

## ***GLOBAL ALLIANCE for FAIR TEXTILE TRADE***

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*96 Trade Groups from 54 Countries Supporting the Principles of the Istanbul Declaration – Fair Trade for a Safer World*

### **GAFTT Endorses Turkish Contribution to WTO Debate on Post-ATC Adjustment-Related Issues**

#### **Denounces Obstructionist Behavior of Countries Opposed to WTO Solution**

November 8, 2004

WASHINGTON, DC – The Global Alliance for Fair Textile Trade (GAFTT) expressed strong support for Turkey’s contribution to the debate on post-ATC related issues.

The paper outlined the importance of the textile and clothing manufacturing sector to the developing world and the positive role that quotas played in maintaining stability in global markets in that industry.

GAFTT noted and endorses Turkey’s call for multilateral talks leading to a comprehensive solution to the crisis associated with the phaseout of quotas on textile and clothing products. A copy of the Turkish submission to the Council on Trade in Goods, WTO document 04-4524, is attached. The WTO document search engine can be found at [http://docsonline.wto.org/gen\\_search.asp?searchmode=simple](http://docsonline.wto.org/gen_search.asp?searchmode=simple).

GAFTT also strongly supports Turkey’s recommendation for a WTO work program to discuss, among other options, monitoring mechanisms that concentrate on the threats of market distortions and safeguards with mechanisms aimed at maintaining stability in key export markets. Specifically, these mechanisms would prevent one or two large countries that engage in unfair trade practices from monopolizing global trade in textiles and clothing.

“The ITKIB Association and other Turkish textile and clothing trade associations are most grateful to the Turkish government for heeding the industry’s call to seize the initiative and put forth a positive proposal to deal with the quota phase out crisis. The leadership of Turkey and of the other WTO members who have spoken out on the need to solve this crisis is a positive example for other nations to follow. We are interested in working with any and all WTO members that share our common goals,” said Ziya Sukun, Executive Director of the ITKIB Association of New York.

“The Turkish proposal goes to the heart of the question – will a couple of countries be allowed to use unfair trade practices to dominate world trade in this sector or will free and fair trade principles prevail and all WTO member benefit? The simple truth is that as long as countries such as China use currency manipulation, industrial subsidization and illegal export rebates to dominate textile and apparel trade, then a system must be in place

to protect countries that have chosen to play by the rules. Turkey is very sensibly proposing that the WTO begin looking at putting such a regulatory system in place. This is a far sighted proposal that should be strongly supported and encouraged,” remarked Cass Johnson, President of the National Council of Textile Organizations (NCTO).

“Turkey’s paper is a fair and pragmatic response to the crisis associated with the expiration of quotas on textile and clothing products. Textile and clothing trade is such a sensitive sector in the global economy that dozens of countries would be affected by a disruption caused by one or two large exporters attempting to monopolize the world market. That is why the WTO must address this crisis in a timely and effective manner,” stressed Auggie Tantillo, Executive Director of the American Manufacturing Trade Action Coalition (AMTAC).

The threat of a global monopoly is real and imminent. For example, the world’s largest exporter of textile and clothing products, China, illegally pegs its currency to the U.S. dollar, gives its producers export tax rebates, and spends government money to distribute billions of dollars in non-performing loans among other subsidies it hands out to its industry. On top of this, China has invested more than \$21 billion in capital improvements to its textile and clothing manufacturing sector over the past three years and has opened or is constructing more than 3,700 new textile and clothing factories. These are the main reasons why every independent study conducted to date predicts that China will dominate global trade in textiles and clothing after the quota system expires.

The World Trade Organization is a multilateral institution with the mandate of promoting trade beneficial to its members. While it is important the WTO members keep their commitments, it is just as important that the WTO show the flexibility necessary to adjust policy to reflect the realities of changing patterns of global trade. The textile and clothing crisis is one such policy issue where flexibility is needed desperately and quickly.

The Turkish paper represents a reasoned and moderate approach to addressing the textile and clothing crisis. By creating a mechanism to eliminate or reduce damaging market distortions and disruptions, tens of millions of textile and clothing manufacturing will not see their jobs disappear in 2005 and numerous truly developing countries like will not see their economies destabilized.

In contrast to the efforts of Turkey, the irrational and obstructionist behavior of some WTO members, such as China and India threatens to dislocate millions of workers in developing countries where there are no equivalent jobs into which workers may transition. China and India, countries purporting to be leaders of the developing world, are taking stands at the WTO that directly threaten the jobs of millions of workers in some of the poorest countries around the globe.

Because of the obstructionist stance taken by a small number of countries, GAFTT calls on WTO Director General Supachai and the WTO Council on Trade in Goods to press those WTO members to agree to a compromise that will prevent one or two countries from monopolizing the world’s important export markets for textile and clothing

products. Without this solution, \$350 billion in world trade will be severely disrupted after the ATC expires at the end of this year.

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# WORLD TRADE ORGANIZATION

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## TURKEY'S CONTRIBUTION TO THE DEBATE ON POST-ATC RELATED-ISSUES

The following communication, dated 25 October 2004, is being circulated at the request of the Delegation of Turkey.

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Textile and clothing sector is one of the most global industries in the world today. It constitutes a major source of income and employment for many countries, especially for the developing ones. This sector also plays a crucial socio-economic role in many of countries' development efforts, by offering entry-level jobs for unskilled labor. The clothing sector in particular employs a larger number of workers, the majority of which are female as also indicated in the Discussion Paper of the WTO.

