Path Dependency and the Politics of Liberalisation in the Textiles and Clothing Industry

In the last few years, the notion that greater exposure to the global trading system offers the most viable route out of poverty for developing and least-developed countries (LDCs) has gained widespread currency among scholars, policy-makers and non-governmental organisations alike.[1] The central presumption shared by some, but not all, of these accounts is that liberalisation in goods and services of particular interest to developing countries (agriculture, textiles and so on) represents a positive-sum game, insofar as the loss in domestic production for import-competing sectors in developed countries will be offset by lower consumer prices brought about by freer trade. This proposition is hardly revolutionary. Yet the key question that results from it is one that is familiar to all those working within international political economy (IPE): namely, given the purported economic benefits of free trade why has it proven historically to be so difficult to bring about? The standard response offered in the literature is to fall back on theories of collective action, wherein trade policy is explained in terms of the political imbalance between protectionist forces and more disparate groups that are likely to benefit from free trade. Hence proposals ranging from greater executive authority in policy making to distributive welfare systems that spread the gains of trade more evenly are advocated as a result.

Extant work in IPE has questioned this account at each stage, both in the degree to which liberalisation actually delivers poverty reduction, and the means by which policy change is brought about. It is the latter process which interests us here. In particular, we take issue with the 'voluntarism' frequently assumed of international trade politics – that is to say, the extent to which states are free to negotiate with one another unencumbered by history or their immediate environment – and the silences that such accounts have regarding the exact timing and form of liberalisation. An increasingly popular approach to these issues is that which draws on historical institutionalism, deployed to reveal the political structures and patterns of behaviour that exist within policy making bodies and negotiating arenas, especially the World Trade Organisation (WTO). These institutions are said to promote asymmetries in negotiating power that persist over time, thus locking in patterns of negotiation and policy making that are procedurally unfair. Moreover, the trade flows that result from such unfair policy processes are said to perpetuate (and even exacerbate) existing global economic inequalities, which are then carried by states and their delegates into future trade rounds, adding another layer of historical legacy to negotiation.[2] Another way of deploying historical institutionalism is to consider the institutional legacies beholden by *policy itself* rather than the forum(s) within which policy is made. What we suggest is that by taking a different level of analysis, namely, the sectoral level, we can consider how the economic activity and political coalitions that accumulate around pre-established policy regimes – what we might refer to as the day-to-day functioning of a sector – shape decisively the types of reform possible in international negotiations. In other words, the liberalisation (or otherwise) of international trade exhibits a path dependency that is captured neither by the voluntaristic rational actor account, nor the historical institutionalist account that has focused principally on international organisations as the arena of political action.

This claim regarding the utility of path dependency will be made with reference to the textiles and clothing (T&C) sector. T&C is a particularly relevant case in this respect given that it has been characterised historically by high levels of developed country protectionism but has since undergone multilateral liberalisation and is now generally regarded as 'WTO compatible'. On this basis, one might conclude that the notion of 'path dependent development' is something of a misnomer, even malapropos. On the contrary, we argue that the distinctive politics that historically characterised and guided the regulation of the T&C sector still reverberate today. The high levels of developed country protectionism that co-existed with preferential market access schemes to assist favoured developing countries, which evolved in the T&C regime by virtue of its partial exclusion from the overarching multilateral trading system, continue to delimit industrial structure and welfare distribution even after the cessation of T&C as a 'sector apart'. In developed countries the trade regime set in motion the break down of protectionist coalitions by encouraging out-sourcing *before* the practice became institutionalised in foreign policy; while in the developing world, the trade regime configured both the opportunities for countries to enter and upgrade in the T&C export market, and, by way of the intricacies of backloading, preferential treatment and rules of origin, the costs they ultimately faced under liberalisation. Finally, not only did the path dependencies nurtured during the post-war economic order affect the eventual gains to be had from liberalisation but, echoing the current order, form the context in which new sets of policies, politics and path dependencies are set to emerge.

Path dependency and policy institutionalisation

It needs to be stated clearly at the outset that what we propose here is neither an original, overarching theory of trade preference formation nor a case for the continuation of preferential trade and the postponement of multilateral liberalisation. Rather, in exploring the form and effects of path dependency in international trade, what we intend to add to the literature is the application of a methodological technique that can illuminate the ‘inner logic’ perceived in sectoral trade reform and the (often overlooked) differences in liberalising policy measures that result. In other words, what we address are not the underlying reasons for change, but sectoral constraints placed on change as manifest in the legal, political and ideational commitments of state actors. Given the novelty claimed for this approach to trade politics, it is appropriate here to relay what the notion of path dependency entails, the benefits and dangers it carries, and how it can be set into a framework through which to study the institutionalisation of trade policy.

According to Adrian Kay, path dependency is neither a framework nor a theory in itself but an organising concept, a means to label a certain type of temporal process in which the trajectory of change up to a certain point constrains the trajectory after that point.[3] As Douglass North puts it:

> At every step along the way there are choices – political and economic – that provide…real alternatives. Path dependence is a way to narrow conceptually the choice set and link decision-making through time. It is not a story of inevitability in which the past neatly predicts the future.[4]

The concept of path dependency is almost exclusively deployed in political science within institutional theories, relating to the emphasis institutionalism places on the strategic orientation of actors to the contexts in which they find themselves, the unintended consequences of purposeful action and the importance of the historical legacies bequeathed from the past to the present.[5] The precise way in which path dependency is understood relates to the particular type of institutional theory that is employed. In our case it is the historical institutionalist strand, directed to explaining historical structures rather than rational behaviour or norms and culture, which is of most relevance.[6]

For Colin Hay and Daniel Wincott, historical institutionalism adopts a context-bound rationality that stresses the degree to which actors strategically relate to the institutions in which they are embedded, introducing reflexive agency to the analyses of how political choices are constrained by past decisions.[7] Within this framework, path dependency is understood as comprised of 'critical junctures' and 'developmental pathways'.[8] Critical junctures emphasise the importance of sequence and timing in the creation and evolution of different institutions, such as national models of capitalism or international organisations. This approach proposes that only at certain points do opportunities for institutional transformation present themselves, and that the decisions taken at these junctures constrain the future development of institutions. Developmental pathways, meanwhile, draw attention to the feedback effects of institutions that exhibit a reproductive logic, whereby agential behaviour tends to the same set of political outcomes and practices. These feedback mechanisms include incentive structures that stack up the costs of breaking with institutional orthodoxy (also known as co-ordination effects), and distributional effects that empower some actors whilst disarticulating and/or marginalising others, particularly the ideas of those likely to oppose the orthodoxy and challenge institutional legitimacy.

