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# **Liberalizing Quotas on T&C: Has the ATC Actually Worked?**

(SNAFU)

**7th Annual GTAP Conference on:  
„Trade, Poverty and the Environment“  
Washington, D.C., June 17 – 19, 2004**

# Structure

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- I. Introduction and Overview
- II. What about QRs et al?
- III. What about Quota Margins?
- IV. Summary and Conclusions

# I. Introduction and Overview

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The end is nigh

No, the beginning of a new era is nigh...

Really??

„Negotiations in the area of textiles and clothing shall aim to formulate modalities that would permit the eventual integration of the sector into GATT on the basis of strengthened GATT rules and disciplines.“

# I. Introduction and Overview

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Does that sound like something that will totally and completely sweep away restrictions et al on T&C products from exporting countries?

Hardly!!!!!!

It sounds more like the Bible saying.

„The world was not created in a day.“

# I. Introduction and Overview

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Anyhow, the end is proclaimed as being near.....(almost)

For sure most of the members felt that this was a direct thrust at the jugular of quotas on T&C products.

Others (read ICs) thought that that this was a brief to finagle and finesse an elimination that they did not want to be one.

# I. Introduction and Overview

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BUT..read it as you want....the bottom line was truly  
(?) aimed at elimination.

After over 40 years of discriminatory protection in  
violation of basic precepts of the GATT system  
such were destined to END.

N. R. I. P

please.

# I. Introduction and Overview

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The trek was a long one beginning basically 50 years ago with restraints in the 50s.

That is when the concept of market disruption was born and then led to the STA, LTA and then to the MFA.

AMEN...

# I. Introduction and Overview

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The MFA was similar in content to the previous agreements, but its coverage to non-cotton textiles and clothing.

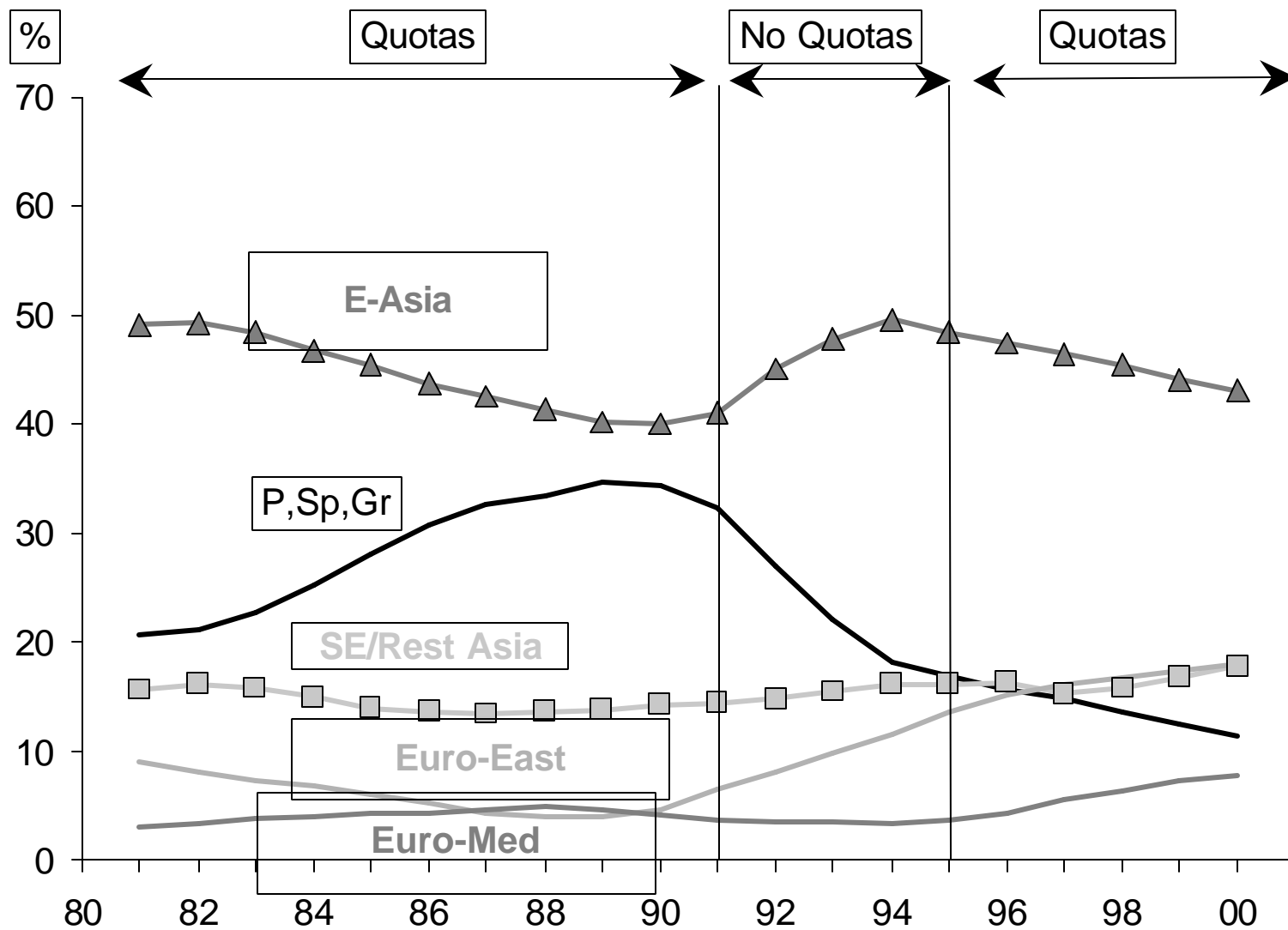
It was applied to imports by the EU, US of A, Canada Norway, Finland and and Austria.

Most interesting was the impact in Sweden, which had thrown overboard all barriers in 1990, only to have to replace them again in 1995...the Swedish consumers were overjoyed.

SKÖL!!!



# Sweden's Clothing Imports from Selected Regions in Percent of Total Non-OECD Imports plus Portugal, Spain and Greece (1980-2001)



Source: Own calculations based on Swedish import data. Moving 3-year-average.

# I. Introduction and Overview

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In other words all sorts of BS was introduced to dampen liberalization and finagle nprotection.

The essence of all this BS was a system that meant roughly 85% of the quotas will be eliminated as of 1.1.2005.

# I. Introduction and Overview

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In other words push was programmed to come to shove.

In theory the end of the ten year transition period will end as of 01/01/05.

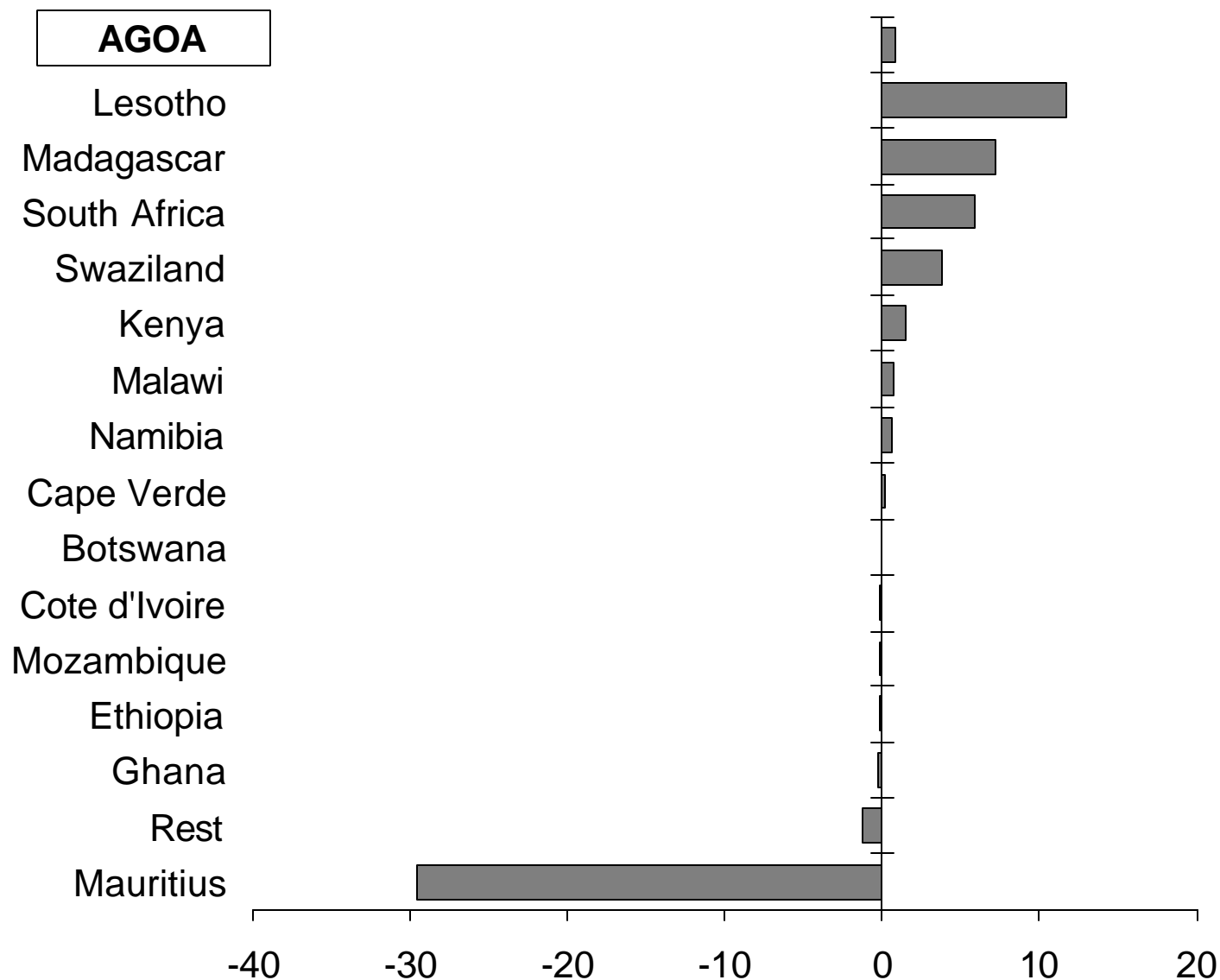
In reality there is more than worry that push will come to something else than free trade.

