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Case Study Two

Section One : Assessing the Effects of MFA

The Multi-FIber Agreement, otherwise known as MFA is a multilateral treaty first signed in 1974 under the auspices of the General Agreement on Tariffs and Trade (GATT), and renewed for four years in 1977. The agreement was originally thought out to be a temporary matter. The agreement laid out the principles of governing international trade in textiles and apparel. The MFA was to provide developing countries with guaranteed and growing access to markets of developed countries while allowing governments of developed countries to prevent the “disruption” of their domestic industries. The objectives of the MFA while seeming to be helpful did not provide a guaranteed or growing market for developing countries. When the expiration date of the MFA came along on December 31, 1981 none of the parties in the agreement were satisfied. The developed nations pointed out that they continued to face problems with declining employment and rising imports. The developing countries in the agreement pointed out that their economic and social development suffered, because industrialized countries were using the MFA to protect their uncompetitive industries. While countries debated to stay with the MFA on their renewal or not the United States was concerned with the potential collapse of the MFA because it has played a critical role in organizing global textile trade. The fear of the U.S. was that the collapse of the MFA could lead to an outbreak of protectionism by Europe against the third world. In the 1950s the American textile industry organized boycotts, got protection bills introduced to into Congress and lobbied executive agencies for tariffs and quotes against Japanese textiles. President Eisenhower however did not want increase tariffs because it would undercut the U.S. efforts in promoting freer world trade. The MFA was designed as a global framework within which countries would negotiate separate bilateral agreements. The MFA promised developing countries 6% annual growth in the volume of their exports. The MFA was setup in order to control the growth of developing countries’ imports in order to slowly phase out the uncompetitive portion of the industrial countries’ industries. If the market had grown between 3 - 4% and the developing countries increased their share 6% a year then it might have resulted in an orderly decline. Instead oil prices quadrupled and a global recession with rising unemployment made most of the industrial governments unhappy with the MFA. The EEC had employment decline by 4% annually as imports of textiles and apparel increased from 21% of the market to 44%. The EEC had moved slowly in the first three years to setup comprehensive bilaterals agreements which is one of the factors that lead to this result for them. Hard to deal with free trade and protectionism. Germany lost manufacturing jobs and had to lay off many workers. The EEC negotiated 22 bilaterals with major suppliers in 1977, and they were more restrictive than what was allowed by the MFA. The ECC sought to reconcile the restrictive provision of the MFA bilaterals in 1977 when the MFA came up for renewal. Stakeholders such as consumers, the textile industry, and the apparel industry in each country were all affected by the MFA, mainly in negative ways when positive advances seemed promised.

Section Two: Policy Options

Dear President Reagan,

This is a policy recommendation on what to do with the Multi-Fiber Arrangement (MFA) in the setting of 1981. The MFA was originally supposed to be a temporary agreement that laid out the principles of governing international trade in textiles and apparel. The MFA was to provide developing countries with guaranteed and growing access to markets of developed countries while allowing governments of developed countries to prevent the “disruption” of their domestic industries. The objectives of the MFA while seeming to be helpful did not provide a guaranteed or growing market for developing countries. With success and failure of the MFA and the renewal coming up I have proposed two policies for the renewal of the MFA.

Policy One

The first policy to be taken into action will be recognizing the expiring date of the MFA and regenerate and update it. Instead or renewing the MFA it will have a name change. Changing the name will show no connection of the MFA that failed many if not all countries involved and provide a fresh slate for matters to be taken . The current MFA will be recognized for the great importance of it in the textile and apparel industry and trade, regardless of some of the negative outcomes it had. The new policy will entail adding restrictions on loopholes that were developed in the original MFA by multiple countries. With loopholes there will now be consequences on any country that creates loopholes in the new agreement. There will also be new additions made that are on the topics of how to be able to support free trade without having it disrupt or offend the industry, as well as add support to the employees world wide. The labor rules will occur because of the result of cheaper costs of labor in developing countries and workers rights due to those low wages. The new MFA will provide thorough checks with governments’ of countries on how the employees in their country are doing in terms of wage and workers’ rights. If a countries’ workers are being treated poorly, have unfair wages, and are working in non working conditions they will be dismissed from the new MFA agreement for at least one year until they can prove to the MFA that they have resolved the issues. There should be no prejudice involved when selecting countries to trade with. There will be a breakdown of developing countries instead of them all being categorized as developing countries when they are at different levels of size, employment, resources, and capital. The employment rates will be closely watched to see if it affects any countries in a negative manner. If there are negative effects this policy will reach out the countries involved to trade more with them in order to increase their employment and global trade. Clauses will be created to offer benefits to countries trading with one another that are involved in the agreement, such as a discount in costs of importing.

With the renewal of the MFA the U.S. needs to make sure they benefit in trade in order to continue with employing works in the textile and apparel industry. The United States needs to collaborate and seek trade policies with other countries in order to ensure they receive all of the resources they need for the textile and apparel industry as far as manufacturing as well as being able to export goods to other countries for profit. With President Reagan’s already stating supporting the textile and apparel industry and free trade such as your statement to Senator Strom Thurmond of South Carolina stating that “the MFA expires at the end of 1981 and needs to be strengthened by relating import growth from all sources to domestic market growth. I shall work to achieve this goal.”, the stakeholders involved in the MFA on the U.S. side should respond positively to this new policy and know where the efforts of the new MFA are going. The new MFA will vastly allow the U.S. to be a leader in free trade policies as well as supporting the power of the U.S.’s textile industry interest.

The EEC and the LDCs will respond to this policy positively because of the changes made from the current MFA. The EEC and the LDCs will be able to continue global trade with each other and with the United States. LDCs will be happy to see the breakdown of developing countries to hopefully decrease competition between bigger and smaller LDCs. Narrowing down the LDCs will create a more even competition with trade.

Policy Two

The second policy to be taken into action will be recognizing the expiring date of the MFA and will get rid of the MFA completely. With the MFA not being successful in 1981 and many of the countries involved being greatly disappointing and receiving more negative effects than benefits from the MFA, there is no great reason to continue serving the MFA. The participating countries of the original MFA would be able to trade on their own and can create their own policies or trade agreements with specific countries if they are interested in doing so.

By eliminating the MFA completely some stakeholders in the U.S. specifically may be disappointed with the elimination because of fear of more expensive trade, which would result in more expensive products for their customers. Other stakeholders in the U.S. may be pleased with elianting the MFA completely because it didn't serve much benefit to them during the time of its installation. With the MFA being eliminated the U.S. stakeholders would have to decide if they would want to set up their own policies in order to format trade agreements with other countries.

By eliminating the MFA completely some EEC and LDCs response may be negative because it could eliminate some of their trade arrangements they currently have. Other EEC and LDCs will be pleased to hear about the elimination because of the negative results they received during the original MFA agreement. LDCs could fear how they will grow in terms of global trade without having an agreement.

Section Three

My final recommendation on these two policy offerings would be to follow policy one. I believe policy one will be more successful for the U.S. and well a the EEC and LDCs. Policy one continues to follow President Reagan’s plan of free trade. Policy one also supports the U.S. apparel and textile industries in trade, resources, and sales. Global trade will be promoted with policy one, especially with the countries involved by offering an incentive to join of beneficial clauses in the agreement. Policy one can also increase the number of countries involved versus how many were involved in the original MFA.

Works Cited

Textiles and the Multi-Fiber Arrangement (MFA) [Reading packet: page 265-282]