Pierson notes that while the focus of this approach has generally centred on formal governmental institutions and political organisations, it is also applicable to the analysis of public policy more generally.[9] As Skocpol puts it, 'politics creates policies, policies also remake politics.'[10] Policy is about choice; the choice of reasons for (in)action, the choice of policy instruments and the choice of how to respond to policy outcomes. So to say policy is path dependent is to treat past policy as an institution that can shape future policy options through, for example, enabling and constraining interest group power, transforming governmental capacity by changing its administrative infrastructure, or establishing formal or informal contacts which are costly to change.[11]

In this respect, a frequent criticism of path dependency is that by emphasising the mechanisms through which previous patterns are reproduced, analysis of the underlying factors that lead to change is dismissed. All too often, the critical junctures that allow for path-breaking change are seen as the result of unforeseen, exogenous shocks, which in turn are reduced to discreet and contingent events that fail to exert lasting consequences. As such, a path dependent approach may diminish change to significant but short-term bursts with periods of stasis in between, thus ignoring cumulative, endogenous political processes as sources of institutional evolution.[12] Furthermore, the language of reproductive logic and 'lock-in' frequently obscures the fact that far from being automatic, stability may actually have to be sustained through conscious political action, especially since institutions do not exist within a vacuum but are part of a wider, contested political environment.[13] In an attempt to account for endogenous institutional change, historical institutionalists have utilised the structured reflexivity perceived within agents. Orren and Skowronek, for instance, focus on the incongruities and intersections between different processes and institutional logics that unfold over time, disrupting feedback mechanisms to provide openings for agents to implement political and institutional change.[14] More specifically, other analysts have attempted to identify emergent properties *within* rather than *between* feedback mechanisms that create new paths; for example, vested interest groups becoming so insular that they engage in in-fighting which leads coalitions to break down.[15] Mahoney terms these feedback mechanisms 'reactive sequences' whereby early events in initial critical junctures trigger subsequent development, not by reproducing a given pattern, but by setting in motion a chain of tightly linked reactions and counter-reactions.[16]

Despite these attempts, in the last instance we are still faced with the problem of distinguishing between when an institution or series of policies display path dependency and when outcomes are stable simply because the foundations of political stability are left unchanged. Analytically speaking, the two scenarios are not the same. This concern is mitigated to a degree in the context of this article by the way in which the concept is employed. We are not primarily concerned with generalised, future prediction but rather with nuanced, retrospective analysis. In other words, we do not propose to read off outcomes from initial policy configurations – indeed, it is acknowledged that the policies perceived to be under the influence of path dependency are undergoing the greatest change since their inception. Hence, for our specific purposes, path dependency is put to more limited use: as a means to challenge those theories of international political economy that imply states are free to negotiate welfare-enhancing policy unhindered by past policy, and also those that discount the ultimate, concrete effects of path dependent policies on the distributional politics of liberalisation.

To sum up, then, a framework for applying path dependency in policy processes must consider that:

1. Multiple equilibria situations exist at the beginning of path dependent processes; a number of viable policy alternatives are possible and the final outcome cannot be determined by any set of initial conditions

2. Contingent events play a substantial role in establishing the particular policy regimes; *when* things happen affects *how* things happen
3. Path dependent events are linked by causal mechanisms underpinned by material and ideational foundations of political stability; mechanisms generate 'inertial force' along developmental pathways which lead into the next critical juncture.

Finally, in the application of this framework it is recognised that there is no unique standpoint from which policy can be studied as path dependency is amenable to multiple levels of analysis. In the case of trade policy, for instance, within the overarching international trade system several policy sub-systems can be identified, each with its own set of key actors, organisations, goals and instruments. The sector examined in the remainder of this article represents one such case: the unique regulatory environment of the T&C trade regime.

Creating discrimination in textiles and clothing

As is well known, the post-war international trade regime was shaped decisively by the failure to ratify the 1947 Havana Charter, which would have established the International Trade Organization (ITO) as the 'third pillar' of the Bretton Woods economic order.[17] Instead, the General Agreement on Tariffs and Trade (GATT) emerged as a 'temporary' legal instrument for both facilitating multilateral negotiations and monitoring the subsequent liberalisation of trade. The problem with this, however, was that the GATT lacked the organisational structure necessary to ensure that the key principles of the post-war trading system – reciprocity and non-discrimination – were applied consistently. The institutional deficiencies of the

GATT also had a number of more specific consequences. The first of these was that it lacked a legally robust enforcement mechanism whereby contracting parties could be brought to account for treaty violations. The second consequence was that, while the GATT was relatively successful in securing liberalisation through tariff cuts (at least for industrial goods – see below), this was in a number of cases offset by a rapid increase in non-tariff barriers, including voluntary export restraints and other quantitative restrictions. The third and most substantive consequence of the GATT's weak organisational structure was that the pattern of liberalisation was highly skewed in favour of the interests of the developed countries, with the result that trade in areas of interest to developing countries (agriculture, textiles, and so on) was effectively excluded from the post-war multilateral trading system. The ultimate outcome of this was that a parallel system of trade governance emerged in these sectors, which was both highly discriminatory and non-reciprocal.

The T&C sector has long since been a source of significant trade conflict between developed and developing countries.[18] Yet what makes the post-war period especially relevant for our argument is the degree to which this sectoral trade conflict became institutionally embedded through a series of international trade regimes and the degree to which this embeddedness gradually led to both a widening and deepening in the levels of North-South trade protectionism.[19] The initial catalyst for the emergence of a separate sub-system for managing T&C outside of the newly established multilateral trade system came with Japan's accession to the GATT in 1955. A number of countries in Western Europe were fiercely opposed to Japan's accession to the GATT and threatened to - and subsequently did - invoke Article XXXV (which permitted import restraints against new entrants) as well as Article XII (which permitted import restraints on balance-of-payments grounds) in order to deny the latter the benefits of membership. For its part, the US – which had strong geo-strategic reasons for promoting Japanese membership of the GATT – resorted to bilateral measures though a series of voluntary export restraints that were established with Japan in 1957.