# I. Introduction and Overview

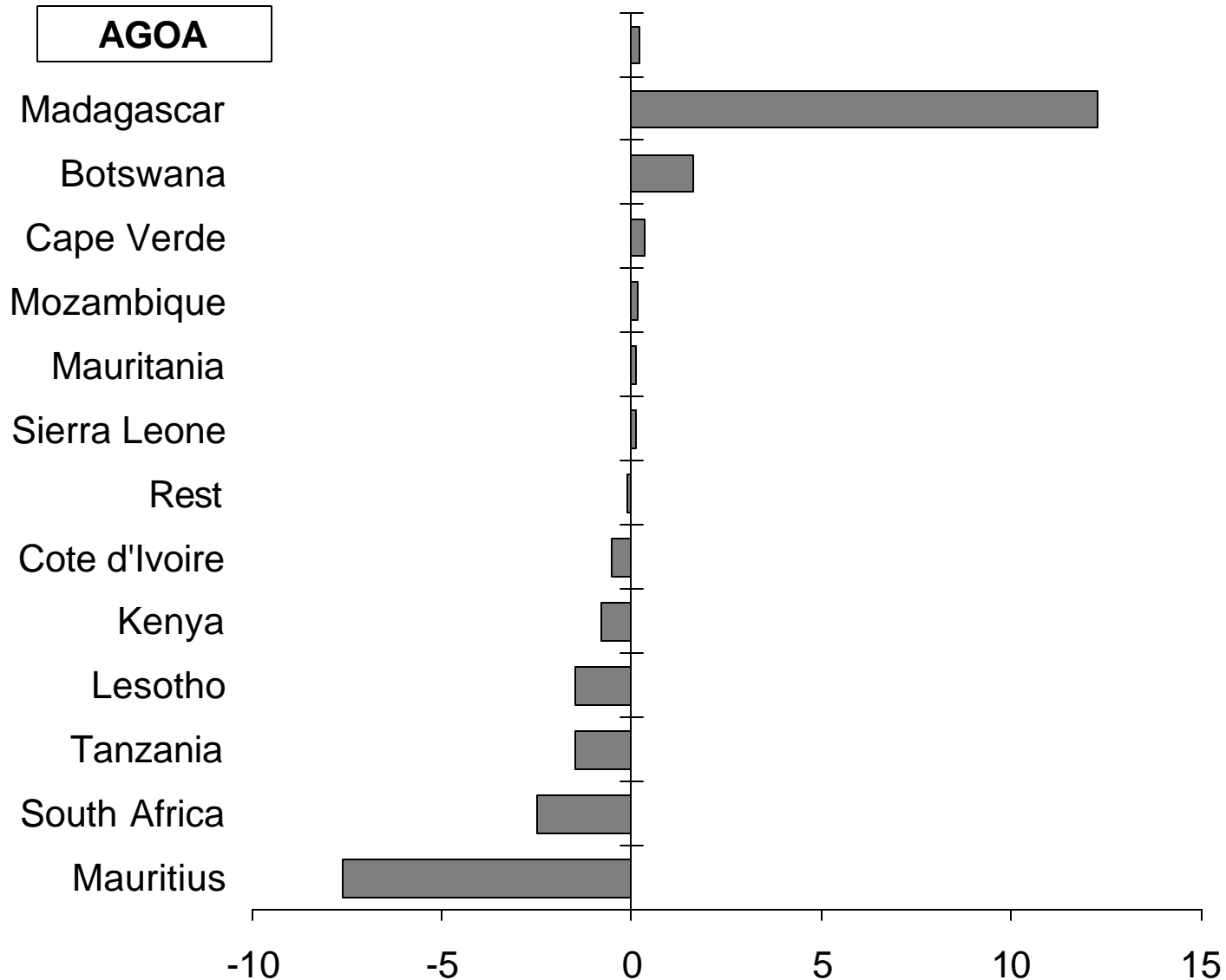
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Aside from such concerns there are others...Africa etc.

# Performance of US Clothing Imports (SITC 84): % of Total



# Performance of EU Clothing Imports (SITC 84)



## II: WHAT MIGHT HAPPEN?

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Our approach is to first assume CES import demand.

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# CES Import demand

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$$x_{ij} = \left[ \frac{\mathbf{a}_{ij}}{P_{ij}} \right]^s P_j^{s-1} E_j$$

# Relative import demands

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$$\frac{x_{ij}}{x_{kj}} = \left[ \frac{\mathbf{a}_{ij}}{\mathbf{a}_{kj}} \right]^s \left[ \frac{P_{kj}}{P_{ij}} \right]^s$$
$$= \left[ \frac{\mathbf{a}_{ij}}{\mathbf{a}_{kj}} \right]^s \left[ \frac{t_{kj} P_{kj}^*}{t_{ij} P_{ij}} \right]^s$$

# Estimating equation

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$$\ln(x_{ij}) - (\ln x_{kj}) = s [\ln(a_{ij}) - \ln(a_{kj})] + s [\ln(1 + t_{kj}) - \ln(1 + t_{ij})] + s [\ln(\Omega_{kj}) - \ln(\Omega_{ij})] + e_{ik,j}$$

where  $\Omega \geq 1$

# Minimizing equation

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$$\min \sum_{j, j \neq i, k} \sum_h (\mathbf{e}_{h,j})^2$$

$$s.t. \quad \left\{ \ln(x_{ij}) - (\ln x_{kj}) \right\} - \left\{ \mathbf{s} [\ln(\mathbf{a}_i) - \ln(\mathbf{a}_k)] + \mathbf{s} [\ln(1+t_{kj}) - \ln(1+t_{ij})] + \mathbf{s} [\ln(\Omega_{kj}) - \ln(\Omega_{ij})] \right\} = \mathbf{e}_{ik,j}$$
$$\ln(\Omega_{ij}) \geq 0$$

# Basic Approach

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- GTAP6 data on trade and tariffs
- Quota wedges estimated at the GTAP sector and region level
- CES-based non-linear estimation equation -- estimated in GAMS:

# Two sets of estimates

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- Unrestricted: we estimate the trade substitution elasticities along with the ATC quota wedges.
- Restricted: we estimate the ATC quota wedges while imposing a constraint on the substitution elasticities to equal new GTAP values.
- The restricted set has been introduced to GTAP6.3

# Basic Results

Table 5: NLS Estimates of ATC Price Wedges for Textiles

	preferred -- unrestricted model, estimated sigma=4.3			restricted model, imposed sigma=7.5		
	can	usa	EU15	can	usa	EU15
chn China	1.332	1.508	1.883	1.166	1.262	1.402
hkg Hong Kong	1.000	1.000	1.423	1.000	1.000	1.204
kor South Korea	1.000	1.049	1.407	1.000	1.019	1.184
twn Taiwan	1.000	1.000	1.000	1.000	1.000	1.000
xea Rest of South East Asia	1.000	1.000	1.211	1.000	1.000	1.103
idn Indonesia	1.224	1.290	1.437	1.130	1.150	1.216
mys Malaysia	1.199	1.231	1.483	1.110	1.115	1.229
phl Philippines	1.018	1.000	1.454	1.026	1.000	1.231
sgp Singapore	1.000	1.000	1.000	1.000	1.000	1.000
tha Thailand	1.133	1.080	1.400	1.071	1.042	1.187
vnm Vietnam†	1.000	1.485	0.000	1.000	1.260	1.000
bgd Bangladesh	1.000	1.000		1.000	1.000	
ind India	1.000	1.148	1.190	1.006	1.096	1.082
lka Sri Lanka	1.000	1.000		1.000	1.000	
xsa Rest of South Asia	1.028	1.070	1.382	1.014	1.037	1.211
col Columbia		1.000			1.000	
per Peru			1.000			1.000
arg Argentina			1.000			1.000
bra Brazil	1.000	1.000	1.000	1.000	1.000	1.000
ury Uruguay	1.000	1.000		1.000	1.000	
xca Rest of Central America	1.000	1.000		1.000	1.000	
xcb Rest of Caribbean	1.000	1.000		1.000	1.000	
xfa Rest of FTAA	1.000	1.000		1.000	1.000	
bgr Bulgaria			1.033			1.002
cze Czech Republic	1.115	1.419		1.052	1.212	
hun Hungary	1.511	1.538		1.251	1.257	
pol Poland			1.471			1.234
rom Romania	1.137	1.179		1.064	1.079	
svk Slovakia	1.595	1.809		1.301	1.387	
tur Turkey	1.135	1.065		1.057	1.019	
xme Rest of Middle East		1.000			1.000	
zaf South Africa	1.000			1.000		
xsc Rest of SACU	1.000			1.000		
xsd Rest of SADC	1.123	1.000		1.066	1.000	
xss Rest of Sub-Saharan Africa		1.151			1.070	

R-squared .781, Obs 66516, F 1466.178 (Pr>F, 0.000) | R-squared .780, Obs 66516, F 1467.766

Note: F statistic for restriction on sigma is 267.973, (Pr>F, 0.00)

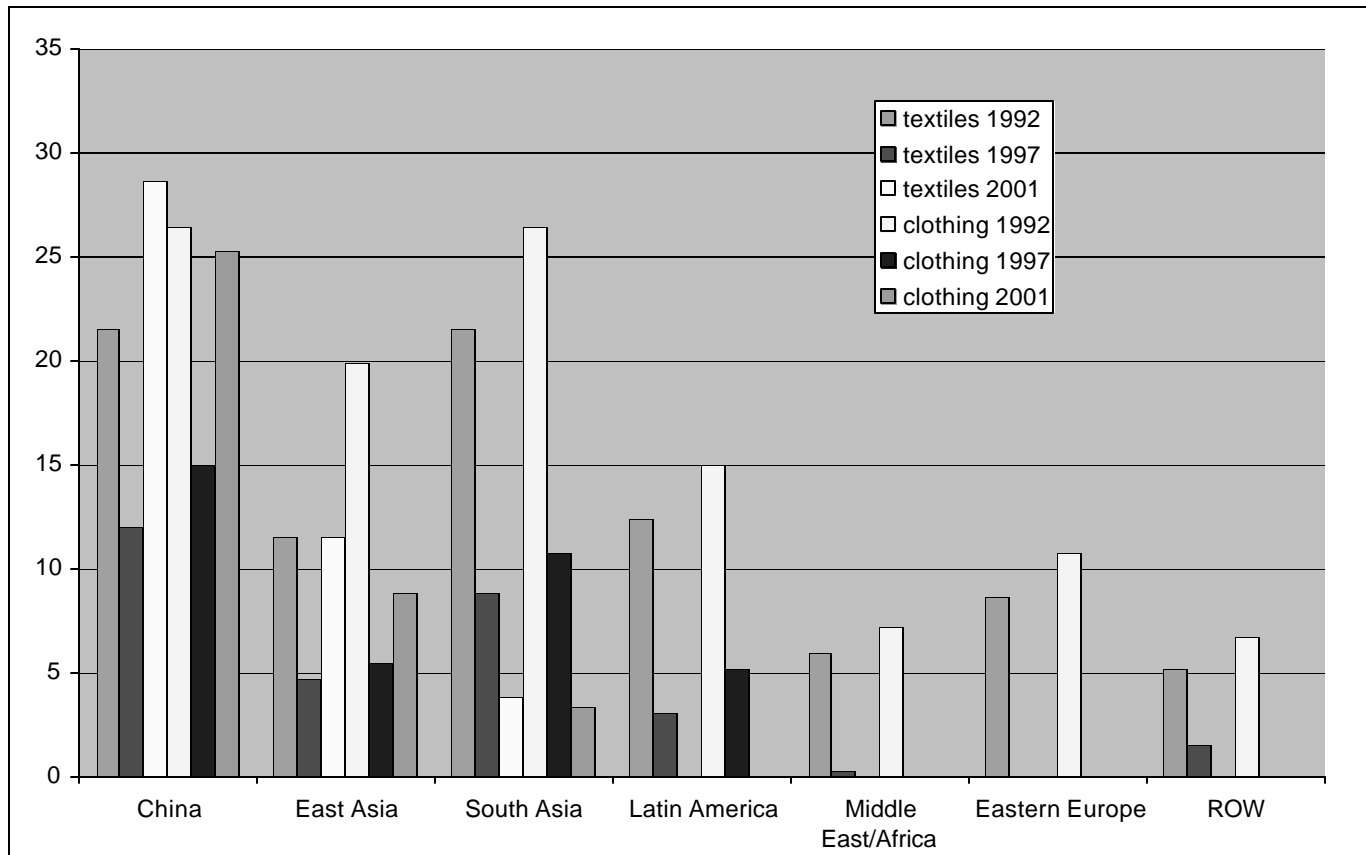
Table 6: NLS Estimates of ATC Price Wedges for Clothing