Businesses engaged in this sector vary from small and medium size enterprises employing labor-intensive methods of production, to highly automated and technologically advanced, large scale units. However, in many countries, textile and clothing sector is dominated by small-scale enterprises.

For more than forty years, textiles and clothing sector has received more comprehensive and persistent protection than any other industrial sector. Integration of trade in textiles and clothing into the GATT system was one of the hardest-fought issues during the Uruguay Round and in this regard, the Agreement on Textiles and Clothing (ATC) is considered one of the biggest achievements for the developing countries.

Even though the rationale of the quota system was to provide a temporary relief so that the quota imposing countries' industries could adjust for international competition on their own, many developing and the least developed countries, with the help of a guaranteed market share, have been able to use the system to develop their textile and clothing exports.

At present, for a good number of the developing countries, the sector is the main source of export revenue, accounting in some instance for as much as 90% of manufacturing exports. Depending on the country, the sector also accounts for 20-60% of manufacturing jobs. These figures are more than enough to show how some countries'

economies are dependent on this sector. This fact is often compounded by the dependence on European Union and/or the United States' markets, which together absorb the lion's share of world textile and clothing imports.

Today, just a few months before the end of the ATC, it can be clearly put forward that the sustainability of textiles and clothing sectors are at stake in many developing and the least developed countries.

In the third integration period of the ATC, the WTO members have witnessed a dramatic transformation of global production and sourcing patterns in this sector.

In some of the liberalized quota categories in the US market the increase of Chinese products soared as high as 800% in 2002. Also, the unit price decline in those liberalized categories was around 60%. This is also true for the EU market. In some individual categories, the expansion of market share has multiplied several times over with an average unit price reductions of up to 75%.

Nevertheless, developments in the Japanese textile and clothing market between 1990 and 2002 display another sign of such dramatic change in that period. The share of Japanese imports originating from a single country soared from 31% to 79%.

Numerous credible studies on the implications of the quota phase-out have shown, by the removal of quotas by 2005, global textile and clothing trade will be monopolized by a WTO member with an estimated share of 50% or more. It is also important to stress that the quantitative restrictions that will be eliminated by 2005, cover both the most sensitive and the highest value-added products. As a result of this, more than 30 million jobs around the world are estimated to be lost to a few in a short span of time.

The textiles and clothing sector takes substantial place in Turkey's economy and foreign trade as well. It constitutes the largest industry and accounts for 10% of GDP, 22,6% of manufacturing output, and %21 of employment in manufacturing sector. Turkey's exports of textile and clothing products contributed 34.4% to total merchandise exports in 2003. The EU has traditionally been the main market, followed by the United States.

The comprehensive report of the Textiles Monitoring Body on the implementation of the ATC during the third stage of integration process draws WTO members' attention to the fact that the post-ATC period will bring about important trading opportunities and challenges that the WTO members will have to face. It is very clear that full implementation of the ATC is fundamental to the credibility of the multilateral trading system. However, the current data indicate that market dominance will limit the opportunities only for a small number of countries, whereas the great challenges are going to be left to the rest. In that case, the economic and social disruption will be significant for many developing and the least developed countries.

It should also be noted that the prospective problem, besides the least developed ones, is in the interest of many developing countries. To that end, it should permanently be kept in the WTO agenda unless an urgent satisfactory solution is generated for all countries that will be affected negatively.

The ambitious agenda of ongoing market access negotiations for non-agricultural products under Doha Development Agenda too, necessitates an urgent full review of global

textile and clothing production, export and market circumstances so as to develop appropriate remedies within the multilateral trade system. In this respect, the ongoing market access negotiations for non-agricultural products provide us with an opportunity to develop appropriate trade policies that will be needed from 2005 onwards.

All of the WTO member countries have a responsibility to address the justifiable concerns of the developing as well as the least developed countries about the sustainability of their economic growth and its main components such as textile and clothing exports.

Turkey strongly believes that the answer to the question of how the major challenges ahead are going to be handled should be given by the all WTO countries in compliance with their WTO commitments and by developing appropriate remedies within the multilateral trade system.

It is obvious that there are rules in place in order to protect domestic markets against unfair trade practices. Likewise, there is a strong need for the establishment of such mechanisms to protect the market shares of the developing countries in their export markets.

At this stage, various options; from a monitoring mechanism that will concentrate on the threat of market distortions to a unique safeguard mechanism that has a self-triggering structure and aiming at smooth functioning of trade in the major export markets and avoiding unfair practices can be discussed towards a comprehensive and exhaustive solution under a WTO work program.

Consequently, new mechanisms should urgently be developed to ensure smooth transition to the quota free trading environment if international trade is to stay as the engine of sustainable development. There is no doubt that timely and fully implementation of the WTO commitments is vital for the credibility of the multilateral trading system. Likewise, it should also be kept in mind that all WTO members are in need to benefit from the increased opportunities and welfare gains that the multilateral trading system generates. Moreover, it is WTO member countries' commitment to continue their positive efforts to ensure that developing countries, and especially the least developed among them, secure a market share in the growth of world trade commensurate with the needs of their economic development. In this respect, the new mechanisms should make the WTO more flexible while responding to the needs of many developing countries timely and efficiently. This will, in turn, definitely enhance the credibility of the WTO system.

The complexity of the challenges that many developing countries will face, of course, requires policy coherence between the WTO and other relevant international organizations. However, it is clear that the WTO is the sole address to solve problems originating from the conduct of trade relations among its members in matters related to the WTO agreements and other associated legal instruments.