These protectionist measures served a short-term function insofar as they offered a degree of protection for import-competing producers in Western Europe and the US. The longer-term consequences of these measures, however, were more problematical. Although trade restrictions against T&C exports from Japan did provide temporary relief for producers in Europe and the US, other low-waged exporters soon filled the 'supply gap'. In the US case, for example, even though Japan's share of T&C imports actually fell by more than one-half between 1955 and 1960, this was accompanied by a surge in imports from such countries as Hong Kong, India, Pakistan, Portugal and Spain; in fact, despite the restrictions, cotton textile imports as a proportion of domestic consumption witnessed a three-fold increase in the second half on the 1950s.[20] A further problem for these trade restrictions was that they were quite clearly at odds with the GATT principle of non-discrimination. In a technical sense, of course, the US bilateral exports restraints imposed on Japan were more consistent with the GATT, given that these measures were supposedly 'voluntary' in nature. By way of comparison, the use of Article XII by the UK and other European countries to block T&C imports from Japan constituted a more blatant violation of the GATT. This was especially so after full currency convertibility was re-established in 1958, when number countries in Western Europe maintained (illegal) import quotas against Japan and other low-waged countries unilaterally.[21]

In short, then, by the late 1950s a proliferation of quotas and other protectionist measures within the T&C sector threatened to undermine the nascent multilateral trading system. But rather than reconciling this contradiction, subsequent policy choices instead exacerbated it by emphasising the 'uniqueness' of the T&C sector in order to justify the partial de-linking of the industry from the wider GATT system. An important first step on this policy trajectory came in February 1960 when, at the behest of US trade negotiators, the concept of 'market disruption' – defined as 'instances of sharp import increases associated with low import prices not attributable to dumping or foreign subsidies' – was enshrined in the GATT treaty.[22] The key to understanding the significance of the market disruption clause lay in the fact that the definition offered deliberately avoided reference to the underlying *causes* of import growth leading to or threatening disruption; nor was it premised on the notion that the exporting country was penetrating overseas markets on the basis of improper or illegal practice. Rather, as Kenneth Dam put it, by defining market disruption solely in terms of low prices, 'it was the principle of comparative advantage that was being called into question'.[23]

Immediately following the adoption of the 'market disruption' clause, the Short Term Arrangement Regarding International Trade in Cotton Textiles (STA) was established in October 1961. This authorised a one-year restriction for 64 categories of cotton textiles in order to prevent 'market disruption', at least until a more permanent agreement could be reached. The STA was extended in February 1962 when 19 major trading nations adopted the Long Term Arrangement Regarding International Trade in Cotton Textiles (LTA), which was effective until 1973. Although the LTA was successful to the extent that it did manage to regulate (i.e. restrict) international trade in cotton textiles, these measures had the effect of pushing low-waged, particularly East Asian, producers towards the manufacture and export of artificial and non-cotton textile products, which were not covered by the agreement.

This anomaly prompted policy makers to seek an extension of the textile agreement to deal with the rapid expansion in artificial and non-cotton textile imports. Thus, following protracted negotiations, the Arrangement Regarding International Trade in Textiles, more commonly known as the Multifibre Arrangement (MFA), was duly signed and entered into effect on 1 January 1974.

The MFA, like the LTA before it, was supposed to lead to a progressive liberalisation of the T&C sector according to a series of product and category specific quotas that were set at an annual 6 per cent growth rate (instead of the 5 per cent that was originally stipulated by the LTA). In practice, however, subsequent renewals of the MFA (1977, 1982, 1986, 1991) served to place increasingly restrictive quotas on most of the leading developing country exporters. Between 1974 and 1990 the MFA oversaw bilateral T&C agreements between 43 signatories representing 54 countries. In this period, the US alone established quotas with 34 countries to the extent that quantitative restrictions covered approximately 80 per cent of its T&C imports from developing countries. At the same time, it is important to note that in the entire period in which the MFA system was in operation T&C trade *between* developed countries – which, in 1990, accounted for approximately 43 per cent of total world trade in textiles and 35 per cent of total world trade in clothing – was not subject to quotas and was thus free from quantitative import restrictions. In this respect, the MFA was almost completely unique as an international trade agreement in that it discriminated solely against developing countries.[24]

The differential discrimination of preferential trade

The fact that the MFA discriminated blatantly against developing countries is undeniable. Yet it would be wrong to think that this necessarily affected all developing countries in the same way. This is because the quantitative restrictions that were introduced under the auspice of the MFA emerged alongside a system of trade preferences that actually *encouraged* T&C production on the part of developing countries. These trade preferences came from at least two different sources.

The first source of trade preferences, which one might call 'incidental' trade preferences, came from the MFA itself. As we have described, the MFA served to shield developed countries from low-waged imports from developing countries through a series of highly restrictive bilateral quotas. However, while this system discriminated against developing countries as a whole and undoubtedly truncated the export growth of some countries, it actually created economic opportunities for others. This was largely due to the fact that the quantitative restrictions authorised by the MFA were not distributed evenly across the developing world, but rather fell disproportionately on the most competitive T&C exporters. In 1982, for example, the proportion of US T&C imports from Hong Kong, Taiwan and South Korea that was subject to quotas stood at 76 per cent, 69 per cent and 76 per cent respectively. In contrast, the corresponding figures for Mexico, the Dominican Republic and Costa Rica stood at 45 per cent, 37 per cent and 40 per cent while other suppliers such as Bangladesh were not at this stage covered by the agreement.[25]

The uneven distribution of T&C quotas had a number of economic consequences, the most important of which was that it encouraged non- and under-regulated countries to enter the export market, initially as transshipment points for countries and firms which had reached their quota ceiling, but subsequently as T&C suppliers in their own right. Hence, one of the major, and clearly unintended, consequences of the MFA quota regime was that it led to the internationalisation of T&C production, which in turn widened the scope of low-wage competition faced by developed counties.[26] In some cases, the developing countries that benefited most from transshipment in Asia – especially Hong Kong, Taiwan and South Korea – went on to successfully replicate the Japanese experience in a manner consistent with the idea of the 'flying geese' model of regional economic development popularised by Bruce Cumings.[27] In other cases, however, the uneven distribution of T&C quotas served a more modest, albeit still significant, purpose in that quantitative restrictions created trade and investment opportunities for less competitive (and generally smaller) developing countries.