	preferred -- unrestricted model, estimated sigma=5.1			restricted model, imposed sigma=7.4		
	can	usa	EU15	can	usa	EU15
chn China	1.309	1.590	1.573	1.204	1.376	1.339
hkg Hong Kong	1.000	1.000	1.130	1.000	1.000	1.078
kor South Korea	1.000	1.000	1.363	1.000	1.000	1.214
twn Taiwan	1.000	1.000	1.000	1.000	1.000	1.000
xea Rest of South East Asia	1.000	1.000	1.093	1.000	1.000	1.056
idn Indonesia	1.000	1.000	1.176	1.000	1.000	1.108
mys Malaysia	1.000	1.000	1.192	1.000	1.000	1.116
phl Philippines	1.000	1.000	1.403	1.000	1.000	1.248
sgp Singapore	1.000	1.000	1.000	1.000	1.000	1.000
tha Thailand	1.006	1.022	1.265	1.010	1.019	1.162
vnm Vietnam †	1.000	1.563	1.000	1.000	1.368	1.000
bgd Bangladesh	1.000	1.000		1.000	1.000	
ind India	1.000	1.096	1.117	1.000	1.072	1.072
lka Sri Lanka	1.000	1.000		1.000	1.000	
xsa Rest of South Asia	1.000	1.000	1.174	1.000	1.000	1.148
col Columbia		1.000			1.000	
per Peru			1.000			1.000
arg Argentina			1.000			1.000
bra Brazil	1.184	1.080	1.000	1.119	1.050	1.000
ury Uruguay	1.000	1.009		1.000	1.007	
xca Rest of Central America	1.000	1.000		1.000	1.000	
xcb Rest of Caribbean	1.000			1.000	1.000	
xfa Rest of FTAA	1.000	1.000		1.000	1.000	
bgr Bulgaria			1.043			1.018
cze Czech Republic	1.046	1.378		1.019	1.234	
hun Hungary	1.000	1.149		1.000	1.090	
pol Poland			1.487			1.302
rom Romania	1.266	1.322		1.164	1.200	
svk Slovakia	1.257	1.353		1.148	1.211	
tur Turkey	1.000	1.024			1.011	
xme Rest of Middle East		1.000			1.000	
zaf South Africa	1.000					
xsc Rest of SACU	1.000			1.000		
xsd Rest of SADC	1.000	1.000		1.000	1.000	
xss Rest of Sub-Saharan Africa		1.000			1.000	

R-squared .738, Obs 66204, F 1170.288 (Pr>F, 0.000) | R-squared .737, Obs 66204, F 1171.196

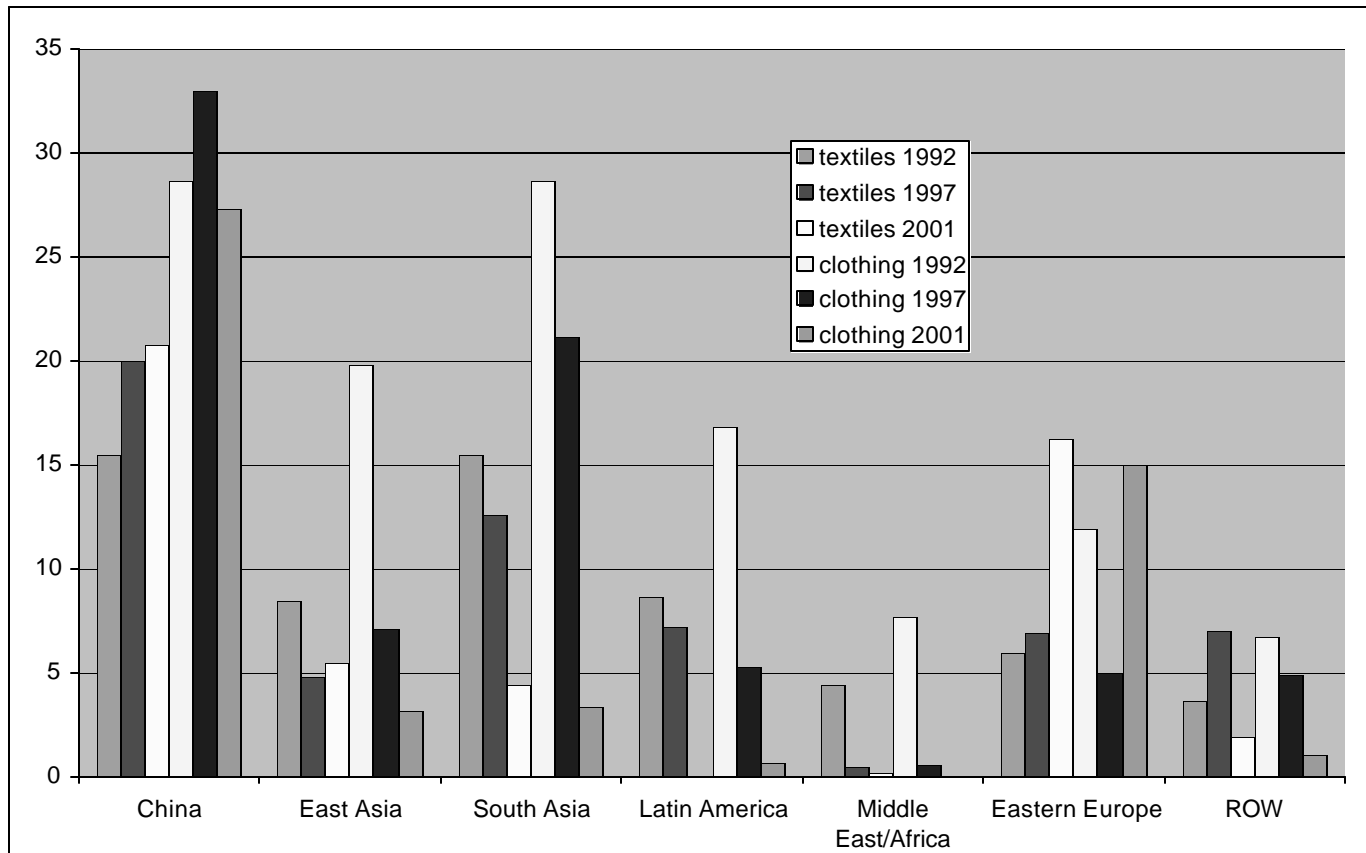
Note: F statistic for restriction on sigma is 270.794, (Pr>F, 0.00)

# EU import protection 1992-2001





# US import protection 1992-2001



# AND WHERE ARE THE DANGERS??

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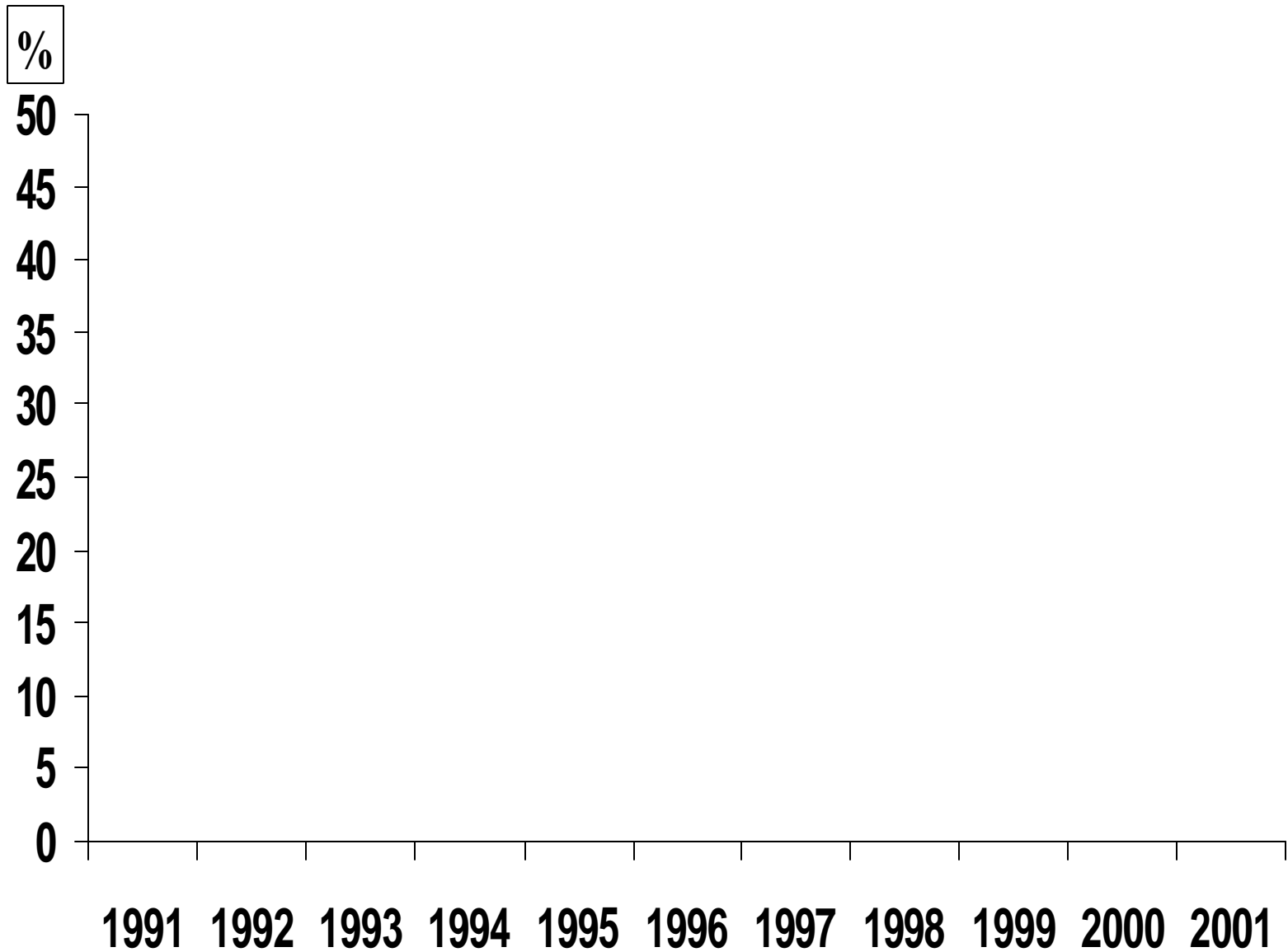
The dangers are clear:

