more modestly, from 16 percent in 2000 to 19 percent in 2003.[5] Table 2 shows even more vividly the combined impact on the U.S. market of Chinese accession and Phase 3 liberalization. While total U.S. imports in liberalized categories grew by almost half, Chinese exports of those products to the United States grew four-fold, and its share in those categories increased from 15 to 45 percent. Moreover, although some analysts predicted that the combination of proximity and preferences would preserve market share for Mexico and other Latin American exporters, that has not been true across the board, at least so far. Mexican exports of Phase 3 products dropped 11 percent. Central America saw an overall decline in exports in these categories as well, though within the region, El Salvador, Honduras, and Nicaragua saw modest increases.

Figure 1: US Imports of Textiles and Apparel

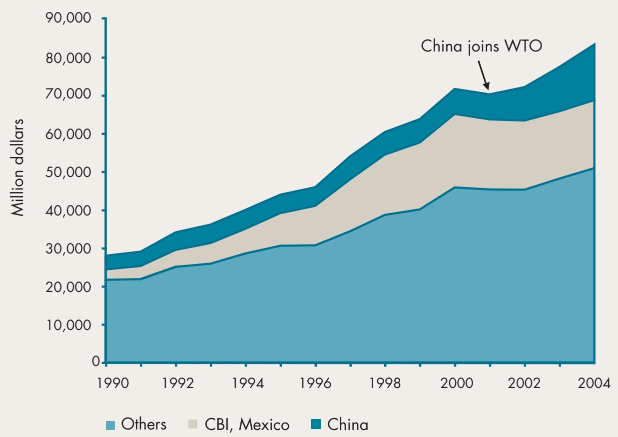

Figure 2: Share of US Imports of Textiles and Apparel

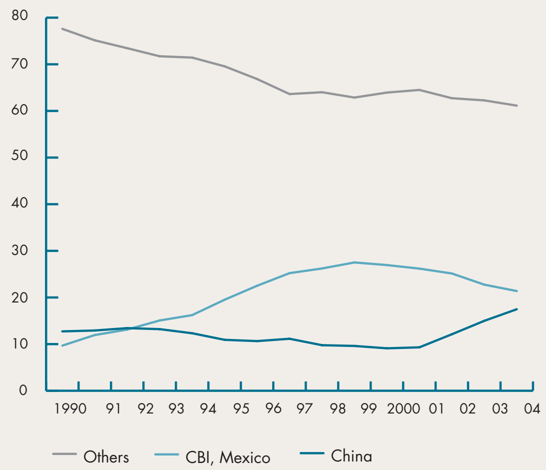

Table 2: US Imports of Products Liberalized Under Phase 3 (million dollars)

	2001	2004	% change
Total	12,552	18,074	44.0
China	1,930	8,362	333.3
All other suppliers	10,622	9,712	-8.6
Chinese share	15.4%	46.3%	
Selected suppliers:			
Mexico	1,396	1,240	-11.2
CAFTA	757	715	-5.5
India	559	719	28.6
Pakistan	449	557	23.9
Bangladesh	522	304	-41.7
Sri Lanka	385	200	-48.1

US Imports of Phase 2, 3 Products Subject to Safeguards (million dollars)

	2001	2003	% change
China	163	753	362.1
ROW	3,091	2,950	-4.6
Chinese share	5.0%	20.3%	

NB: The categories subject to safeguards are knit fabrics (222), bras (349/649), dressing gowns (350/650), and socks (332/432/632).

Sources: US Department of Commerce, Office of Textiles and Apparel (OTEXA), Major Shippers Report database; Vivan C. Jones, "Safeguards on Textile and Apparel Imports from China," CRS Report for Congress, Washington, Congressional Research Service, January.

China and the Implications of Eliminating the MFA

The complex web of country-specific quotas under the MFA added substantially to the distortions in trade flows. In addition to protecting high-cost producers in the rich countries by limiting overall imports, MFA quotas restricted the exports of the most efficient suppliers and forced international buyers to look elsewhere to meet consumer demand. With the MFA gone, firms will seek to reduce costs by consolidating supply chains. Less efficient suppliers that were able to export only because of the maze of quotas now face potentially large adjustment costs. While many predict, or fear, that China will now become the global supplier of choice, firms will not source everything there because of the risk of supply disruptions. An executive of J.C. Penney, for example, said that his firm would continue to source from at least a dozen countries. But he also noted that the company had already contracted its supply chain from 5,000 plants in 51 countries to 1,800 in 23 countries.[6] So who are the winners and losers likely to be?