A second set of trade preferences to emerge in the T&C sector came from so-called 'production sharing' or 'outward processing' arrangements created by the US and the EU in the 1970s and 1980s. Production sharing worked on the basis of offering tariff and quota concessions to favoured developing countries in order to encourage outsourcing on the part of domestically oriented firms. In the case of the US market, where production sharing has been more commonplace, the original legislative basis came through the Harmonized Tariff Schedule (HTS) 9802.00 which permitted duty exemption to the value of US-made components that were returned as part of articles assembled abroad. This production sharing mechanism was integrated subsequently into a series of non-reciprocal and reciprocal trade agreements including the Caribbean Basin Initiative (CBI, 1984), the Andean Trade Preference Act (ATPA, 1991), the North American Free Trade Agreement (NAFTA, 1994), the Caribbean Basin Trade Partnership Act (CBTPA, 2000), the African Growth and Opportunity Act (AGOA, 2000) and the Central American-Dominican Republic Free Trade Agreement (CA-DRFTA, 2006).

At least insofar as each of these trade agreements relates to the T&C sector, the following observations can be made. The most relevant point is that the establishment and subsequent expansion of production sharing was intimately connected to the existence of the MFA system. This is true is two respects. First, even though schemes like the CBI were justified on the grounds of offering 'trade not aid', it can be argued that they served the needs of outsourcing firms at least as much as the supposed beneficiaries in the developing world. From this point of view, it can be argued that the shift towards production sharing was, as much as anything else, a conscious response to the failure of the MFA to protect the US and other developed countries from low-waged competition.[28] The second issue is that the quantitative restrictions imposed against the most competitive developing countries through the MFA fostered the particular market conditions than enabled preferential trade to flourish. Hence one would need to ask whether or not production sharing and preferential trade would have been viable had it not been for the presence of the MFA and the peculiar market environment that it helped to create.

Path dependency and liberalisation: the sectoral politics of reform and distribution

On the face of it the liberalisation of the T&C sector was an unlikely prospect in the early 1990s, given the extent to which the institutional embeddedness of sectoral protectionism had come to co-exist, albeit uneasily, alongside the multilateral trading system. In this respect, the fact that liberalisation did occur would seem to raise awkward questions for historical institutionalism, given its emphasis on path dependency, policy continuity and so on. Yet, on closer inspection, it becomes clear that not only is T&C liberalisation consistent with the story that we have advanced so far, but also, path dependency holds the key to understanding why the ending of the MFA has not been as equitable as many analysts and policy makers originally envisaged. As is by now well known, the ending of the MFA actually came about as part of the outcome of the GATT Uruguay Round (1986-1994). As part of this settlement, the Agreement on Textiles and Clothing (ATC) replaced the MFA on 1 January 1995, and served as a transitional instrument for facilitating the gradual integration of T&C into the WTO multilateral framework. Under the ATC, importing countries agreed to phase out MFA quotas over a ten-year period but in four separate stages: 16 per cent between 1995 and 1998; 17 per cent between 1998 and 2002; 18 per cent between 2002 and 2004; with the remaining 49 per cent of import quotas to be phased out on 1 January 2005. What this means is that the system of protectionist quotas that shielded developed countries from T&C exports from developing countries for 30 years now no longer exists.

How was it, then, that the developed countries were able to abandon the MFA in 1994 when they had so fiercely defended it for three decades? The most popular answer to this question centres on the North-South bargaining dynamics of the Uruguay Round and suggests that the liberalisation of the T&C trade regime came about as a result of the strategic calculation on the part of developed countries that movement in this area would offer significantly more room for manoeuvre with regard to reciprocal liberalisation in more controversial areas, such as trade-related intellectual property rights and services.[29] This argument is not without merit. At the same time, however, it does tend to underplay the independent interest that the developed countries had in abandoning the MFA. After all, a key point that is often missed amid the denunciation of the MFA is that, not only did it discriminate blatantly against developing countries, but also it demonstrably failed in its key objective of shielding domestic import-competing firms from low-waged competition.

The reasons for this failure are many and varied, but the most important are due to the unintended consequences of the MFA itself. As already discussed in the previous section, the bilateral export restraints authorised by the MFA had the effect of encouraging under- and non-regulated developing countries to enter the export market. Moreover, the particular way in which MFA quota levels were calculated on the basis of their physical volume – that is, the total weight or quantity of garments – meant that exporting countries actually had an incentive to produce higher value goods in order to maximise revenue from quantities shipped within the quota restrictions allowed. Hence, in an odd way, the MFA inadvertently heightened the competitive capabilities of many developing country firms by encouraging them to upgrade to the production and export of higher value goods.[30]

In addition to these international pressures, domestically speaking, although the production sharing schemes were invariably justified in terms of trade and development assistance, as we have shown, they arguably offered more to outsourcing firms than they did to T&C exporters in the developing world. This is because these schemes enabled domestic firms to outsource the most labour intensive aspects of production (e.g. garment assembly) while retaining the higher value added tasks (e.g. natural and synthetic fibre production; textiles design and manufacturing; the cutting and dyeing of fabrics) within the national economy. In this way, firms could in theory maintain price-competitiveness in their own domestic market and with the additional assistance of the MFA resist competition from the most competitive developing countries. The problem with this strategy, however, was that while outsourcing did assist domestic restructuring, it also served to undercut the protectionist coalition that had sustained the MFA up until this point. That is to say, once domestic firms in the US and EU began to locate production overseas, they had less of a stake in the quota system since this placed an artificial ceiling on their access to low-cost labour and raw materials.[31]

In summary, then, it can be argued that the main catalyst for the ending of the MFA lay within the internal contradictions of the regime itself. These internal contradictions do not necessarily account for the *timing* of liberalisation, for which more attention would need to be paid to exogenous factors such as the bargaining context of the Uruguay Round and the significant role played therein by powerful developing countries like Brazil and India.[32] Nevertheless, given the key role played by embedded policy trajectories in the establishment, consolidation and ultimate dissolution of the regime, we can still conclude that the reform of T&C was heavily influenced by path dependency – it was, if you like, the ghost in the liberalisation machine.

