The unraveling of the Multi-Fiber Arrangement, 1981: an examination of international regime change

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Trade in textile and apparel products illustrates many of the conflicts that arise from a shifting international division of labor. Developed countries have employed a wide array of measures to protect their industries. Textile and apparel products account for approximately one-third of less developed countries' (LDCs) manufactured exports overall and, in some countries, more than one-half. Growing protection stunts the LDCs' efforts to industrialize and finance their international debt through the export of manufactures. And protectionist policies, aside from causing economic inefficiencies, have high political costs. Disputes have arisen between North and South, among the Northern countries, and among Southern countries in negotiations over market shares in textile and apparel trade.

Developed and less developed countries have made efforts to regulate national intervention in textile and apparel trade through an international regime. Two factors stimulated its development. First, the proliferation of so-called voluntary export restraints by Japan, India, Pakistan, and Hong Kong in the 1950s, as a result of pressure from the American and British textile and apparel industries, undermined the General Agreement on Tariffs and Trade (GATT). Second, protection by West European countries led LDCs to focus on the American market.

Rather than permitting the continuation of unregulated intervention in trade, the U.S. government pressed for the development of the Short Term and Long Term Arrangements on Cotton Textiles (STA and LTA) in the 1960s. These accords relieved pressure on the American market, forcing the Europeans to accept more imports; they also introduced a multilateral order

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more consistent with the GATT than bilateral and unilateral restraints. Since the LTA only regulated intervention in cotton products, however, LDCs increasingly exported wool and man-made fiber products. As such imports grew, domestic producers in developed countries responded by successfully pressuring their governments to impose restraints on these goods. Faced again with the prospect of growing numbers of bilateral and unilateral measures, the U.S. government sought to expand the LTA to encompass trade in man-made fiber and wool-based products. In 1974, the Multi-Fiber Arrangement (MFA) replaced the LTA; after a difficult battle, it was renewed in 1977. In 1981, the MFA's second renewal left a weaker regime, which permitted a major growth in protectionism. Nonetheless, the United States, the European Community (EEC), LDCs, and others continue with an international regime in textile and apparel trade at a time when unregulated unilateral and bilateral accords are the norm in steel, footwear, autos, electronics, and other areas of trade among these same countries.

The 1981 renewal of the MFA poses two substantive puzzles. First, why did countries choose to manage conflict in this issue-area by maintaining at least the semblance of an international regime? Second, why did the renewed regime become weaker and more protectionist? In this context it is, for purposes of clarity, important to distinguish among four terms. "Transactions" consist of trade, monetary, information, and other such flows. They are influenced by national "controls"—either unilateral restraints or bilateral accords. "International regimes," multilateral systems of rules and procedures, regulate the imposition of controls.[1] Finally, a "metaregime" encompasses the norms and principles underlying the development of issue-specific regimes.[2]

Structural theories have been used to account for the development of regimes and their characteristics. A structural approach at the level of the international system explains outcomes by focusing on variations in the structure of the international system, without differentiating among countries on the basis of their internal characteristics. Resembling the mode of analysis in microeconomics, this approach argues that similarly situated countries respond in predictable ways to the structure of the system (just as firms respond to the constraints and incentives of the market). Yet it has produced

1. See V. Aggarwal and L. Cahn, "The Political Foundations and Implications of Trade Controls: A Conceptual Framework," presented at the Peace Science Society International Conference, Stanford University, Stanford, Calif., February 1978, p. 7.

2. S. Krasner, in the introduction to a special issue on international regimes (*International Organization* 36 [Spring 1982]), defines regimes as "sets of explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations." As I argue elsewhere (V. Aggarwal, "Hanging by a Thread: International Regime Change in the Textile/Apparel System, 1950–1979" [Ph.D. diss., Stanford University, 1981]), this unnecessarily complicates the definition of regimes and makes cognitive and structural analyses of regimes appear to be competitive when they are in fact complementary. In this article I focus on regimes rather than on metaregimes.

studies that fail to demonstrate that structural factors systematically influence decision makers. Instead, such studies merely demonstrate a correlation between certain structural configurations and certain outcomes.[3]

A second approach to regimes examines domestic structure and its effect on process. It focuses on units—specifically, the domestic politics behind foreign economic policies.[4] To understand international regimes from this perspective, one would need to consider the interests and power of coalitions and pressure groups, and the response (or initiative) of the state. Variation among the policies of countries as explained by domestic rather than by international factors would account for the formation of regimes and their characteristics.