Overall Trends

Most analysts agree that China stands to gain the most from quota elimination because it has the workforce and the infrastructure to deliver high-quality apparel products at competitive prices on a timely basis. Many Chinese firms are "full-package suppliers," meaning they manage the process from procuring materials through apparel assembly to labeling, packaging, and shipping the product to stores. India, and perhaps Pakistan, are also expected to do well because they have access to local inputs and large supplies of low-cost labor. A few other countries are expected to survive primarily as suppliers of niche products, but Mexico and much of Latin America could lose market share because these countries have both relatively high wages and producers that have not made the move to providing full-package services.[7]

But experts on the textile and clothing industries caution that many of these models are missing important elements of industrial structure and hence may be overly pessimistic, at least with respect to the impact on regional trading partners. These analysts argue that countries closer to the major markets, especially to the United States, will continue to benefit from the shift in the industry toward "lean retailing," which makes proximity an advantage for reasons of time, as well transportation costs.[8] Retailers and other apparel marketers in the United States, and increasingly in Europe, do little production themselves and seek to hold as little inventory as possible, pushing these costs and risks onto suppliers. While labor, material, traditional shipping costs, and tariffs obviously matter, "lean retailers" also look for suppliers that can guarantee timely delivery, particularly of products that need to be replenished frequently, such as jeans, tee-shirts, and undergarments. Moreover, the natural advantage of proximity is often reinforced by preferential market access under regional trade agreements.

Some support for the advantages of proximity and preferences can be found in Table 3, which shows the top 10 exporters to the United States and the European Union. Regional partners generally held their own in Europe, with Turkey and Romania actually seeing more rapid export growth than China in Phase 3 of the MFA phase-out. The only major exporters to the EU to see exports decline were high-wage Hong Kong and far-away Indonesia.

But the results are more mixed for the United States. China was a much bigger winner in this market while Mexico, once in the top position, saw its exports decline. Ready access to quality inputs and the effective use of information and communications technologies can at least partly offset the benefits of proximity. Several studies show East Asian suppliers are in the lead in adopting technologies that allow them to operate as full package suppliers and provide rapid response to orders.[9] Mexican wages are high relative to other apparel exporters, and many analysts believe Mexico has squandered the benefits of proximity and preferential access through poor management and failure to exploit the crucial technologies.

Table 3: Top 10 Apparel Exporters to the European Union and United States, 2003-04

Top Exporters to the EU, 2003			Top Exporters to the US, 2004		
	Million euros	Change in Phase 3[a]		Million dollars	Change in Phase 3
China	9,658	30	China	8,928	94
Turkey	7,166	35	Mexico	6,685	-14
Romania	3,642	42	Hong Kong	3,849	-9
Bangladesh	3,065	19	Honduras	2,673	14
Tunisia	2,712	6	Vietnam	2,563	5250[b]
Morocco	2,466	5	Indonesia	2,403	9
India	2,316	16	India	2,217	29
Hong Kong	2,020	-35	Dominican Republic	2,059	-9
Indonesia	1,319	-27	Bangladesh	1,978	-6
Bulgaria	964	24	Guatemala	1,947	21

a. Calendar year 2003 compared to calendar year 2000.
b. Vietnam's exports to the US surged after the signing of a bilateral trade treaty that granted Vietnam most-favored nation status, thereby substantially lowering duties imposed by US customs.

Sources: Eurostat; US Department of Commerce, Office of Textiles and Apparel, Major Shippers Database.

Challenges for the Least Developed Countries

The countries that are most vulnerable to intensified competition in the post-MFA environment are those that 1) are far from major markets, 2) lack preferential access, 3) lack adequate investments in information technology and in communications and transportation infrastructure, or 4) are politically unstable. If strong growth in the major import markets continues, the relatively more competitive countries of this group could see exports continue to grow, though perhaps more slowly and with losses in market share. For many of the least developed, the prospects are grimmer and the adjustment costs daunting because many of these countries are highly dependent on apparel exports, have few alternative sources of employment in the short run, and have few resources to cushion the adjustment.