Moving now to the politics of distribution, a central contention of this article has been that the task of adjustment facing developing countries under liberalisation is far from uniform and cannot simply be read off from their respective positions in the world economy. Rather what we suggest is that the productive capacity of individual firms and countries has in large measure been shaped, but not determined, by the unique regulatory environment inherited from the MFA era.[33] Maintaining the article's focus on regulatory structures, the first point to mention relates to the actual mode of liberalisation. As we have seen, even though the MFA actually came to an end at the beginning of 2005, this was only made possible after a ten-year transition period in which the elimination of import quotas was backloaded to the extent that the majority of quantitative restrictions remained in place until the very end of the transition period.[34] Not surprisingly, the backloading of the ATC has had a number of differential effects across the developing world. For countries such as China and

India, it meant that the economic gains anticipated from the MFA phase out were not fully realised until almost a decade after the ATC was signed.[35] On the other hand, for the smaller, developing countries that prospered under the MFA system, the backloading of the ATC meant that the accumulated costs of economic adjustment were confronted more or less all at the same time.[36] Of course, it might be assumed that the accumulated costs of adjusting to freer trade are no different for these smaller developing countries than for import-competing firms located in the developed world. Yet, a key difference between these two sets of countries is that, while the developed countries were able to use their considerable market power in order to impose new trade restrictions – such as the textile 'safeguards' introduced by the US and the EU against China in the spring of 2005 (see below) – and possessed available adjustment finance, the smaller developing countries have as yet found little recourse through the formal WTO procedures on which they must necessarily rely. What this illustrates, in the parlance of institutionalist literature, is that *when* things happen affects *how* they happen.

The second point to mention, that renders the above conclusion even more salient, is the degree to which many preference-dependent countries have come to rely on T&C production as the most, in some cases the *only*, significant source of manufacturing employment and export revenue - a practice that Raphael Kaplinsky has referred to as 'industrial monocropping'.[37] An Oxfam report published in 2004 identified a number of developing countries as being dangerously exposed by economic liberalisation due to the acute reliance on the T&C production which accumulated while the MFA was in place. The report calculated that in a number of cases T&C production accounted for more than one-half of merchandise exports, including: Bangladesh (85.8 per cent), Cambodia (72.5 per cent), Mauritius (56.6 per cent), El Salvador (60.2 per cent) and the Dominican Republic (50.9 per cent).[38] Clearly this is of major concern where the source of this competitive advantage is being eroded under the new regime.[39]

The third and final issue is related to the 'rules of origin' that invariably underpin the preferential trade agreements that fuelled most of the above economic activity. In theory, rules of origin are designed to prevent illegal transhipment – where countries not eligible for free trade benefits attempt to redirect their export goods via a third country in order to circumvent customs duties – and thereby encourage integrated production (i.e. not just low value-added activities) in preference-dependent countries. In practice, however, these stipulations have produced two, presumably unintended, effects for smaller, developing countries. The first is that the numerous financial, bureaucratic and other obstacles associated with verifying the origin of goods have served to actively discourage the utilisation of available preferences. In the case of the EU Generalised System of Preferences (GSP), for example, Brenton and Manchin estimate that, even though 99 per cent of imports from developing countries of products subject to duty in the EU (over two-thirds of which were T&C products) were eligible for free trade in 1999, the actual utilisation rate of these preferences (that is, the ratio of imports receiving preferences to eligible imports) was a mere 31 per cent.[40]

The further effect of rules of origin is that in many cases they have more or less frustrated attempts to foster the creation of more vertically integrated T&C enterprises in preference-dependent countries – precisely the opposite of the stated objective of these regulations. The reason for this is that the majority of preference-dependent countries tend to be small and as a consequence the opportunities for domestic sourcing are often negligible. In this scenario, firms located in preference-dependent countries can therefore either source yarns and fabrics from low-cost developing countries not eligible for free trade benefits and eschew preference margins,[41] or (more likely) source from firms located in preference-granting countries and hence deepen their dependency on preferential trade. In the context of the ending of the MFA it is clear that this dilemma may serve to deny the benefits of liberalisation to countries that rely on preferential trade. After all, a significant part of the general equilibrium modelling that was advanced as part of promoting the case for liberalisation rested on the assumption that the removal of quotas would allow countries to enhance their competitiveness through securing access to more competitively priced yarns and fabrics.[42] In the case of countries that rely on trade preferences predicated on strict rules of origin, however, they would first have to forego tariff relief if their exporting firms were to take advantage of cheaper raw materials but still to target these markets.[43] From this point of view, it can be concluded that the path dependent nature of preferential trade has left those countries most exposed by economic liberalisation with perhaps the least room for manoeuvre in the post-MFA trade environment.

Epilogue

In light of the above it is tempting to see the full implementation of the ATC and the resulting elimination of MFA import quotas as a genuine turning point or, to once again deploy the language of historical institutionalism, a ‘rupture’ in the regulation of the T&C sector. As such, it may be argued that while the policy institutions accumulated during previous regulatory eras were important in the period leading up to liberalisation and in its immediate aftermath, upon the full integration of T&C into the WTO system such sectoral idiosyncrasies are now redundant. Representative of this position, in 2004 the then WTO Director-General, Supachai Panitchpakdi, spoke approvingly of how the progressive elimination of trade-distorting practices under the ATC had brought an ‘end to a special and discriminatory regime that has lasted for more than 40 years’ and ushered in a brave new trading world wherein T&C was to be firmly ‘governed by the general rules and disciplines embodied in the multilateral trading system’.[44] Whilst not denying the existence of systemic change and the *formal* shift of T&C to ‘WTO compatibility’, we argue that it would be naïve to think that the future trajectory of the sector will not be influenced by the constellation of path dependencies which shaped its historical evolution up until this point. Even in the brief period since the T&C quotas were abolished, emerging practices can be discerned that bear a very close resemblance to the patterns of trade diplomacy which characterised the MFA era.

The most obvious example of this is the trade restrictions introduced by the US and the EU against China in the spring of 2005.[45] Although these measures were justified at the time in terms of offering a ‘temporary’ transition period so as to allow affected domestic and smaller, developing country producers further time to adjust to freer trade, what this effectively meant for China – supposedly the key beneficiary of liberalisation – was that the MFA has been extended until 2008 (in some cases 2013) for those export categories covered by the agreement. More significantly, not only do these trade restrictions appear to contravene the basic premise of the ATC, namely, the obsolescence of quantitative restrictions, but also, they were couched in precisely the same vocabulary (‘market disruption’, ‘temporary measures’, ‘voluntary restrictions’ and so on) that were used to justify North-South trade discrimination under the MFA system.