After presenting the international and the domestic theories used to explain regime development and characteristics, I analyze the bargaining that led to the renewal of the MFA in 1981. I use a "process-tracing" analysis of this bargaining, to ascertain the extent to which decision makers responded to international and domestic structural factors. Process tracing is a qualitative method, helpful in establishing confidence in causal models in the absence of a large number of cases.[5] It aims not simply to "tell a story" but rather to use the information obtained from interviews and other sources to examine the role of different factors in explaining the pattern of decision making. The process-tracing approach identifies possible anomalies to the expectations generated by the international structural and domestic politics models. We can thus improve our theories of international collaboration by systematically incorporating variables such as knowledge and learning into our models.

1. International system theories of regime transformation

Why a regime?

International systemic theory can provide parsimony and shed light on why countries develop an international regulatory mechanism—a regime—when unilateral controls or bilateral accords will suffice to regulate trans-

3. See for example, R. Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975); S. Krasner, "State Power and the Structure of International Trade," *World Politics* 28 (1976), pp. 317–47; K. Waltz, *Theory of International Politics* (Reading, Mass.: Addison Wesley, 1979); R. Keohane, "The Theory of Hegemonic Stability and Changes in International Economic Regime, 1967–1977," in O. Holsti, R. Siverson, and A. George, eds., *Change in the International System* (Boulder: Westview Press, 1980).

4. See for example the articles in P. Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1978).

5. See A. George, "The Causal Nexus between Cognitive Beliefs and Decision-Making Behavior: The Operational Code Belief System," in L. Falkowski, ed., *Psychological Models in International Politics* (Boulder: Westview Press, 1980). While the technique requires detailed information about the decision-making process, which is often difficult to obtain, appropriately structured interviews and historical and documentary sources can provide the needed detail.

actions.[6] Three factors at the international level appear to be important: the influence of "nesting"; a desire to control the behavior of other countries; and information and organizational costs.

The idea of nesting can be understood from the perspective of a hierarchy of systems. The textile system is "nested" within the trading system and the trading system, in turn, nests within the overall international system. Actions that countries take in these other systems influence behavior in the textile system. For example, confrontation between the United States and the USSR in the overall international system affects the conduct of trade. Similarly, the development of the GATT influences countries' actions in the textile system. One would expect "higher-level" systems to be given more importance and thus that countries will endeavor to bring subsystemic behavior into line with objectives in higher-level systems.

Textiles nest in the overall trading and international strategic systems. Since the GATT regime in the overall trading system regulates the imposition of trade controls in manufacturing trade generally, countries that support the broader regime (based on the norms of reciprocity, nondiscrimination, multilateralism, and so on) should avoid undermining these norms—as long as they can meet their objectives in textiles.[7] For example, since bilateral restrictive accords not meeting the GATT's specific criteria would violate the norm of multilateralism, countries supporting the GATT might institute a multilateral accord such as the MFA. The overall trading system, which is increasingly multipolar in its distribution of capabilities, might also be expected to influence textile negotiations through competition of the key "poles"—the United States, the EEC, and Japan—for the economic allegiance of the LDCs (that is, North-South relations). The overall strategic East-West conflict might also constrain decision makers in developed countries if they felt that the LDCs might turn to the East if they were not given sufficient Western market access. Considered over time, this, we might expect, would be a greater constraint in the "tight" bipolar system of the 1950s than in the 1980s.

A second reason that might lead countries to prefer regimes over bilateral arrangements is their potential for exerting indirect control over other countries' actions. If a country finds it costly to use power directly to influence the actions of others it might prefer a rule-based arrangement to control their behavior. A country that cannot directly influence the imposition of national controls may choose to tie its own hands—as long as it is able to tie the hands of others as well. Nesting is relevant here. For example, a

6. I start with the assumption that laissez-faire is not proving "successful" and that countries have decided to intervene in the market.

7. J. Finlayson and M. Zacher identify GATT norms as nondiscrimination, liberalization, reciprocity, development, safeguards, multilateralism, and negotiations led by major suppliers; see their "The GATT and the Regulation of Trade Barriers: Regime Dynamics and Functions," *International Organization* 35 (Autumn 1981).

country may be dominant in the overall trading system; but if higher-level considerations, such as international strategic considerations, are important then the direct use of force to influence others may be out of the question. In such a situation, however, regimes may allow such influence. A second example related to the control of other countries' behavior through rules concerns small countries. Such countries will be the strongest advocates of rule systems since they tend to prevent the use of overt power—of which small countries have little.