Table 4 provides information on 11 developing countries where apparel exports averaged more than half of total merchandise exports in 1997-2002. Half are designated as Least Developed Countries (LDCs) by the United Nations and three of those (Bangladesh, Cambodia and Lesotho) depend on apparel for more than 80 percent of export revenues.[10] Two other LDCs, Nepal and Madagascar, depend on apparel for nearly 40 percent of merchandise exports (70 percent for Nepal if textiles, which are not important for the others, are included).

Among these 11 countries, only Sri Lanka is currently ineligible for preferential access in either the U.S. or the EU market. Although strict rules of origin reduce the benefits, the LDCs on the list have had duty-free and quota-free access to the EU market since 2001 for most products under the Everything But Arms initiative (EBA). Haiti, Honduras, El Salvador, the Dominican Republic, and Mauritius have preferential access to the U.S. market under various regional arrangements, again with strict rules of origin for textiles and apparel. These preferences provide a substantial advantage because apparel tariffs average around 12 percent in the United States and European Union, compared to 3 to 4 percent for other manufactures.[11]

Bangladesh, Cambodia, Laos, Maldives, and Nepal—in addition to Sri Lanka—must pay these relatively high tariffs to enter the U.S. market, putting them on the same playing field as China and at a competitive disadvantage vis-à-vis Caribbean basin and Sub-Saharan African exporters. The data in Table 3 also suggest that this margin may be important, since Bangladesh was able to increase the value of its exports to the EU by 19 percent from 2001 to 2004 while losing 6 percent in the U.S. market where it must pay duties. Moreover, access to the U.S. market is important even for those LDCs with preferences in the EU market. For four of the five apparel-dependent LDCs that do not have preferential access in the United States, exports to the United States still account for 40 to 86 percent of their total exports of textiles and apparel. Exports to the United States account for 60 percent of Sri Lanka's total.

The Impact of Safeguards against China

The accession agreement negotiated between China and other WTO members when it joined the organization provides for safeguard measures in the case of market-disrupting increases in imports of textiles and apparel. The mechanism was intended to cushion the costs of adjustment for firms and workers in importing countries, albeit at the expense of consumers, but its use also provides a temporary respite for developing-country exporters competing with China.

U.S. manufacturers successfully invoked the safeguard to slow the growth in imports of a few products liberalized in Phase 3 of the ATC implementation (Table 2). Producers followed with an attempt to pre-emptively block the much larger surge in imports that they expected once quotas were eliminated on January 1, 2005. Apparel retailers and

Table 4: Developing Countries Most Dependent on Apparel Exports (average 1997-2002)

	Apparel exports as percent of total exports	Exports of apparel to US (million $)	Exports of apparel to US as percent of total apparel exports	Change in Phase 3 exports to US[a]	Change in Phase 3 exports to EU[b]	Preference eligibility[c] in the US	in the EU	Per capita income, 2003[d] (dollars)
Bangladesh***	81	1,808	42	-6	19		EBA	400
Cambodia***	84	638	65	-53	49		EBA	310
Dominican Republic	50	2,289	95	-9	-52	CBI/CAFTA*		2,070
El Salvador	58	1,404	94	7	-40	CBI/CAFTA*		2,200
Haiti***	77	214	92	50	22	CBTPA	EBA	380
Honduras	62	2,133	93	14	1	CBI/CAFTA*		970
Lao PDR***	59	10	8	-43	-8		EBA	320
Lesotho***	85	163	132	112	-42	AGOA	EBA	590
Maldives***	62	68	71	-16	-69		EBA	2,300
Mauritius	58	232	25	-5	-19	AGOA	ACP	4,090
Sri Lanka	57	1,362	59	3	-17			930
Other LDCs								
Madagascar***	39	77	26	82	-51	AGOA	EBA	290
Nepal***	37	157	86	-34	-51		EBA	240

a. 12 months through November 2004 compared to calendar year 2001.
b. Calendar yearr 2003 compared to calendar year 2000.
c. Duty- and quota-free with varying rules of origin.
d. World Bank Atlas method.