Another characteristic feature of post-ATC trade politics relates to the politicisation of the rules of origin stipulations attached to preferential trade agreements. As we have argued, one of the peculiar aspects of the various preferential trade schemes which operated alongside the MFA quota system is the way in which the emergence of integrated T&C enterprises in eligible countries was actively discouraged by prohibiting the sourcing of raw materials and intermediate inputs from third countries. In the light of liberalisation, however, one might have expected a correlated relaxation of rules of origin stipulations so as to allow preference-dependent developing countries to reap some of the benefits of freer trade. On the contrary, it seems that this type of punitive regulation is likely to persist, if not harden, in the post-ATC world. For example, the EU Everything But Arms initiative, launched in 2001 to great fanfare, claimed to offer duty- and quota-free treatment to all exports (except arms and munitions) from the LDCs; yet is not expected to improve the upgrading situation as it is based on *exactly the same rules of origin* as the GSP. As a result, the EBA is likely to prolong the bizarre situation for LDCs such as Bangladesh, which despite eligibility for trade preferences, enjoys duty-free treatment for only about one-half of its exports to the EU (the overwhelming majority of which is T&C), the result of which is it currently faces an overall trade-weighted average tariff of 5.8 per cent – a figure way in excess of that paid by non-preferential exporters to the EU!

The final point regarding the trajectory of the post-ATC T&C trade regime relates to its particular role in the Doha Development Agenda (DDA) through its inclusion in the non-agricultural market access (NAMA) talks. As set out by the 2001 Doha Ministerial Declaration, the basic objective of the NAMA agenda is ‘to reduce, or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries'.[46] In other words, what the NAMA agenda has sought to achieve is the further liberalisation of T&C alongside other non-agricultural sectors. This is fine in principle. In practice, however, despite the fact that in policy making circles it is no longer regarded as a 'sector apart', it remains the case that the regulation of T&C still falls far behind the vanguard of liberalisation. Most notably, even in the absence of quotas, import tariffs levied on T&C are substantively higher than those for other comparable industrial goods, and moreover, within T&C itself, tariffs are higher on processed and semi-processed goods than they are on unprocessed goods – a situation traceable to the initial incorporation of T&C under the Uruguay Round. Recent figures reveal the lasting legacy of these decisions: in the US in 2003, compared to a 3 per cent average tariff facing developing countries on manufacturing as a whole, the average tariff on T&C was 8 per cent, and within this, the average tariff on semi-processed and processed T&C products was roughly double the tariff exacted on unprocessed T&C products.[47] What the NAMA negotiators face, then, is a perverse 'pass the parcel', where underneath each layer of product classification lies a nasty surprise of tariff peaks and tariff escalation on precisely those areas in which poorer countries have developmental interest, leaving negotiators a lot more to do until all discriminatory trade barriers can be considered unwrapped. At the same time, in the (albeit unlikely) circumstances that these obstacles can be overcome, negotiators would then be faced with the equally problematical task of compensating preference-dependent developing countries for the dramatic loss of tariff margins which would unavoidably result from further liberalisation.

Conclusion

This article has explored the uneven shift towards freer trade in the T&C sector in accordance with the 'inner logic' of its trade regime. In the process, the article has addressed a concern familiar to IPE scholars which has gained greater salience as a result of recent popular debate regarding the merits of economic liberalisation for developing countries. To recall, this concern centres on the means and manner by which liberalisation is brought about and the mode of adjustment this entails. In addressing this concern, we have argued that the notion of path dependency, understood as tightly linked reactive sequences, holds the key to explaining the sector-specific nature of trade dynamics in respect of liberalising pressures, trade reform types and economic consequences. Put more succinctly, the distributive politics – that is, who gets what, when and how – of trade liberalisation cannot be understood other than as a historically contingent process, shaped by the embeddedness of pre-established policy regimes and attendant patterns of political and economic behaviour. In this respect, what is most distinctive about T&C is not its inherent economic or technological structure (which is, after all, not fundamentally different from other labour-intensive industries like footwear and consumer electronics), but rather the very high level of policy institutionalisation that has defined its mode of regulation in the post-war period.

In the broader analysis, the sector-specific approach advanced in this article has also served to illuminate aspects of decision-making that are largely overlooked elsewhere in the literature. First, it draws attention to the internal logics – and illogics – that underpin different modes of international trade and which trigger reactive sequences, generating unforeseen policy decisions that, in the language of economists concerned with modelling free trade scenarios, can be considered grossly inefficient.

In the case of T&C, the policy sequence now seems to be leading to a scenario in which lucrative trade opportunities are being created for large, competitive exporters like China at the expense on smaller developing countries whose development trajectory has hitherto been based on preferential trade. Highlighting the conditioning role played by the regulatory environment of preferential trade in a given sector has shown not only why the problems of economic adjustment vary across like countries and industries, but also why we should reconsider ideas of fairness when moving toward such a 'level playing field' in trade. If certain countries were encouraged to enter a given sector at a given industrial level and thus create a *de facto* export dependency, what proportion of the responsibility should they bear under reform? From this point of view, the recommendation of Panitchpakdi that the structural adjustment concerns of least-developed countries are 'best responded to by institutions [i.e. not the WTO] that can make appropriate means available with a view to reducing the burden of the adjustment costs' now seems at the least disingenuous.[48]

Second, the article reveals important insights into the particular ways in which decision makers seek to internalise what are referred to in the institutionalist literature as 'exogenous' shocks. The historical branch of institutionalism suggests that presented with change, actors within a given context cannot easily recognise their interests, reconfigure their actions, and realise their goals accordingly. This applies no less to the case of policy makers embedded within trade regimes. Hence, in T&C, external pressure for reform, i.e. liberalisation measures agreed to as part of the Uruguay Round, has not led straightforwardly to the establishment of a free trade regime. Rather, what is emerging in this case – and presumably in others cases of trade reform as well – is a mode of international trade that still resembles past, sector specific patterns far more than the idealised versions of 'free trade' envisaged by the