A third factor influencing the choice of a regime relates to organizational and information costs.[8] A multilateral mechanism has lower organizational costs than many bilateral contracts. Although this problem can be surmounted by the use of a "standard" negotiating form, setting up the apparatus to conduct different negotiations and organizational mechanisms to monitor them can be expensive if countries share no accepted norms. Regimes also reduce search costs and improve the quality of information—a factor of major importance if many issues are under consideration. This point will be of particular interest to smaller countries with limited personnel and expertise since they will find it costly to monitor the international market and actions of others; international regimes are a mechanism for sharing costs. In addition, a regime will provide "transparency" to all participants if there is some central monitoring facility or organization. That is, countries wishing to control the actions of others will be able to gather information on violations with greater ease and to compare their negotiating and trading performance with other nations'. Hence, the type of actors in the system and the number of issues being considered will influence the preference for regimes or bilateral contracts. Specifically, the presence of small actors and multiple issues should encourage the development of regimes.[9]

The textile system in the late 1970s and the early 1980s is characterized by numerous small exporting countries and two key importers—the United States and the EEC. Furthermore, the number of issues in the textile system is very large. Actors are concerned with products of a wide variety of fibers (cotton, wool, man-made, flax, jute) and a bewildering array of goods (both fabric types and apparel items). Issues include modes of control (unilateral, bilateral, or multilateral), quota regulation (flexibility and swing), and circumvention of controls (transshipping, cheating, and outward processing). One would expect the presence of many small nations in textile trade and very high potential costs of individual bilateral agreements to encourage the formation of a regime.

8. My analysis in this subsection draws heavily on R. Keohane, "The Demand for International Regimes," *International Organization* 36 (Spring 1982).
9. Ibid.

Characteristics of regimes: strength and nature

Of all the theories relating international structure to regime characteristics, the one receiving most attention involves prediction of the strength of regimes.[10] Hegemonic stability theory argues that concentration of capabilities (specifically, a single major power) in an anarchic system leads to stability and strong international regimes. When the concentration of capabilities begins to diffuse, regimes will tend to break down. (Earlier formulations of this theory focused on stability in a variety of different issue-areas but did not provide a theoretical rationale for the existence of stability.)[11] Drawing on collective goods theory, analysts have recently argued that stability can be considered a public or collective good; thus, they assert, dominant countries will be willing to act as leaders, absorbing many of the costs associated with the creation and maintenance of an international regime, since they will reap large benefits from stability and obtain a regime with characteristics they favor.

Aside from the collective goods argument, which suggests that dominant countries will provide inducements for other countries to cooperate in maintaining a regime, the issue of externalities is important. Uncoordinated national action may harm the interests of other countries. If one country closes its market to imports, exporters may divert their exports to another country. In such a situation, the dominant country or hegemon may use positive inducements in the form of side payments, and negative inducements in the form of sanctions, against uncooperative countries. For example, a hegemon can threaten violence against smaller nations. More subtly, a hegemon of the monopsonist sort (that is, with a large market) may encourage bandwagoning behavior among countries with a threat to bar others from its market since possibilities for "balancing" are eliminated—that is, countries barred from the monopsonist's markets do not have the option of seeking cooperation from a competitor to the hegemon.[12] Where power is based on demand rather than on supply, the hegemon's threat to bar the entry of goods into its markets will also convince small buyers (that is, other importing countries) to bandwagon on to the regime for fear of having goods diverted to their market from the hegemon's. Thus in many ways a unipolar system encourages stable and strong international regimes.

While capabilities to some extent depend on the ability to produce goods, the power of countries to influence behavior in textiles lies for the most part

10. Hegemonic stability arguments have also associated concentration of capabilities with an open regime. As I argue below, however, it is important to distinguish between the strength and the nature of regimes. It is quite possible to have a strong *protectionist* regime as well as a strong open one. On hegemonic stability theory see C. Kindleberger, *The World In Depression* (Berkeley: University of California Press, 1973); Gilpin, *U.S. Power*; Krasner, "State Power"; Keohane, "Theory of Hegemonic Stability."

11. A. Organski, *World Politics* (New York: Knopf, 1968).

12. The terms "balancing" and "bandwagoning" are taken from Waltz, *Theory*.

with the *consumers* of products. Since the demand for textile and apparel products tends to be more elastic than that for other goods, a threat to restrict exports would not be a source of power. Moreover, since the production of most such products is relatively simple (with some exceptions, such as man-made fiber-based products) and the degree of capital intensity tends to be relatively low in apparel production, barriers to entry are relatively low.