*** UN-designated least developed countries; LDC status has a percapita income threshold of $750-900 but also includes criteria indicating economic vulnerability on other measures or weak human resource indicators.

Sources: TRAINS; Department of Commerce, Office of Textiles and Apparel, Major ShippersDatabase; Eurostat.

importers, however, petitioned the U.S. Court of International Trade for an injunction to prevent the U.S. government from considering a safeguards petition based on expectations of a surge rather than on actual import data.[12] But early in April 2005, the U.S. Department of Commerce announced that it would investigate several products based on preliminary data for the first quarter that showed increased imports from China ranging from 300 percent to 1500 percent. The European Union is also considering invoking safeguards against China.[13]

In the longer run, China and India will move up the development ladder, and rising incomes will increase domestic demand for textiles and clothing, opening space for other exporters. But given the large pools of underemployed rural labor in both countries, the long run could be long indeed, and shorter-term adjustment measures are still needed. The safeguards mechanism is one measure, but executing it is likely to be too *ad hoc* and uncertain to provide much help to developing countries that need significant new investments to be able to compete with China. Mechanisms that provide more stable and predictable access, especially for the least-developed countries, would also be helpful.

Policy Recommendations

Policies to cushion the adjustment to the end of the MFA are needed on two levels. First, the international community, especially the United States, can do more to ease the transition for low-income countries that are dependent on apparel exports by further opening their markets to these countries. It is equally important, however, for low-income exporting countries to take steps to improve their competitiveness through domestic reform.

Opening the U.S. market to least-developed countries

The United States is currently the only rich country that does not offer tariff-free access for apparel and other imports from all LDCs. Restrictive rules of origin prevent LDCs from taking full advantage of these preferences in other markets, but the European Union recently announced that it would consider ways to simplify these rules and improve access. These efforts should be accelerated and implemented as soon as possible by other rich countries as well. But the single most important action that any country could take in the short run would be for the United States to extend tariff-free access to the LDCs that do not currently receive it under the Caribbean Basin Trade Partnership Act, the African Growth and Opportunity Act (AGOA), or other regional preference programs.[14] One proposal to do this is the bipartisan Tariff Relief Assistance for Developing Economies (TRADE) Act, which was introduced in the U.S. Senate and House of Representative early in 2005.

If passed, the TRADE Act would authorize the president to grant limited duty-free access to 14 LDCs, plus Sri Lanka, which is just above the income threshold but highly dependent on apparel exports and one of the countries hardest hit by the December tsunami.[15] The bill provides preferential access through 2014 but requires that country eligibility be reassessed annually. The rules of origin for apparel, like those under AGOA, require beneficiary countries to use American materials in order to gain duty-free access to the U.S. market for apparel. Recognizing that this would render exports from such distant countries uncompetitive, the TRADE Act allows beneficiaries to use local or third-country fabric, but only up to a collective ceiling of 11 percent of the volume of total U.S. apparel imports in the preceding 12-months, rising in equal increments to 14 percent in 2014.

A similar cap exists under AGOA, but African exporters are nowhere close to that cap. In contrast, the three largest TRADE Act beneficiaries—Bangladesh, Cambodia, and Sri Lanka—already account for 10 percent of the volume of U.S. imports. Moreover, under the overall aggregate ceiling of 11 to 14 percent, there are individual country limitations based on size. "Small suppliers," accounting for less than 1 percent of total U.S. apparel import volume in the reference year, may increase their market share to a maximum of 1.5 percent (well above current levels for most). Larger suppliers, currently Bangladesh, Cambodia, and Sri Lanka, are allowed to increase their duty-free exports by only 0.33 percent of total annual U.S. apparel imports, and only as long as aggregate exports from TRADE Act beneficiaries remain below the overall cap of 11–14 percent. The rules of origin appear to be designed to preserve existing market shares for these countries in the post-MFA world while limiting the opportunities for growth to the rate of growth of the U.S. market or the ability of these countries to improve productivity and export with the tariff in place. The bill would do more to promote development in these countries if the caps allowed greater opportunities for export growth.