**When countries are too, too successful they get hit with NTBs.**

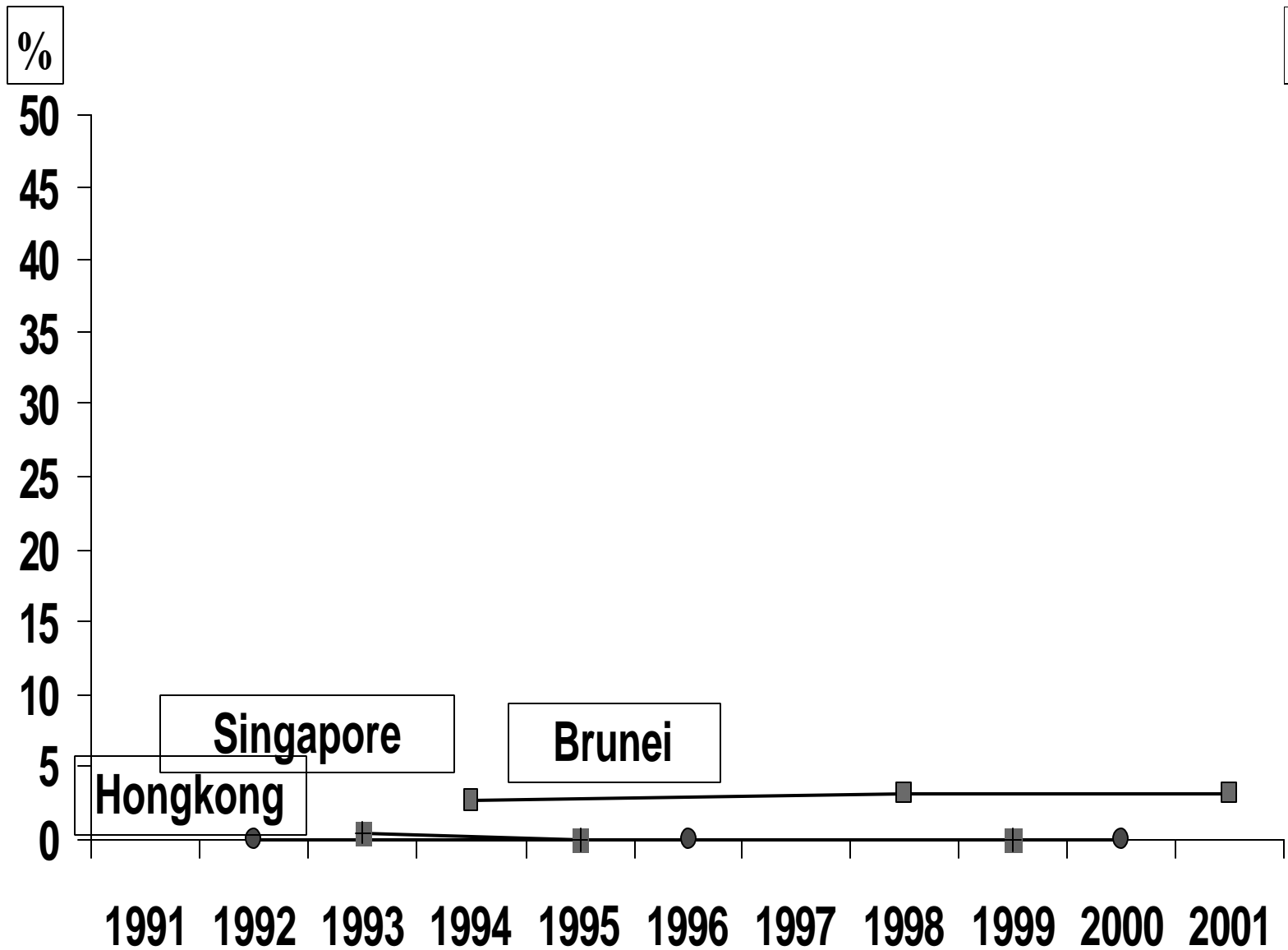
This could mean, for instance, antidumping measures (ADMs) or other non-tariff measures (NTMs).

Let us take a look at what happened when APEC economies reduced tariffs in the course of the 90s..... dangers are lurking.