WTO and its supporters; a pattern, furthermore, frequently legitimised with similar concepts and discursive currents to those used previously. This repudiation of state voluntarism, upon which liberal accounts of trade depend, is perhaps best summed up in the words of someone 'in the know', former Director-General of the EU Trade Commission, Mogens Peter Carl. Speaking on the liberalisation agenda for T&C in what was then the forthcoming Doha Round, the reality of path dependency was not lost on Carl: 'We have to get this one right. Because we will, for all practical purposes, be setting the parameters for international trade in this sector (and of course in others) for what is going to be more than half a generation.'[49]

Notes

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[1] See *inter alia* Neil McCullock, Alan Winters & Xavier Cirera, *Trade Liberalization and Poverty: A Handbook* (Centre for Economic Policy Research, 2001); Martin Wolf, *Why Globalisation Works* (Yale University Press, 2004); Joseph Stiglitz & Andrew Charlton, *Fair Trade for All: How Trade Can Promote Development* (Oxford University Press, 2005); Department for International Development, (2000) *Eliminating World Poverty: Making Globalisation Work for the Poor* (DfID, 2000); Oxfam International (2002) *Rigged Rules and Double Standards: Trade, Globalisation and the Fight Against Poverty* (Oxfam, 2002); Commission for Africa, *Our Common Interest: The Argument* (Penguin, 2005).

[2] Rorden Wilkinson, *The WTO: Crisis and the Governance of Global Trade* (Routledge, 2006); Amrita Narlikar, *The World Trade Organisation: A Very Short Introduction* (Oxford University Press, 2005); James Smith, 'Inequality in International Trade? Developing Countries and Institutional Change in WTO Dispute Settlement', *Review of International Political Economy*, Vol. 11, No. 3 (2004), pp. 542-73; Richard H. Steinberg, 'In the Shadow of Law or Power? Consensus Based Bargaining and Outcomes in the GATT/WTO', *International Organization*, Vol. 56, No. 2 (2002), pp. 339-74.

[3] Adrian Kay, 'A Critique of the Use of Path Dependency in Policy Studies', *Public Administration*, Vol. 83, No. 3 (2005), p. 554.

[4] Douglass North, *Institutions, Institutional Change and Economic Performance* (Cambridge University Press, 1990), pp. 98-9.

[5] Vivian Schmidt, 'Institutionalism' in Colin Hay, David Marsh and Marjorie Lister (eds.) *The State: Theories and Issues* (Palgrave-Macmillan, 2005), p. 98.

[6] For reviews of the different varieties of institutionalism, see *inter alia* Peter H. Hall and Rosemary C. R. Taylor, 'Political Science and the Three New Institutionalisms', *Political Studies*, Vol. 44, No. 4, (1996), pp. 936-957; Kathleen Thelen, 'Historical Institutionalism in Comparative Politics', *Annual Review of Political Science*, Vol. 2 (1999), pp. 369-404; Schmidt, 'Institutionalism', pp. 98-117.

[7] Colin Hay and Daniel Wincott, 'Structure, Agency and Historical Institutionalism', *Political Studies*, Vol. XLVI (1998), pp. 951-957.

[8] John Ikenberry, 'History's Heavy Hand: Institutions and the Politics of the State', paper presented at conference on the New Institutionalism, University of Maryland, USA, 14-15 October 1994, as cited in Thelen, 'Historical Institutionalism in Comparative Politics', p. 15.

[9] Paul Pierson, 'When Effect Becomes Cause: Policy Feedback and Political Change', *World Politics*, No. 45, No. 4 (1993), p. 596.

[10] Theda Skocpol, *Protecting Soldiers and Mothers: the Political Origins of Social Policy in the United States* (Belknap Press, 1992), p. 58.

[11] Kay, 'A Critique of the Use of Path Dependency in Policy Studies', pp. 556-63.

[12] Hall and Taylor, 'Political Science and the Three New Institutionalisms', p. 942; Schmidt, 'Institutionalism', p. 106.

[13] Thelen, 'Historical Institutionalism in Comparative Politics', p. 397.

[14] Karen Orren and Stephen Skowronek, 'Beyond the Iconography of Order: Notes for a "New" Institutionalism', in Lawrence Dodd and Calvin Jillson (eds.) *Dynamics of American Politics* (Westview Press, 1994), pp. 311-332.

[15] Ian Greener, 'The Potential of Path Dependence in Political Studies', *Politics*, Vol. 25, No. 1 (2005), p. 67.

[16] James Mahoney, 'Path Dependence in Historical Sociology', *Theory and Society*, Vol. 29, No. 4 (2000), pp. 526-7.

[17] See Wilkinson, *The WTO: Crisis and the Governance of Global Trade.*

[18] Vinod K. Aggarwal, *Liberal Protectionism: The International Politics of Organised Textile Trade* (University of California Press, 1985), pp. 9-10; Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective* (Anthem, 2002), p. 19.

[19] Vinod K. Aggarwal, Robert O. Keohane & David B. Yoffie, 'The Dynamics of Negotiated Protectionism', *American Political Science Review,* Vol. 81, No. 2 (1987), pp.345-366.

[20] Gardener Patterson, *Discrimination in International Trade: The Policy Issues 1945-1965* (Princeton University Press, 1966), p. 285-286.

[21] Aggarwal, *Liberal Protectionism*, p. 73.

[22] William R. Cline, *The Future of World Trade in Textiles and Apparel*, revised edition (Institute for International Economics, 1990), p. 147.

[23] Kenneth W. Dam, *The GATT: Law and International Economic Organization* (University of Chicago Press, 1970), p. 229.

[24] *Ibid.*, p. 155.

[25] GATT Secretariat, *Textiles and Clothing in the World Economy* (GATT, 1984), pp. 95-96.

[26] See Gary Gereffi, 'International Trade and Industrial Upgrading in the Apparel Commodity Chain', *Journal of International Economics*, Vol. 48 (1999), pp. 37-70.

[27] Bruce Cumings, 'The Origins and Development of the Northeast Asian Political Economy: Industrial Sector, Product Cycles and Political Consequences', *International Organization*, Vol. 38, No. 1 (1984), pp. 1-40.

[28] Tony Heron, *The New Political Economy of United States-Caribbean Relations: The Apparel Industry and the Politics of NAFTA Par*ity (Ashgate, 2004), esp. Ch. 4.