In these countries, especially in the poorest, further development of the textile and apparel sectors will depend on inflows of foreign investment to expand and upgrade capacity. But a significant deterrent to investors is uncertainty of access to major markets. One basis for substantial uncertainty is concern that, after the quota phase-out, rich countries might increase their use of trade remedy measures, such as anti-dumping (AD) and countervailing duties (CVD). Therefore, if the United States and the European Union commit to restraint in using such contingent protection measures against textile and clothing imports from LDCs, they would increase the value of the preferences they grant. Less restrictive and administratively complex rules of origin, including more flexible caps in the U.S. TRADE Act, would also reduce uncertainty and increase the value of trade preferences.

LDC policy reforms

Finally, the ability of vulnerable developing countries to grasp the opportunities offered by the end of the MFA and by any preferential market access they receive depends largely on the reforms that they make themselves to encourage investment and facilitate trade. In addition, even under the best of circumstances, some countries are likely to suffer severe dislocations as buyers and investors rationalize their supply chains. Far too little attention has been paid to targeted labor adjustment policies, either by developing-country governments, which have limited resources, or by donor governments and agencies that might be able to help.

In the near term, policies to promote competitiveness in countries that depend on apparel export should focus on two key objectives: reducing turnaround time, which is increasingly important to buyers following the "lean retailing" model; and reducing other costs of doing business. But cutting costs should not mean just squeezing wages. Success in this market depends on finding ways to improve productivity, which should have positive spillovers for other sectors as well.

The twin challenges of reducing both turnaround time and transaction costs can be addressed in part through the type of reforms currently being negotiated in the Doha Round on trade facilitation and services liberalization. This suggests that developing countries should embrace rather than resist these negotiations. In exchange for developing countries' undertaking new commitments in this area, however, the international donor community should step up to the plate and make binding commitments to provide financial and technical assistance. Trade facilitation reforms would benefit firms in rich as well as in poor countries and would include lower costs of doing business. Equally important in the apparel sector, however, such reforms lower transit time as a result of faster and less corrupt customs clearance and better transportation infrastructure, including more efficient port facilities. Liberalization of services could help 1) expand the use of information technologies (telecommunications and e-commerce) that are crucial to becoming a full-package supplier; 2) reduce the costs of public utilities (e.g., through increased investment in power generation); and 3) expand access to credit by strengthening financial markets.

One recent study estimates that a 20-percent improvement in transaction costs—including time to market—as a result of improved port efficiency, fewer days to deliver imported inputs, and improvement in customs quality and infrastructure—could increase apparel exports by 75 percent in Bangladesh, 59 percent in Indonesia, 80.5 percent in Vietnam, 42 percent in Pakistan, and 40 percent in Sri Lanka.[16]

In the long run, domestic reforms will determine the future of developing countries currently threatened by competition with China and India. The industrialized countries should support these efforts by matching their rhetoric on the importance of trade facilitation and capacity building with adequate funding for this agenda. In the shorter run, the rich countries can ease the shock of adjustment by further opening their markets to the LDCs. For the European Union, this means further easing restrictive rules of origin. For the United States, it means passing legislation that provides duty-free access, also with flexible rules of origin, for the LDCs that do not currently have it, as well as for Sri Lanka.

Notes

1 One step the U.S. government could take is to "pre-designate" textile and apparel workers as eligible for trade adjustment assistance. This would save individual workers the time and expense of seeking individual certification, giving them quicker access to benefits such as income maintenance, health insurance subsidies, and retraining and relocation assistance. Lori Kletzer and Howard Rosen estimate that extending such benefits to all dislocated workers in 11 import-sensitive sectors would cost just $3 billion annually ("Easing the Adjustment Burden on U.S. Workers" in *The United States and the World Economy: Foreign Economic Policy for the Next Decade,"* edited by C. Fred Bergsten, Washington: Institute for International Economics, 2005).

2 Hildegunn Kyyvik Nordas, "The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing," Discussion Paper No. 5, Geneva, World Trade Organization, 2004.