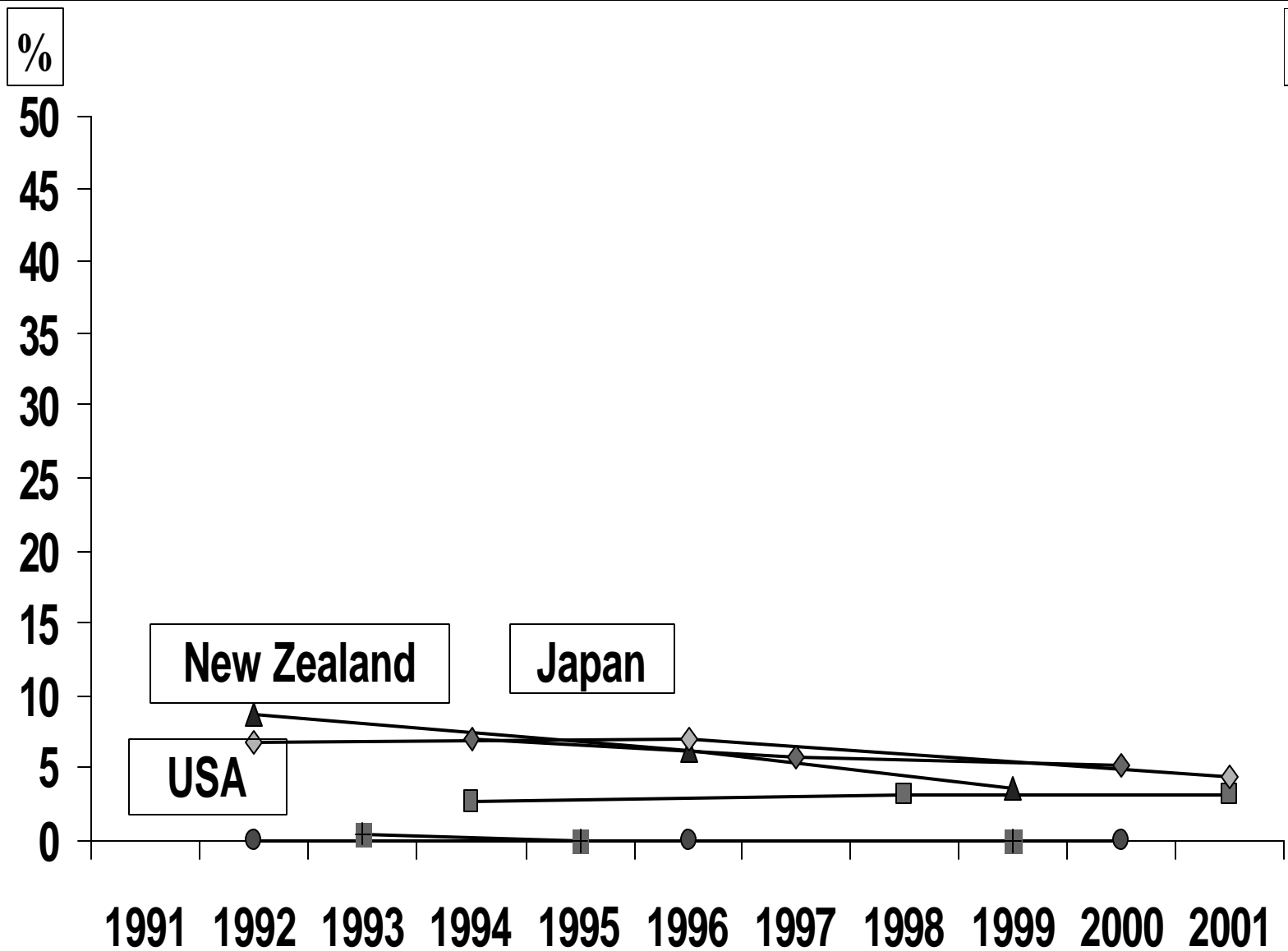
# Tariff reductions: Heading to 2020



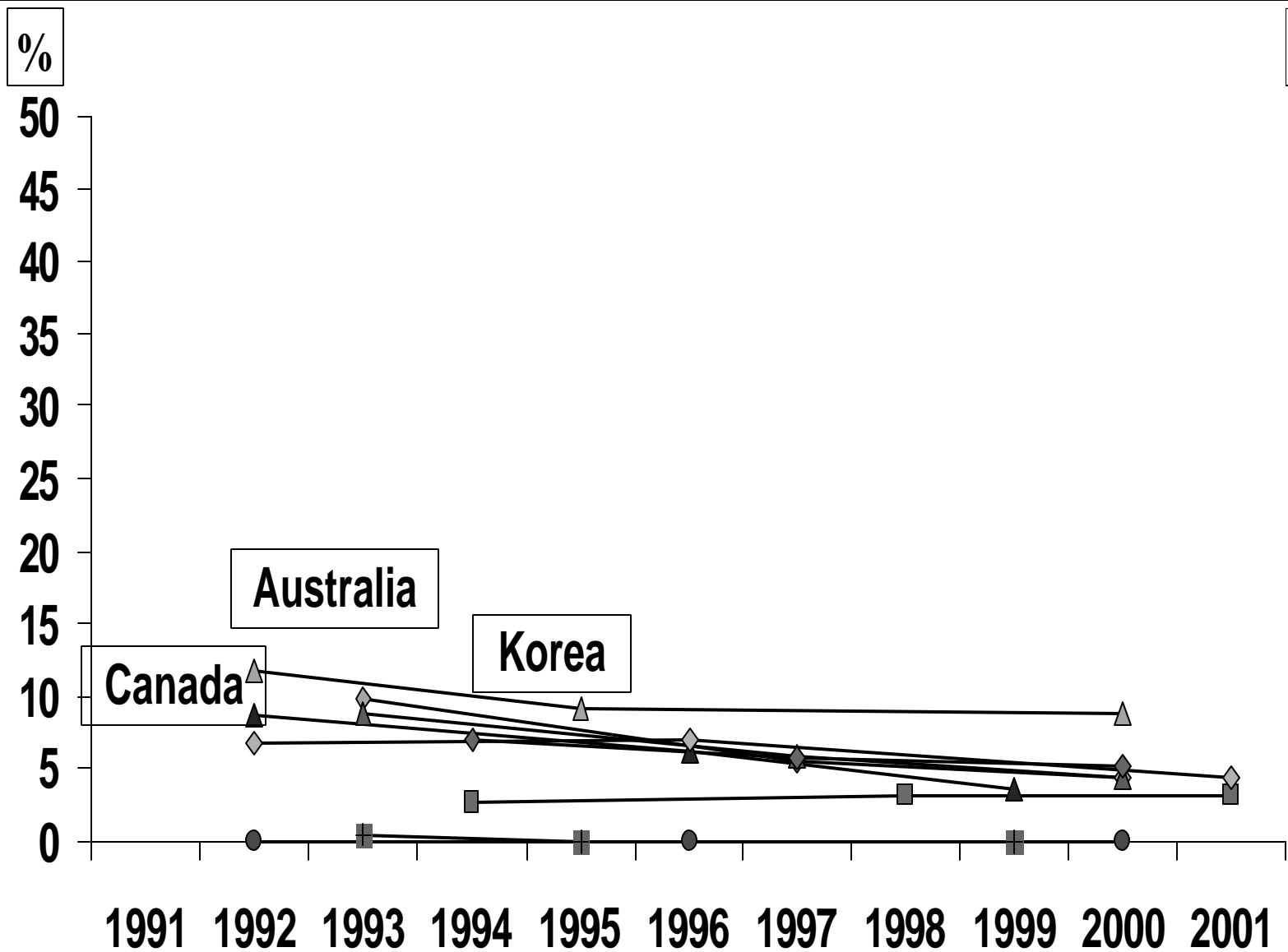
# Tariff reductions: Heading to 2020



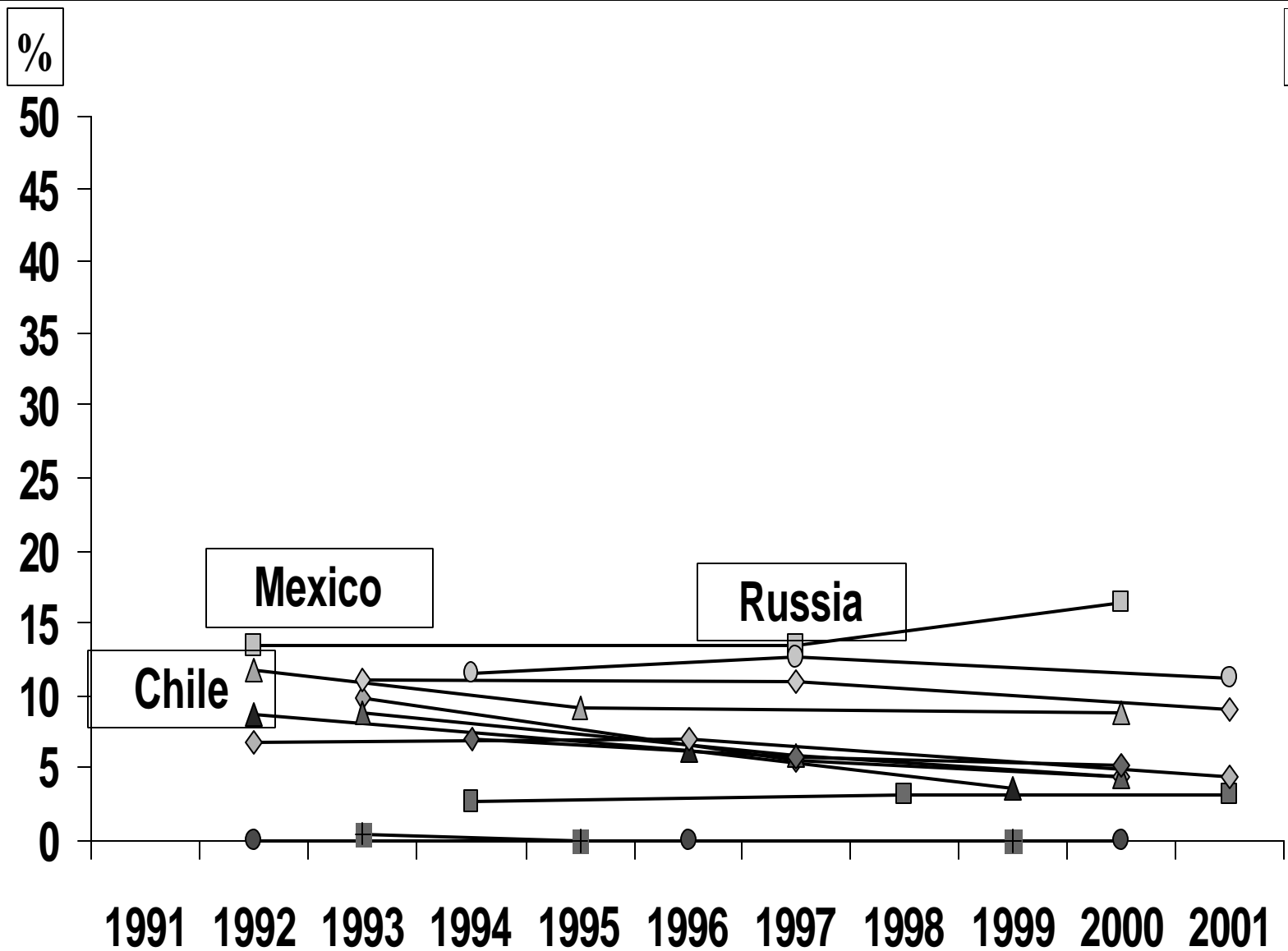
