On January 1, 2005, the United States, Canada, and Europe completed the 10-year phase-out of quotas that govern imports of textiles and apparel in accordance with the Agreement on Textiles and Clothing (ATC). This quota system led to the establishment of large garment and textile industries across Asia, creating millions of jobs in countries where wage-earning opportunities have otherwise been scarce.

But markets created by rationed or restricted access are, by definition, distorted and rarely competitive. Quotas basically guaranteed profits for textile and garment firms in countries throughout Asia, but the system also effectively stifled competition among firms, eroding incentives to upgrade technology or invest in human resources. The system also created complacency within the private sector, by undermining their potential role as advocates for local improvements as long as they continued to receive access to the quotas. Thus, limited progress was made during the quota period on upgrading infrastructure, such as improving power, ports, and roads, and on streamlining policies, such as enacting sounder tax and customs policies. Although many Asian countries undertook piecemeal reform efforts in anticipation of the quota-free future, the 10-year phase-out has not been used effectively to prepare the local economy for global competition.

Now the most vulnerable exporting countries are facing the possibility of disastrous job losses in the coming months. Without quota access to advanced markets, these countries fear that their domestic firms will not be able to compete and that more profitable firms elsewhere will win away their orders.

Facing the loss of these jobs, many leaders in Asia remain preoccupied with the hope that someone on the outside will rescue their workers. Some have looked to the WTO to postpone the final implementation of the ATC; some are looking to the United States to provide special tariff-free access or new restrictions on China; others hold out some hope that private firms – the buyers in the textile and apparel markets – will resist the lure of profits and continue to buy from their uncompetitive industries. These hopes are unrealistic – as most successful companies will continue to focus on the bottom line – and misplaced. This own lack of competitiveness is driving investors away, and the fault for this does not lie with the WTO, the U.S., or international buyers.

THE ASIA FOUNDATION’S APPROACH

The Asia Foundation’s programs build on the premise that market-based economic growth must be a critical component of any poverty alleviation strategy. As a result, the Foundation believes that activities aimed at mitigating the loss of employment in exporting countries need to focus on enhancing the capabilities of smaller countries to compete – not necessarily with China, but with other nations that are also seeking to maintain some share of the global trade in textiles and apparel.

CONVENING EXPERTS

To help vulnerable exporting countries focus on what they can do at home to make their economies more attractive to investors, The Asia Foundation hosted an international conference in Bangkok in October, 2004 with participants from Bangladesh, Cambodia, Indonesia, Mongolia,
Nepal, Pakistan, the Philippines, and Sri Lanka. The Asia Foundation has an extensive cross-sector network of partners, and often acts as a neutral convener to discuss issues, best practices, and policy recommendations. The two-day Bangkok event brought together high-level government officials, labor union leaders, and representatives of business, universities, and civil society to talk about the future in the post-MFA environment. Attendees included a total of more than 70 leaders from all sectors, including the following government notables:

- Mr. Ghulam Hussain, Deputy Secretary, Ministry of Commerce, Bangladesh
- H.E. Sok Siphana, Secretary of State, Ministry of Commerce, Cambodia
- Drs. Ir. H. Yusran Muas Munaf, Director of Apparel, Ministry of Industry and Trade, Indonesia
- Mr. D. Ganbold, Economic Policy Advisor to the Prime Minister of Mongolia
- Mr. D. Idevhten, Member of Parliament, Parliament Floor Leader, Mongolian People’s Revolutionary Party
- Mr. Udhab Prasad Banskota, Joint Secretary, Ministry of Labor, Nepal
- Mr. Atta Mohammad Raja, Joint Secretary, Ministry of Labour, Manpower & Overseas, Pakistan
- Ms. Ma Lourdes Recente, Director, Department of Finance, Philippines
- Mr. Roy Jayasinghe, Additional Secretary, Ministry of Industry, Tourism and Investment Promotion, Sri Lanka

During the conference, participants engaged in wide-ranging discussions of possible strategies and activities that could be employed to address the domestic impediments to investment and competition. In addition, guests made presentations that created a thorough overview of the post-MFA situation, including impediments to trade, keys to improved competitiveness, and how international buyers make their sourcing decisions.

RECOMMENDATIONS

Based on these presentations and discussions, The Asia Foundation has developed the publication, *The Phase-Out of the Multi-Fiber Arrangement: Policy Options and Opportunities for Asia*, which provides background and details the Foundation’s views and recommendations for countries to improve their competitiveness in the post-MFA environment.

In its first chapter, the publication provides background on the MFA including a breakdown of the percentage of total merchandise exports that apparel and textiles account for in many Asian nations. It also describes benefits of the ATC, as well as rarely discussed potential benefits of the post-ATC environment. China’s production advantages are detailed, as well as an explanation of why the extent of China’s future domination in the marketplace is probably overstated. Reasons include individual WTO countries acting to prevent a surge of imports from China, U.S. free trade agreements with other countries, companies’ interest in diversifying, and China’s disadvantage in turnaround time.