As it was in overall trade, the United States was clearly preponderant in the international textile system of the 1950s and 1960s. The U.S. share of combined U.S. and EEC imports of textiles and clothing from Japan and the LDCs was 59.7 percent in 1960, 58.5 percent in 1965, and 59.6 percent in 1970. But that preponderance in terms of market (consumption) power has been diminishing. The U.S. share was 42.8 percent in 1973, 37.2 percent in 1975, 39.0 percent in 1977, and 35.8 percent in 1980.[13] However, the approximately 60:40 ratio of U.S. to EEC imports between 1960 and 1970 is misleading. Prior to 1973, and especially before 1970, the Community did not have a unified policy on textile and apparel products. Thus, the United States was more a market leader than 60:40 suggests, since the next largest importer, West Germany, had far less than a 40 percent import share. The members of the EEC first coordinated policy making in textile and apparel trade in 1977, when they worked out a single position in advance of the first MFA renewal. These various developments constituted a major change in the distribution of capabilities in the textile and apparel system.

The "nature" of a particular regime relates in part to the development of knowledge and ideologies underlying international regimes. As decision makers question the benefits of open systems, one might expect a movement toward protectionism.[14] In addition, at the process level, world prosperity or depression tends to be associated with liberalness and protectionism, respectively.[15]

A hypothesis based on the structure of the international system can account for variations in the nature of regimes. As developed countries face competition from countries producing similar products in a given industry with highly different factor proportions (in this case, low labor costs), international regimes should become more protectionist.[16] One would expect some variation

13. EEC figures from 1960–70 include U.K. and Denmark imports (Eire not available but insignificant) to provide comparability with post-1973 figures. The sources are: for 1960–70, GATT document L/3797 (1972); for 1973–77, GATT document Com.Tex./W/63 (9 October 1979); for 1980, GATT document Com.Tex./W/83. The percentages are calculated from import data.

14. See C. Kindleberger, "Group Behavior and International Trade," *Journal of Political Economy* 59, 1 (1951), pp. 30–46.

15. See Timothy McKeown, "Tariffs and Hegemonic Stability Theory," *International Organization* 37 (Winter 1983), for a discussion.

16. H. Hughes, ed., *Prospects for Partnership: Industrialization and Trade Policies in the 1980s* (Baltimore: John Hopkins Press, 1973), makes a similar argument about the differences faced by developed countries in adjusting to exports from LDCs as compared to exports from other developed countries. While intraindustry or intrafirm trade might ameliorate protectionist impulses, as G. K. Helleiner argues based on evidence from the United States, intrafirm trade

among countries and in sectors within countries, however, based on industrial and labor organizations' strength and state power. Nesting might also affect the nature of a regime: higher-level interests (such as a desire to maintain the principles and norms of the GATT) could affect the type of regime developed in textile and apparel trade.

In international textile trade, from 1977 to 1979 (the period just prior to the MFA renewal discussions), the EEC's balance in textiles trade with non-MFA LDCs declined from a surplus of $783 million to $422 million and with MFA LDCs from a deficit of $762 million to a deficit of $1195 million. In clothing, the EEC fared "worse." Its deficit with non-MFA LDCs jumped from $439 million to $1119 million and with MFA LDCs from $2629 million to $4030 million. The U.S. fared somewhat "better" in textile trade. Its trade surplus with non-MFA LDCs increased from $110 million to $315 million and its deficit with MFA LDCs declined from $213 million to $82 million. In clothing, however, the U.S. situation deteriorated rapidly. With non-MFA LDCs, the U.S. trade deficit grew from $573 million to $845 million and with MFA LDCs from $2112 million to $3060 million.[17]

In summary, international structure theory would predict a relatively weak regime as a result of bipolarity in the textile system. In the bargaining, we would expect to find an American recognition of growing EEC power and a perception that the successful conclusion of negotiations depends greatly on EEC collaboration. The actual conduct of the bargaining should be marked by a very lengthy process of negotiation as a result of bipolarity in textile capabilities. With respect to regime nature, we would expect growing protectionist pressures by industrial groups, leading to a more protectionist regime, because of increasing competition from the LDCs.