3 The benefits of EU preferential arrangements are also significantly reduced by restrictive rules of origin. For example, less than 60 per cent of Bangladesh's woven and knit garment exports to the EU in 2004 received Generalized System of Preferences treatment. According to UNCTAD data, only half to two-thirds of eligible imports, on average, receive preferential treatment in the United States and European Union.

4 Aside from Canada and Israel, other preferential arrangements were not in place in this period.

5 Data compiled by the authors from Eurostat.

6 Los Angeles Times, January 16, 2005, accessed at www.latimes.com on January 18, 2005.

7 See the U.S. International Trade Commission report for a review of the literature, *Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market,* Publication 3671, Washington, DC 2004.

8 Frederick H. Abernathy, Anthony Volpe, and David Weil. "The Apparel and Textile Industries after 2005: Prospects and Choices," Harvard Center for Textile and Apparel Research, draft of December 23, 2004, and Frederick H. Abernathy, John T. Dunlop, Janice H. Hammond, and David Weil, *A Stitch in Time: Lean Retailing and the Transformation of Manufacturing—Lessons from the Apparel and Textile Industries,* New York: Oxford University Press, 1999.

9 See for details: Denis Audet. 2004. "Structural Adjustment in Textiles and Clothing in the Post-ATC Trading Environment." *OECD Trade Policy Working Papers*, No. 4, and Gary Gereffi, "Outsourcing and Changing Patterns of International Competition in the Apparel Commodity Chain," Paper presented at the conference on Responding to Globalization: Societies, Groups, and Individuals, Boulder, Colorado, April 4-7, 2002.

10 The UN has a three-part formula for designating countries as least-developed that includes small size and economic vulnerability (for example, high dependence on a single commodity), as well as low incomes.

11 William R. Cline, *Trade Policy and Global Poverty,* Washington: Institute for International Economics and Center for Global Development, 2004.

12 See T. Stewart. 2005. *China in the WTO—Year 3: A Report Prepared for the US-China Economic and Security Review Commission*.

13 *Inside U.S. Trade,* April 8, 2005. China tried to head off the use of safeguards by announcing late in 2004 that it would impose a tax on textile and apparel exports after the quota phase-out. Not surprisingly, China designed the tax to serve its industrial strategy of encouraging a move from low value-added to higher-end products, but most analysts do not believe the tax is large enough to have much impact on exports. See *The Wall Street Journal*. December 13, 2004.

14 The international community can also provide targeted financial and technical assistance. The only specific program developed thus far is the Trade Integration Mechanism introduced by the International Monetary Fund in April 2004 to address concerns, *inter alia*, about potential balance of payments problems in some developing countries following the elimination of textile and apparel quotas. But this is not a special facility providing new resources on concessional terms; access to funds remains highly conditioned and it does not cover balance of payments problems arising from unilateral liberalization.

15 The other potentially eligible countries are Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Laos, Maldives, Nepal, Samoa, Solomon Islands, East Timor, Tuvalu, Vanuatu, and Yemen. Burma (Myanmar) is also a UN-designated least-developed country, but the U.S. prohibits imports from Burma because of its human rights abuses.

16 See Nizar Assanie, 2004, *Out of the Blue: Post-MFA Textile Scenarios in Developed Countries and Implications for Developing Asian Economies*ernational Economics.

The **Center** for **Global Development** is an independent, non-partisan, non-profit think tank dedicated to reducing global poverty and inequality through policy oriented research and active engagement on development issues with the policy community and the public. A principal focus of the Center's work is the policies of the United States and other industrialized countries that affect development prospects in poor countries. The Center's **research** assesses the impact on poor people of globalization and of the policies of governments and multilateral institutions. In collaboration with civil society groups, the Center seeks to identify **policy alternatives** that will promote equitable growth and participatory development in low-income and transitional economies. The Center works with other institutions to improve **public understanding** in industrialized countries of the economic, political, and strategic benefits of promoting improved living standards and governance in developing countries.

Center for Global Development
1776 Massachusetts Ave., NW
Third Floor
Washington, D.C. 20036
www.cgdev.org

CGD Brief

Adjusting to the MFA Phase-Out: Policy Priorities

Debapriya Bhattacharya and Kimberly Elliott

April 2005