The second chapter identifies regulatory impediments to domestic trade, analyzes policies that can be used to reduce these impediments, and describes policy changes that might support the preservation of export-oriented textile and garment firms and the jobs they provide. These are based on The Asia Foundation’s view that because competition, not quotas, will now determine the allocation of production around the world, countries in Asia need to focus their energy on making domestic changes to improve the local environment for invest-
ment and production. Recommendations are made for action that countries can take related to policy, taxation, one-stop shops, and Export Processing Zones.

Chapter Three is devoted to labor law and makes a case for improving measures that benefit both workers and employers, such as safe workplace conditions, overtime pay, and paid benefits. The chapter also presents another side to policies that, on the surface, do benefit workers, but that actually can have a detrimental effect on the overall labor force, including minimum wage and working hour restrictions. The chapter also examines the “informal sector” of employment and how corruption can enter the system.

The fourth chapter of the publication looks at mitigating transition costs for workers, with a focus on measures such as compensation policies, social security, employment searches and skills development for laid-off workers. These measures can be adopted along with the preventive measures discussed throughout the book that improve domestic economies and try to prevent job losses before they occur. The available resources and the severity of job losses that may occur in the near future will determine the types of protective measures that countries will be able to pursue. Countries must prioritize their allocation of resources, and decide whether focusing on compensation or job re-training, or a combination of both, will be the most helpful to displaced workers. However, as even workers’ rights groups and labor advocates recognize, these protective measures will need to be enacted in combination with preventive measures to truly reduce actual and potential unemployment in these countries.

Chapter Five presents the perspective of international buyers, detailing the important factors that companies use in their sourcing decisions. These factors include: cost; productivity, efficiency, and industry capability; infrastructure; supplier reliability and longstanding supplier relationships; product quality and specialty; labor standards; location and speed to market; and risk factors. These factors illustrate that buyers will probably continue sourcing from various countries, and that the smaller garment and textile exporting countries must see themselves not as competing with China, but rather as competing with one another.

Finally, Chapter Six makes a variety of recommendations for countries to improve their competitiveness in areas including business climate, infrastructure, raw materials inputs, labor and management policy, market access, and supplier reliability. These recommendations provide a roadmap for countries, businesses, labor, and NGOs to enable local economies to better compete in the global marketplace.

Based on the recommendations outlined in *The Phase-Out of the Multi-Fiber Arrangement: Policy Options and Opportunities for Asia*, The Asia Foundation intends to capitalize on its strength as a neutral convener to facili-
tate policy reform discussions among relevant economic interest groups, industry representatives, regulatory experts, government leaders, and NGOs. By working with these multi-sector groups on a country-by-country basis, the Foundation intends to help remove barriers to economic activity.

The Foundation is seeking funding and collaboration to implement a series of activities that will begin by outlining a detailed policy roadmap for each country. Some examples of specific programs that are being discussed in the various countries include:

- Facilitating regular dialogue among tripartite groups that include government, business, and labor to reconsider existing domestic labor laws, worker protection mechanisms, and government enforcement in light of the post-ATC context. (Countries may include Cambodia and/or Sri Lanka.)

- Conducting a survey of buyers to understand impediments they face in conducting business in a specific country. (Countries may include Cambodia and/or Sri Lanka.)

- Within the first year of the ATC expiration, hosting a closed-door, working session for countries to share best practices and examples of resolving domestic impediments to trade.

- Working with the relevant government institutions on strategies that will address specific trade bottlenecks, such as improving customs administration, including the clarification of trade regulations; facilitating the adoption of new technology to enhance efficiency and transparency; and providing appropriate training for human resource development. (Countries may include Bangladesh and/or Mongolia.)

**THE ASIA FOUNDATION’S EXPERTISE**

The Asia Foundation is a U.S.-based non-profit organization that has been working throughout Asia since 1954. With offices in 17 countries, the Foundation possesses a deep understanding of local issues and actors that affect national and international policy decisions related to trade and economics. In each country, the Foundation maintains strong ties to government agencies, the private sector, universities, and local non-government organizations across Asia, and these networks of relationships make it possible to develop relevant programs that address some of the most intractable local issues of governance and development.

The Foundation’s economic programs primarily focus on removing structural and systemic impediments to economic growth with programs aimed at three objectives: improving the regulatory and policy environment for small business growth; improving corporate governance practices; and supporting increased trade and investment in the region. Examples of The Asia Foundation’s work in economic reform and development can be found online at: www.asiafoundation.org.

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**TO LEARN MORE ABOUT THIS PROGRAM, PLEASE CONTACT:**

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The Asia Foundation is a private, non-profit, non-governmental organization working to advance mutual interests in the United States and the Asia-Pacific region. It is funded by contributions from corporations, foundations, individuals, and governmental organizations in the U.S. and Asia, and an annual appropriation from the U.S. Congress. Through its programs, the Foundation builds leadership, improves policies, and strengthens institutions to foster greater openness and shared prosperity in the Asia-Pacific region.