2. Domestic structure theories of regime transformation

From the perspective of protectionist-oriented domestic producers, the ideal form of state intervention in the market would be a unilaterally imposed

is mainly significant in industries with high research and development expenditures. He finds that of total imports from the Third World into the United States in 1977, related party imports accounted for 7.8% in textiles, 11.5% in clothing, 4.4% in footwear, 63.5% in nonelectrical machinery, and 75.2% in electrical machinery (2-digit SITC categories for industry definitions): Helleiner, *Intra-Firm Trade and the Developing Countries* (New York: St. Martin's Press, 1981), p. 70. C. Lipson, "The Transformation of Trade: The Sources and Effects of Regime Change," *International Organization* 36 (Spring 1982), makes a similar argument for intraindustry trade. The future may not be as bleak as cross-cutting pressures on firms seeking protection increases. Some evidence can be found in the MNC involvement in African and Latin American countries' textile and apparel industries. While these countries are currently not very important in textile trade, this may change. I am indebted to an anonymous referee for this last point.

17. Data are computed from GATT document CT/W/78, 29 September 1980, tables 1A and 1C for the EEC and tables 2A and 2C for the United States (U.S. dollars). Data for U.S. and EEC are not strictly comparable because all figures for exports and imports are f.o.b. with the exception of EEC imports, which are c.i.f.

global quota. Such mechanisms as tariffs are less desirable since they do not fix the absolute quantity of imports; they depend instead on the price competitiveness of exporters. If efforts to secure a global quota are not successful, bilateral accords with all "offending" countries would be a second-best solution. Essentially, this would be the equivalent of a country-by-country unilateral quota. If we consider a regime as a multilateral accord that regulates intervention by countries, the desire of domestic import-competing groups for a regime would be inextricably tied to the regime's characteristics. Such groups would welcome a strong protectionist regime or a weak regime that permitted a great deal of protectionist action. The worst of all possible worlds from their perspective would, of course, be a strong liberal regime.

The ability of the state to resist protectionist pressures (or to protect or liberalize selectively, as it sees fit) depends on the strength or weakness of the state vis-à-vis societal interests.[18] In countries whose political systems contain multiple access points and relatively fragmented state power, domestic groups would be more successful in attaining their objectives. In this connection, the instruments that the state possesses to influence societal actors are critical: if the state can work through the banking system, through public firms as market leaders, or directly through subsidies, it will be able to resist domestic pressures and manipulate domestic actors. With respect to domestic groups themselves, economic and political power will depend on the success with which import-competing groups organize into peak associations and ally themselves with other like-minded groups.

While an analysis of overall structural relationships between state and society is helpful in other contexts, the domestic issue-specific structure in textiles and apparel requires attention if we are to explain the policy process. The relationship of textile and apparel groups to the state varies across countries.[19]

In the United States, the state is in relative terms domestically weak. It possesses few instruments to manipulate sectors and is itself fragmented, both at the aggregate level (Congress, judiciary, executive) and even within the executive (multiple departments with different constituencies). By contrast, the textile and apparel industries have developed a strong political base. Through such peak political organizations as the American Textile Manu-

18. See Katzenstein, *Between Power and Plenty*, and S. Krasner, *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton: Princeton University Press, 1978), for a discussion of weak and strong states.

19. I only discuss the domestic structure of key actors in the 1981 negotiations. Japan, other developed countries, East Bloc countries, and a number of LDCs only played minor roles in the negotiations. A more detailed discussion of domestic structure in the textile/apparel issue can be found in V. Aggarwal with S. Haggard, "The Politics of Protection in the U.S. Textile and Apparel Industries," in J. Zysman and L. Tyson, eds., *American Industry in International Competition*, (Ithaca: Cornell University Press, 1983), for the United States, and J. de la Torre, "Public Intervention Strategies in the European Clothing Industries," *Journal of World Trade Law* 15 (March-April 1981), for Europe.

facturers Institute and the American Apparel Manufacturers Association, the industries have great political power. The peak associations are particularly significant because of the fragmentation of firms in the textile and especially in the apparel industries. As a result, the peak associations, rather than individual firms, express the industries' desires. This leads to broadly based protectionist policies as a common denominator and rules out selective state intervention. Finally, while labor is organized in the textile and apparel industry in various peak organizations, most workers are not members of unions; hence, we would expect business to set the tone for demands on the state. In sum, we would expect the textile and apparel peak associations to play a key role in negotiations over renewal of the Multi-Fiber Arrangement. Considering domestic factors, the state in the United States appears to have few instruments and is too organizationally fragmented to pursue a coherent policy separate from, or to provide coherent resistance to, business (and labor) demands.