# Tariff reductions: Heading to 2020



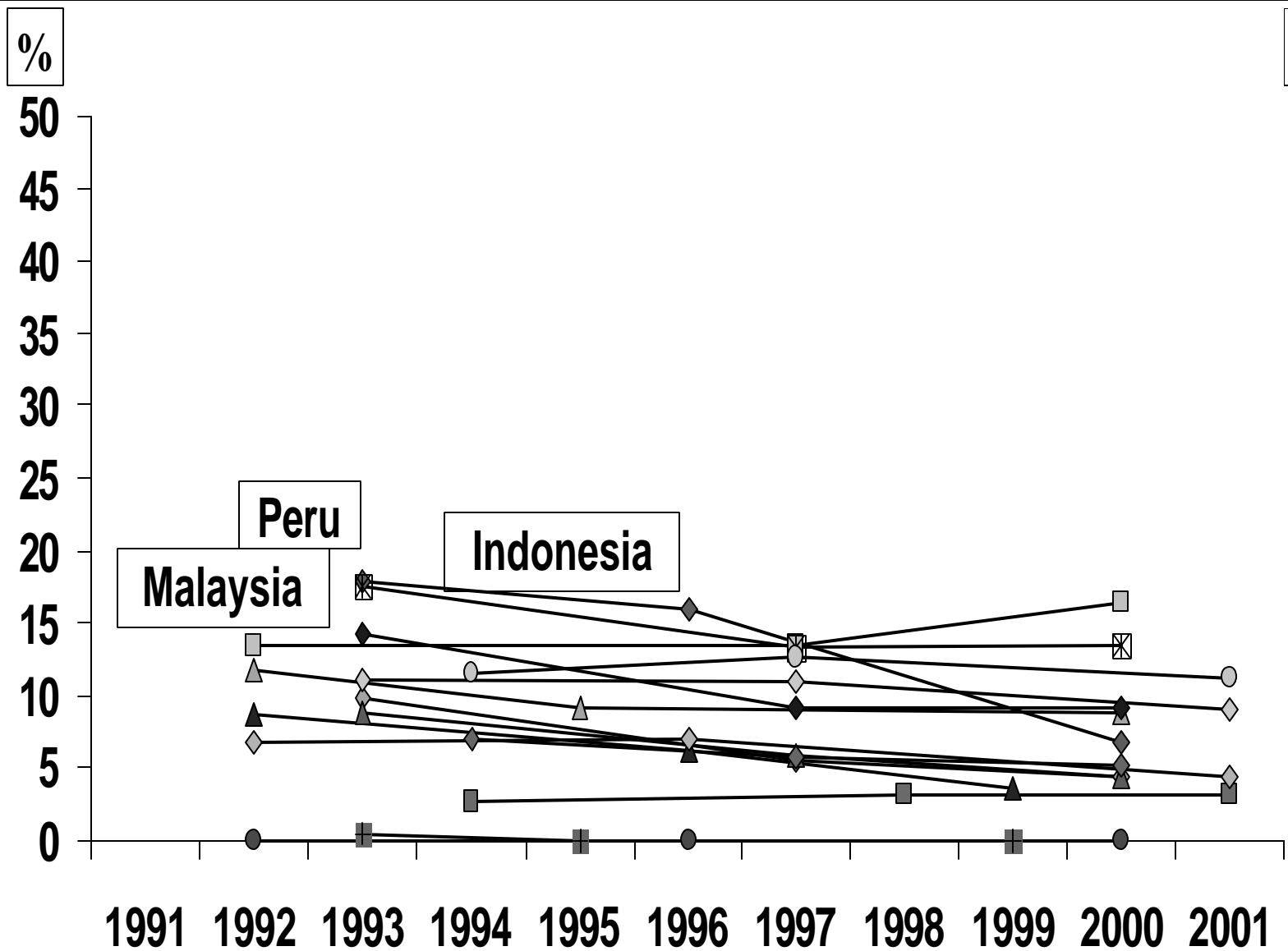
# Tariff reductions: Heading to 2020



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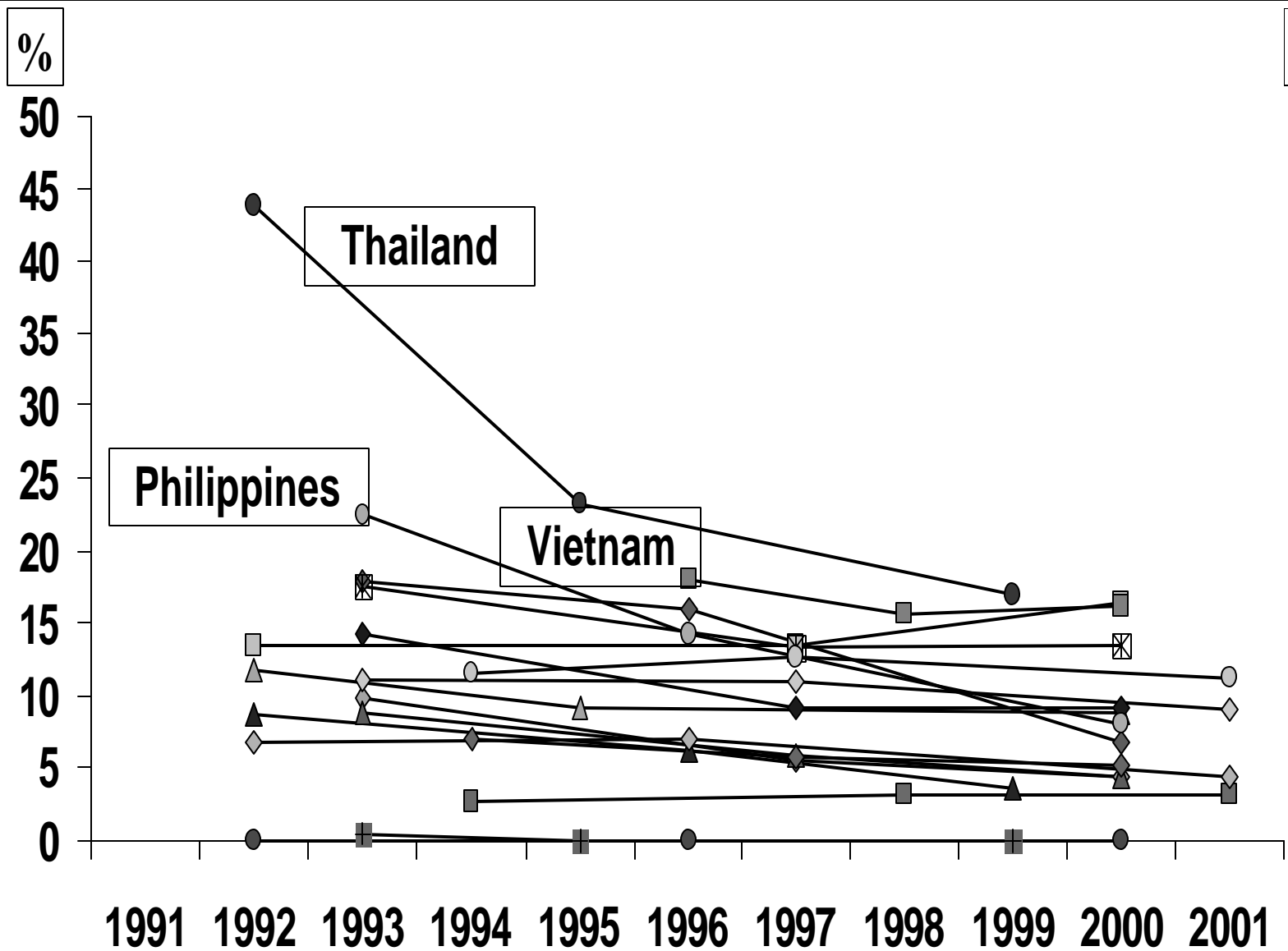