[29] Bernard M. Hoekman & Michel M. Kostecki, *The Political Economy of the World Trading System: The WTO and Beyond,* second edition (Oxford: Oxford University Press, 2001), p. 229.

[30] Cline, *The Future of World Trade in Textiles and Apparel*, pp. 173-178.

[31] Geoffrey R. D. Underhill, *Industrial Crisis and the Open Economy: Politics, Global Trade and the Textiles Industry in the Advanced Economies* (Macmillan, 1998), Ch. 5; Heron, *The New Political Economy of United States-Caribbean Relations,* Ch. 6.

[32] See Amrita Narlikar, *International Trade and the Developing Countries: Bargaining Coalitions in the GATT and WTO* (Routledge, 2003).

[33] This theme is the subject of a now burgeoning literature. See *inter alia* Peter Gibbon, 'The African Growth and Opportunity Act and the Global Commodity Chain for Clothing', *World Development*, Vol. 31, No. 11 (2003) pp. 1809-1827; Jennifer Bair and Enrique D. Peters, 'Global Commodity Chains and Endogenous Growth: Export Dynamism and Development in Mexico and Honduras', *World Development,* Vol. 34, No. 2 (2006) pp. 203-221; Kahlid Nadvi and John Thoburn ,'Vietnam in the Global Garment and Textile Value Chain: Impacts on Firms and Workers, *Journal of International Development*, Vol. 16, No. 1 (2004) pp. 111-123.

[34] In many cases the developed countries cynically exploited the ATC agreement by including products within the ten-year phase-out that had not actually been subject to any bilateral (i.e. MFA) restraints in the first place. As a consequence, the 10-year liberalisation strategy effectively left the elimination of most quotas to the very end of the transition period: the proportion of quotas that were retained by the EU and the US until 2005 was 73.3 per cent and 86.5 per cent respectively.

[35] The point to emphasise here is that, in respect of dynamic exporters like India and China, the backloading of the ATC has delayed *but not denied* the benefits of liberalisation. In the case of China,

despite the backloading of quota removal and the introduction of textile safeguards in 2005, its post-ATC export performance has been quite remarkable: In the US market, T&C imports from China increased from US$14.5 billion in 2004, to US$22.4 billion in 2005 to US$27.1 billion in 2006; in the EU, the figures stood at US$14.9 billion, US$20.8 billion and US$22 billion respectively. Finally, it is worth noting that due to the price-depressing effects of liberalisation (meaning that larger volumes of goods are shipped for lower prices) these figures probably greatly understate the overall significance of China's post-ATC export growth.

[36] See Richard P. Appelbaum, 'Assessing the Impact of the Phasing-out of the Agreement on Textiles and Clothing on Apparel Exports on the Least Developed and Developing Countries' (Center for Global Studies, 2004); Oxfam International, *Stitched Up: How Rich-Country Protectionism in Textiles and Clothing Trade Prevents Poverty Alleviation* (Oxfam, 2004); International Labour Organisation, *Promoting Fair Globalisation in Textiles and Clothing in a Post-MFA Environment* (ILO, 2005); Tony Heron, 'The Ending of the Multifibre Arrangement: A Development Boon for the South?', *European Journal of Development Research*, Vol. 18, No. 1 (2006), pp. 1-21.

[37] Raphael Kaplinsky, 'Export Processing Zones in the Dominican Republic: Transforming Manufactures into Commodities', *World Development*, Vol. 21, No. 11, (1993) pp. 1851-65.

[38] Oxfam International, *Stitched Up*, p. 7; see also Appelbaum, 'Assessing the Impact of the Phasing-out of the Agreement on Textiles and Clothing on Apparel Exports on the Least Developed and Developing Countries', p. 20.

[39] See Hildegunn K. Nordås 'The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing', *WTO Discussion Papers* (WTO, 2004).

[40] Paul Brenton & Miriam Manchin, 'Making EU Trade Agreements Work: The Role of Rules of Origin', *The World Economy*, Vol. 26, No. 5 (2003), p. 757.

[41] Under the GSP eligible developing countries are permitted to source from other eligible developing countries on a regional basis under so-called diagonal accumulation. This allows members of four regional groupings that qualify for GSP entitlements – ASEAN, the Central American Common Market (CACM), the Andean Community and the South Asian Association for Regional Cooperation (SAARC) – to source regionally provided that EU rules of origin are still met. However, this provision is invariably complicated by a separate 'value-added' requirement which stipulates that the final stage of production must exceed the highest customs value of any of the inputs used from within the regional grouping. For example, garments assembled in Bangladesh but using Indian fabrics would not qualify for duty-free treatment because the latter typically represents a higher proportion of the value of the final export (roughly 65-75 per cent) than the former (roughly 25-35 per cent). See Paul Brenton, 'Integrating the Least Developed Countries into the World Trading System: The Current Impact of EU Preferences under Everything But Arms', *World Bank Policy Research Paper*, No. 3018 (2003), esp. pp. 13-14.

[42] See Organisation for Economic Cooperation and Development, *A New World Map in Textiles and Clothing: Adjusting to Change* (OECD, 2003), Ch. 1.

[43] Heron, 'The Ending of the Multifibre Arrangement', p. 7.

[44] Supachai Panitchpakdi, 'Director-General's remarks on the occasion of the 117th and Final Meeting of the Textiles Monitoring Body', Speech at WTO, Geneva, 9 December 2004. http://www.wto.org/english/news_e/spsp_e/spsp33_e.htm. [Accessed 10 May 2007].

[45] See Tony Heron, 'European Trade Diplomacy and the Politics of Global Development: Reflections on the EU-China "Bra War" Dispute', *Government and Opposition*, Vol. 42, No 2 (2007), pp. 190-214.

[46] World Trade Organisation (WTO) (2001), *Doha Ministerial Declaration,* Geneva: WTO, WT/MIN (01)/DEC/1, pp. 3-4.

[47] Jörg Mayer, 'Not Totally Naked: Textiles and Clothing Trade in a Quota-free Environment', *Journal of World Trade*, Vol. 39, No. 3 (2005), pp. 399-404.

[48] Panitchpakdi, 'Director-General's remarks'.

[49] Carl P. Morgens, 'Director General of DG Trade speaks on Market Access Negotiations on Non-Agricultral Products',
http://trade-info.cec.eu.int/doclib/docs/2005/may/tradoc123173.doc [Accessed 10 May 2007].