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# Whither the T&C Trade after MFA/ATC?

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## T&C Trade Regime at the Crossroad

- MFA was finally abolished on Jan. 1 2005
- Chinese Clothing rushing to US and EU markets
- US and EU considering safeguard measures
- Will the T&C trade regime be back to the managed trade?

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## T&C Trade under quota restriction for the past 30 years

- MFA: 1974-1994. Introduced for breathing period but extended five times
- ATC: 1995-2004. While faded out by three stages, main items were under quota restriction until the last minutes
- Both US and EU administered quota restriction through discretionary allocation for individual exporters

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## Distorted Q&C Trade under MFA/ATC

- 1970s and 1980s: Restrict strictly quota for first tier group, but give generous quota for 2<sup>nd</sup> tier group
- 1990s: Restrict the 2<sup>nd</sup> tier but generous for 3<sup>rd</sup> tier. Free entry by FTA or associate members
- Market shares by individual exporters were distorted (cf. non-restricted market)
- Quota of less than 100% fill rate restricts trade

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## Exporters' shares in the US

|               | 1985 | 1998 | 2003 |
|---------------|------|------|------|
| • Hong Kong   | n.a. | 6.7  | 4.2  |
| • Taiwan      | n.a. | 4.8  | 3.1  |
| • Korea       | n.a. | 3.7  | 3.0  |
| • Thailand    | 1.7  | 2.6  | 2.6  |
| • Philippines | 1.0  | 3.7  | 2.9  |
| • Indonesia   | 1.4  | 3.4  | 3.3  |
| • China       | 3.9  | 7.1  | 12.1 |
| • Vietnam     | n.a. | 0.1  | 3.9  |
| • Cambodia    | n.a. | 0.8  | 2.8  |
| • Mexico      | n.a. | 15.4 | 10.4 |
| • CBI         | n.a. | 23.8 | 20.8 |
| • Andean FTA  | n.a. | 0.9  | 1.1  |

(Notes) Clothing, % shares in terms of quantity

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## Exporters' shares in the EU

|                               | 1985 | 1999 | 2003 |
|-------------------------------|------|------|------|
| • Other Asia                  | 4.2  | 18.8 | 17.6 |
| • China                       | 0.3  | 9.6  | 12.2 |
| • C&S America                 | n.a. | 0.4  | 0.4  |
| • Former Russia<br>& E Europe | n.a. | 10.3 | 11.2 |
| • Africa                      | n.a. | 7.4  | 7.0  |
| • Western Europe              | 12.1 | 51.9 | 50.8 |

(Notes) Clothing, % shares in terms of value 6

## Exporters' shares in Japan

- Japan imposed no MFA quota restrictions on T&C
- Major exporters' shares and their overtime changes reflect their competitive edge at the market
- Import penetration ratio has reached to 89.0% (in quantity) and 52.8% (in value, both in 2001)
- METI's Textile Industry Policy report (2003) expressed its direction toward structural reform based at the market

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## Exporters' Shares in Japan (continued)

|               | 1985 | 1996 | 2003 |
|---------------|------|------|------|
| • Hong Kong   | 14.2 | 1.6  | 0.2  |
| • Korea       | 32.0 | 6.8  | 1.7  |
| • Taiwan      | n.a. | n.a. | n.a. |
| • Thailand    | 0.35 | 2.5  | 1.2  |
| • Indonesia   | 0.09 | 2.0  | 0.7  |
| • Philippines | 0.35 | 1.0  | 0.5  |
| • China       | 18.4 | 60.4 | 81.1 |
| • Vietnam     | n.a. | 2.6  | 2.6  |

(Note) Clothing, % shares in terms of value

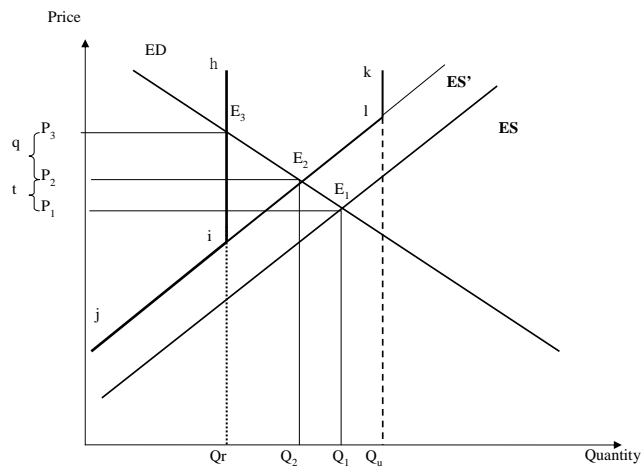
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## Predicted Effects of Quota Abolishment

- Many were concerned about the abolishment of quota in 2005
- Some estimations were made based on CGE model:
- Problems with the CGE prediction: theoretically correct but too much aggregation and indirect use of quota information
- Our partial equilibrium prediction (in progress): reflecting distorted trade pattern and realistic restrictiveness of import quota

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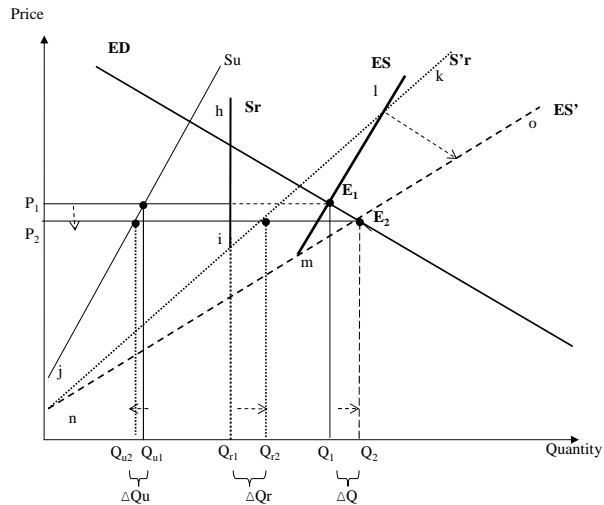
## The Impact of Quota and Tariff



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# The Impact of Quota and Tariff

## Impact of Quota Removal: the case of two exporters



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## Implications of the Model in brief

- Import quantity: increase
  - Unit import value: decrease
  - Import value: ambiguous
- ⇒ Depends on “quota elasticity (sensitivity)”
- ⇒ Learn from the empirical observations

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## Empirical observations

Even less-than-100% quota fill rate still  
has a trade-restrictive impact



due to (1) inefficiency in quota allocation,  
(2) quota administration costs,  
(3) negative announcement effect

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## Simple regression -case of the US market-

- (1) Growth rate of import value/quantity  
=F(Quota Fill Rate)
- (2) Growth rate of import value/quantity  
=F(Quota Fill Rate, Production Capacity)

→ Significant coefficients for linear  
specifications of the above two models

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# Policy implications

- Distorted trade pattern need to be taken into consideration
- Big rush of Chinese products to US and EU markets is inevitable
- Some adjustment needed →safeguard measures, because of accumulated distortion
- But never allow to return to permanent quota restriction as under MFA/ATC
- True adjustment can be done only under competitive pressure (cf. Japan)

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# The way forward

Dynamic considerations (investment concentration, productivity enhancement)



Matthew Effect:

“For everyone who has will be given more, and he will have an abundance. Whoever does not have, even what he has will be taken from him”

-The Gospel According to Matthew, chapter 25 verse 29-

(interpretation: the rich get richer and the poor get poorer )



Necessity of “pro-poor international policy”

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