# Tariff reductions: Heading to 2020

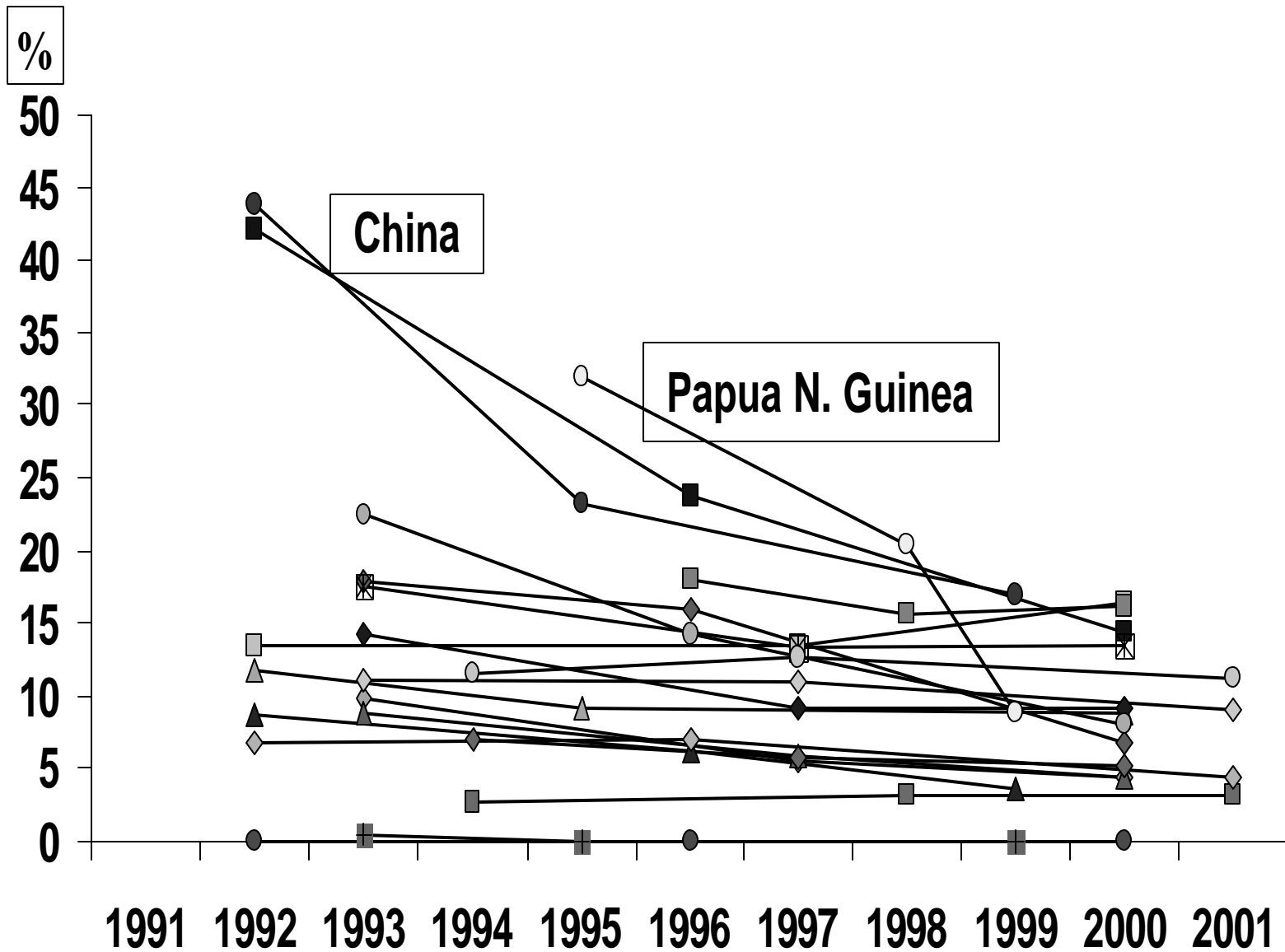




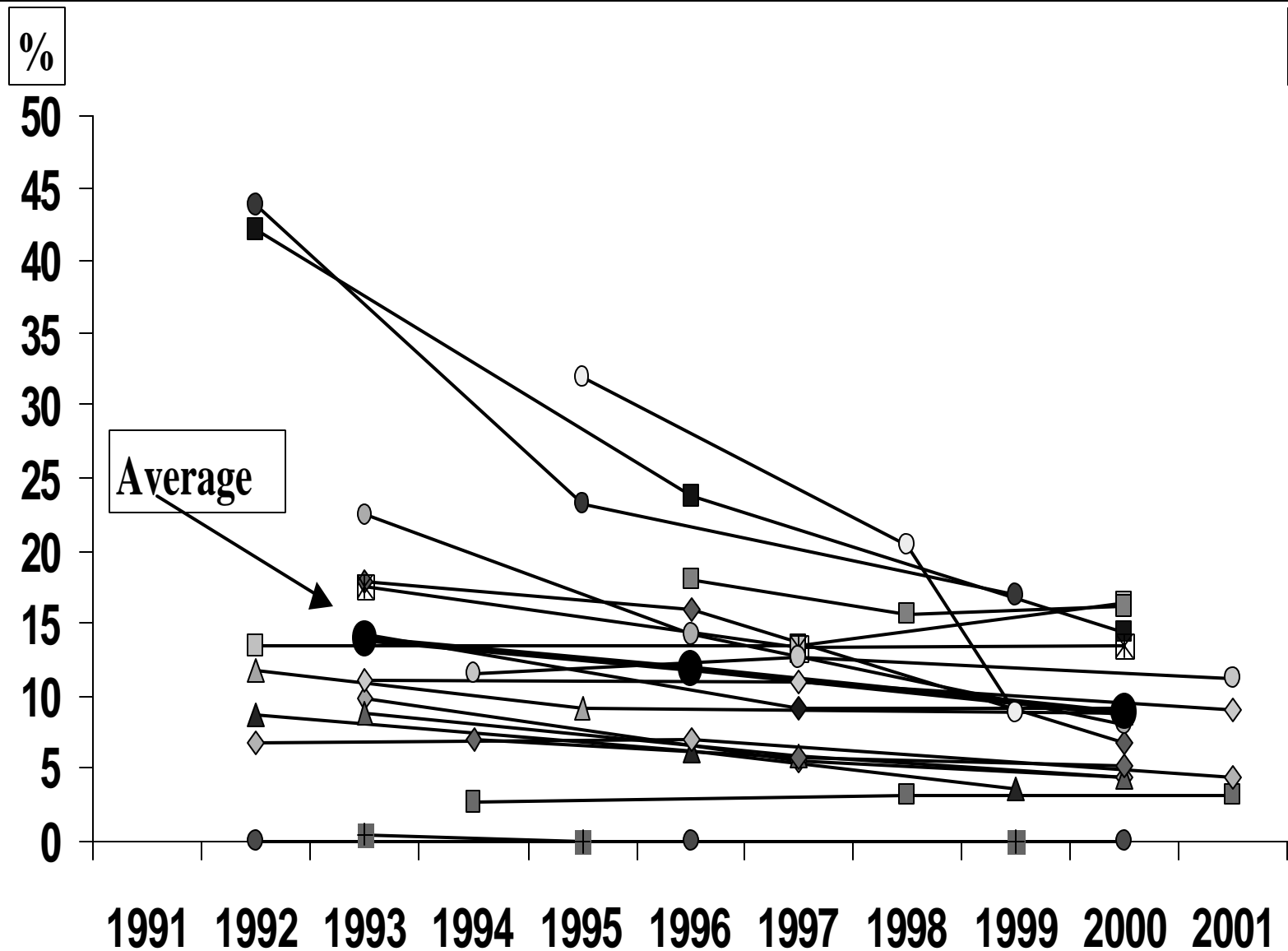
# Tariff reductions: Heading to 2020



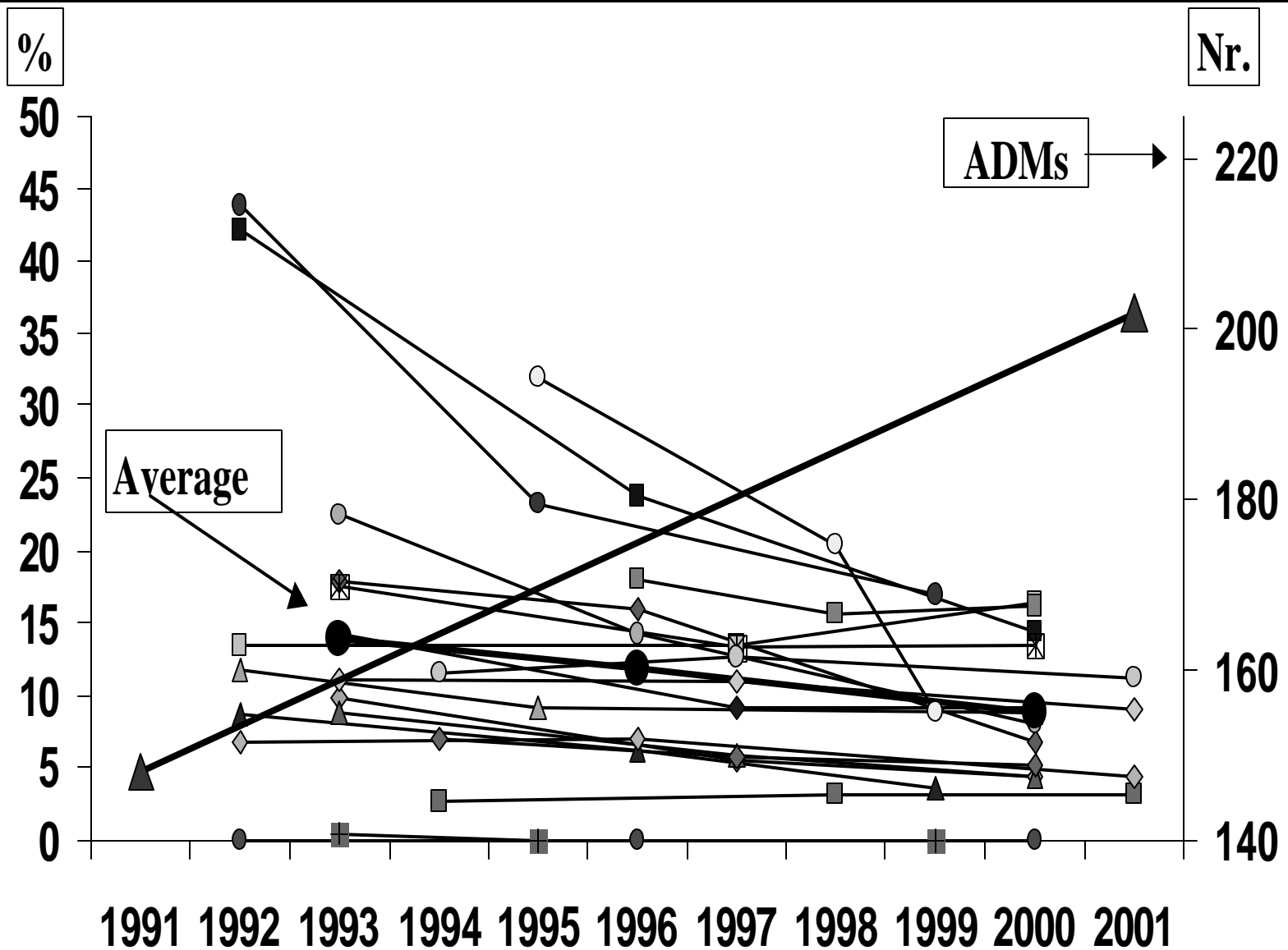
# Tariff reductions: Heading to 2020



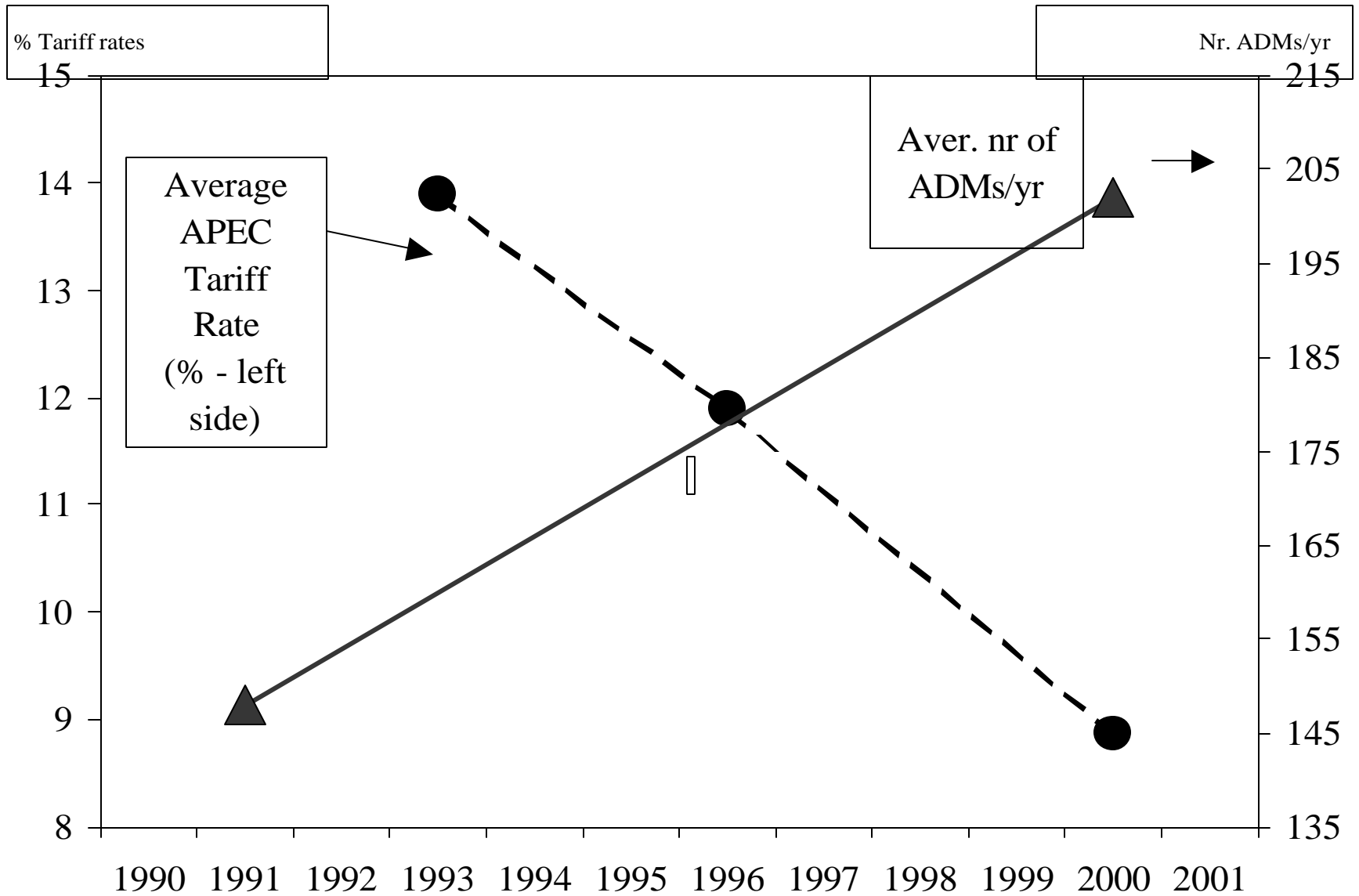
# Tariff reductions: Heading to 2020



# Tariff reductions: Heading to 2020



# Tariffs down, ADMs up!!

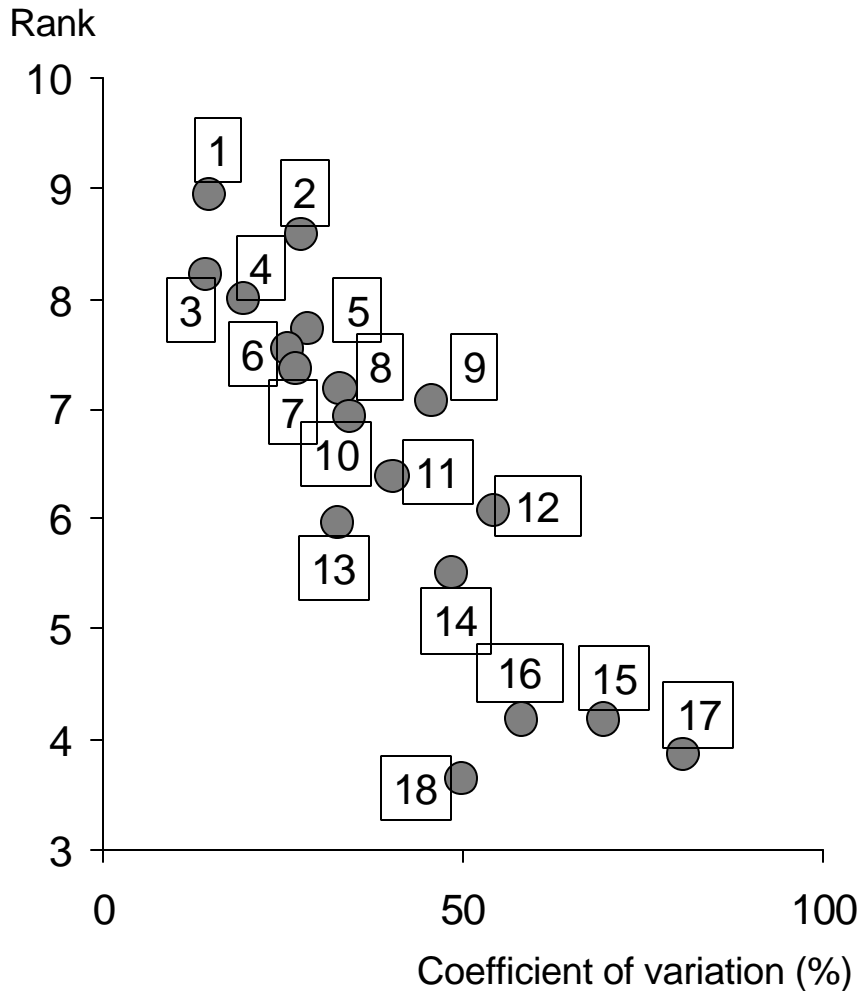


**WHERE ARE WE NOW?**

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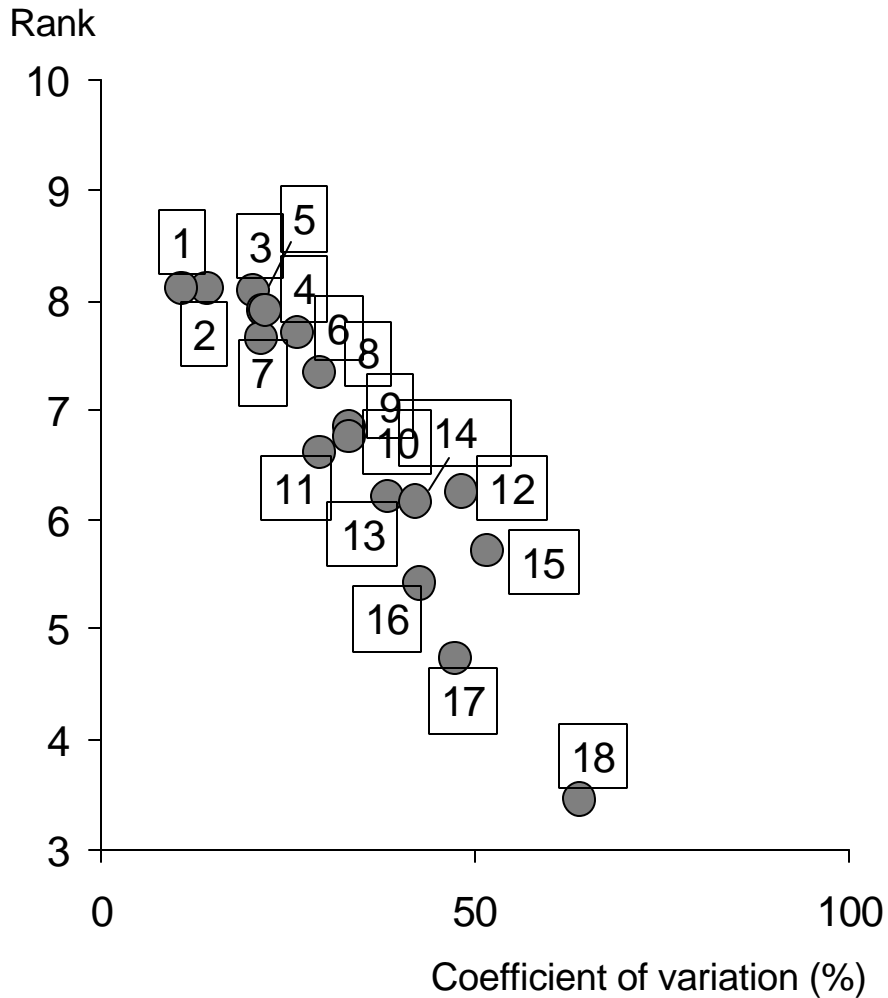
**IS THIS WHAT IS GOING TO HAPPEN!!!**

# Ranking of Factors Influencing Investment Decisions: 2000



- 1 Politics and stability in host country
- 2 Availability of quotas in host country
- 3 Quality of transportation infrastructure in host country
- 4 Quality of telecom infrastructure in host country
- 5 Policies affecting international trade and investment
- 6 Labor costs
- 7 Education and training of workers
- 8 Policies affecting labor, health and environment
- 9 Potential for exports to USA
- 10 Lack of restrictions on capital/profit transactions
- 11 The "culture" of host country
- 12 Potential new customers/new markets
- 13 Potential for exports to EU
- 14 Host government tax policies/incentives
- 15 Availability of ready-made factory units
- 16 Potential for exports to region
- 17 HKG tax policies
- 18 Existence of Overseas Chinese Community

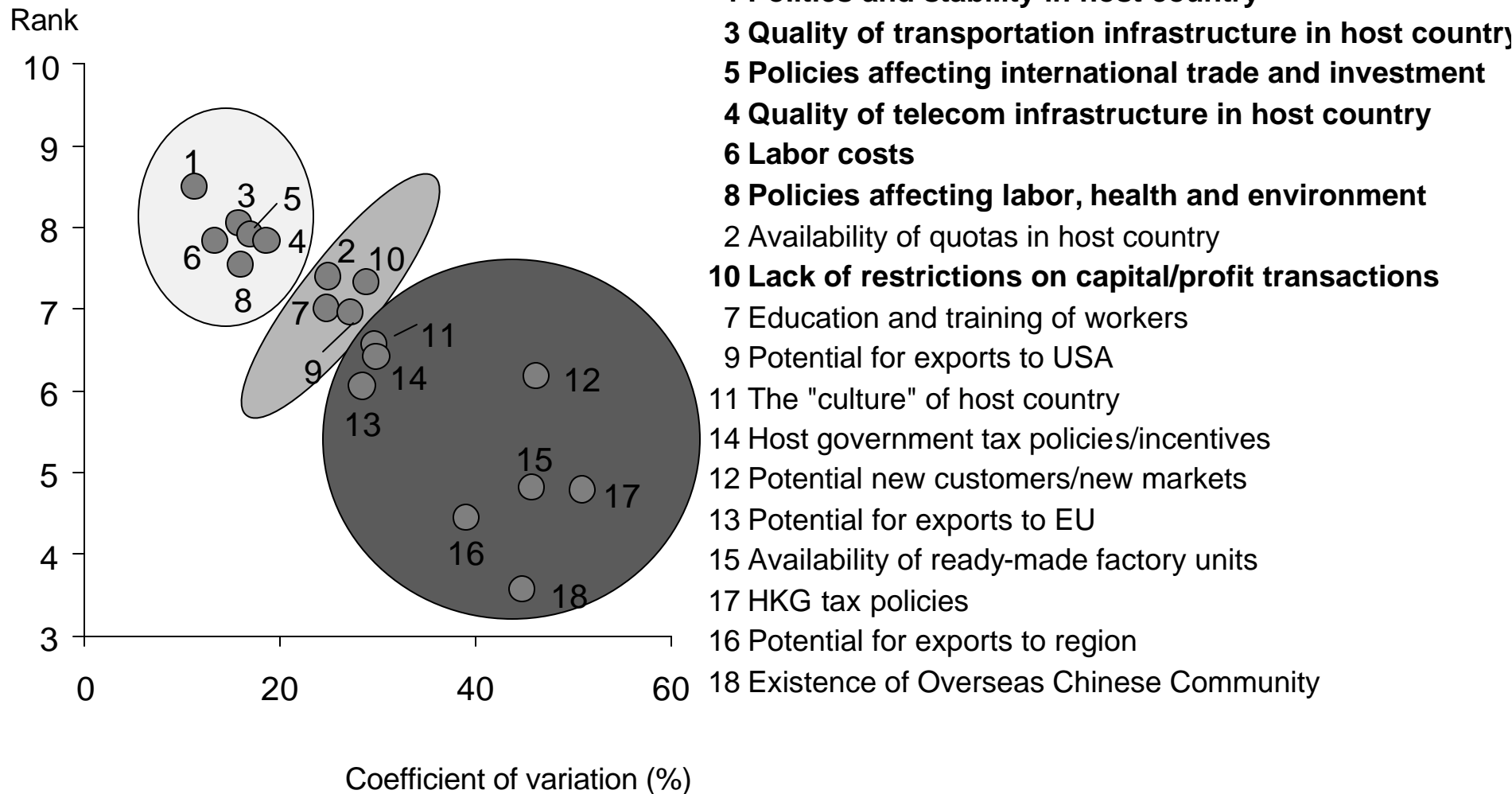
# Ranking of Factors Influencing Investment Decisions: 2003



- 1 Labor costs
- 2 Policies affecting international trade and investment
