Barriers to Asia's clothing exports

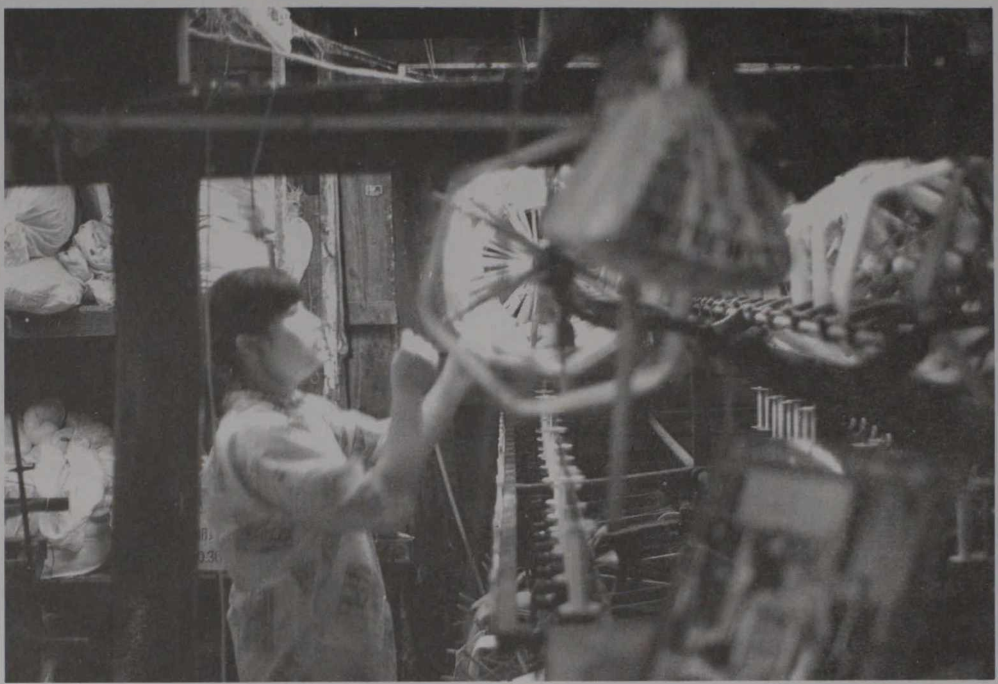

Photo by: P. Seary

Spinning silk in Bangkok.

As their exports have captured a growing share of markets in the North, developing countries and "newly industrialized countries" in East and Southeast Asia have enjoyed a decade of economic growth. But there is concern among these countries that the increasing use of trade barriers by the northern industrialized countries, particularly their biggest customer, the United States, may threaten the future of their fledging industries.

One of the most obvious examples of developed country protectionism is in the clothing industry.

Because the industry has traditionally used low-skill labour, poorer countries with low wage levels can produce clothing more cheaply than industrialized countries. Indeed, the latter have become major consumers of these inexpensive imports. In 1984, for example, more than one-third of all garments on the Canadian market came from the Third World, particularly East and Southeast Asia.

Low-cost countries

For over 20 years, the United States and Canada, among other industrialized countries, have tried to protect their domestic clothing industries from competition from "low-cost countries". Since 1974, the Multi-Fiber Arrangement (MFA) has served this purpose.

Under the MFA, the clothing industry is sliced into narrow categories. Each importing and exporting country sets the maximum number of items within each category that the exporter is allowed to supply to the importer.

These quotas have had the most direct effect on the "big four" clothing exporters—Hong Kong, South Korea, Taiwan, and the People's Republic of China. They have also had mixed effects on smaller Southeast Asian countries, according to a recent International Development Research Centre (IDRC)-supported research project.

Protectionism's impact

The study allowed 20 researchers, three from Canada and 17 from East and Southeast Asia, to analyze the impact of North American protectionism on industries in nine countries—Hong Kong ,South Korea, Singapore, Malaysia, Indonesia, Thailand, the Philippines, and Canada and the United States themselves.

The project sprang from a workshop on trade and protectionism held in Singapore in June 1984. The main participants in the workshop—Canada's North-South Institute (NSI) and Singapore's Institute of Southeast Asian Studies (ISEAS)—bemoaned the lack of up-to-date information on the reaction of specific industries and countries to protectionism.

The study, co-ordinated by the two institutes, focused on three industries: clothing, consumer electronics, and vegetable oils. The researchers found that, of the three, protectionism has most affected the clothing industry in East and Southeast Asia.

Upgraded lines

In reaction to quotas, the big clothing exporters, Hong Kong and South Korea, have "upgraded" their clothing lines, according to project researcher Dr. Jaleel Ahmad, who is also a professor of economics at Concordia University in Montreal. They have shifted out of inexpensive clothing categories, such as mass-produced shirts which face heavy restrictions, into less protected, higher-value categories such as designer sweaters.

Ironically, the researchers found that quotas gave smaller, less industrialized countries in Southeast Asia "a leg up in the industry", says Doug Williams, NSI research officer for the project. With the larger producers restricted to set quotas and moving into higher-value categories, smaller producers have filled the leftover demand for lower-value imports. Indonesia, for example, began exporting clothes, mainly inexpensive lines aimed at low-income groups, to the United States in 1980.

Restrictions stunt growth

Although the MFA appears to have encouraged clothing industry start-ups in the poorer Southeast Asian countries, quota restrictions are likely to stunt their growth, says Mr. Williams. Canada and the United States have argued that they already face more competition than they can cope with, he explains. Smaller producers who recently entered the clothing industry are therefore assigned low quotas. "Late starters are cut off before they really get started."

Guaranteed market

The study points out that big clothing producers, like South Korea, have been slow to shift out of the low-technology garment industry into more advanced industries because quotas give them a guaranteed piece of the North American market. Without the quota incentive, South Korea will probably phase out its clothing production more quickly, according to Mr. Williams. That would