- 3 Politics and stability in host country
- 4 Policies affecting labor, health and environment
- 5 Quality of transportation infrastructure in host country
- 6 Lack of restrictions on capital/profit transactions
- 7 Quality of telecom infrastructure in host country
- 8 Host government tax policies/incentives
- 9 Potential for exports to USA
- 10 The "culture" of host country
- 11 Education and training of workers
- 12 Potential new customers/new markets
- 13 Availability of quotas in host country
- 14 Potential for exports to EU
- 15 HKG tax policies
- 16 Availability of ready-made factory units
- 17 Potential for exports to region
- 18 Existence of Overseas Chinese Community



# Average Ranking of Factors Influencing Investment Decisions from 01/2000 and 02/3003



# WHERE ARE WE GOING?

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**These are THE 7 KEY FACTORS to get in shape:**

- 1. Politics and stability;**
- 
- 3. Quality of transport infrastructure;**
- 
- 5. Policies affecting trade and investment;**
- 
- 4. Quality of telecom infrastructure;**
- 
- 6. Labor costs;**
- 
- 8. Policies re. labor, health & environment;**
- 
- 10. Lack of capital/profit transaction restrictions.**

# WHERE ARE WE GOING?

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The message is clear:

Without coming up to the cut in these areas, T&C exporters will lose out in the battle for market shares when quotas are eliminated.

And of course with China being a full-fledged member of the WTO competition is all the greater.

**WHAT'S GOING ON OUT THERE???**