Since the early 1970s, international policy making in the European Economic Community has been increasingly delegated to the Commission. Hence, I focus on the Commission's relationship to the member states and peak Community-wide industry associations. The U.S. state may be hampered domestically in determining policy on international textile trade; the Commission is even more constrained. The formal delegation of power to the Commission is misleading, for the Council of Ministers sets policy in textiles as in other important issues. As a result, policy making is extremely slow and key member countries must be satisfied before negotiations can proceed. For example, the protectionist turn in the U.K. allies it with France and Italy to oppose the more liberal trading position of West Germany. The Commission has made a number of efforts to manipulate member-state textile policies and to promote adjustment in the industry but, given its weak enforcement powers, such efforts have come to naught. By contrast, the peak Community-wide association in the textile industry, Comitextil, wields significant power. Thus we would expect the Commission to favor a regime to bolster its own powers over member states—in contrast to individual accords, which would require much haggling in numerous Council of Ministers or Article 113 committee meetings. A regime would give the Commission power to interpret the regime's binding effect on actions.

There is tremendous variation among LDCs in state-to-society relationships. The most active textile and apparel exporters are newly industrializing countries such as South Korea, Taiwan, and Singapore, which possess for the most part strong states.[20] Since LDCs also receive more leeway under the GATT and do not have to give reciprocity in trade negotiations, the

20. See Stephan Haggard, "Pathways from the Periphery: The Newly Industrializing Countries in the International System" (Ph.D. diss., University of California, Berkeley, 1983), for a discussion of the political basis of NIC policies. Although Hong Kong is not known as a strong state, its peak business organizations play a key role in policy making.

state in these countries can satisfy both import-competing and export-oriented textile and apparel interests. Given this, and the obvious weakness of these countries in the international system, we might expect domestic textile and apparel interests to support the state strongly since a regime would protect their (export-oriented) interests.

The characteristics of regimes—that is, their strength and nature—are intimately intertwined from the perspective of domestic interests. In countries where protectionist interests are strong, domestic groups would welcome a strong regime that forced the country to impose restrictions on imports. By contrast, if the state was pressing for a liberal regime, such interests would prefer a weak regime that would allow them to continue pressing for restraints on a case-by-case basis, unhampered by an international accord. The state, on the other hand, might be unable to resist protectionist pressures; in such a case it might press for a weak regime, rather than allowing a strong protectionist regime to develop, since this might give it more leeway in bilateral negotiations.[21]

3. The renewal of the MFA, 1981

I use a process-tracing analysis of the international bargaining over MFA renewal to examine why the regime was renewed and why it weakened and became more protectionist. For analytical purposes, I have divided the negotiations into three segments: the formation of policy positions from October 1980 to June 1981, the preliminary negotiations and changing positions from October 1980 to November 1981, and the final agreement in December 1981.

Formation of policy positions: October 1980 to June 1981

United States. The initial U.S. policy choice on the MFA renewal was to maintain the weak international regime of 1977 without major changes. As long as the regime permitted sharp limits on the growth of imports from the "Big Three" countries, the U.S. government was indifferent to the exact language.[22] In late 1980 and early 1981 the United States was still working on the development of a proposal; by July 1981, Peter Murphy, the chief American textile negotiator, was stating the U.S. desire to "negotiate, as appropriate, a protocol that would provide with some certainty for the ne-

21. See Aggarwal with Haggard, "The Politics of Protection," for a detailed discussion of the development of protectionist coalitions in the U.S. textile and apparel industries.

22. The Big Three countries are Hong Kong, South Korea, and Taiwan. Together they accounted for 62% of all U.S. apparel imports in 1980.

gotiation of bilateral agreements with minimal growth for the major suppliers in large quotas on import-sensitive categories."[23]

The U.S. preference for a regime rather than simple bilateral accords was influenced by both international and domestic structure. Murphy recognized that the textile and apparel issue nested within the broader trading and economic system. In a U.S. position paper, he pointed out that the American regime proposal "minimizes the likelihood of the meeting deteriorating into strong north/south dialogue that could spill over to other fora. . . . "[24] Other discussions of the U.S. position expressed similar concerns shortly before the Cancún meeting of October 1981, between North and South.[25]

American officials also expressed concern about controlling the behavior of other countries. For example, Murphy stressed that a regime had to include the EEC; otherwise, the "EEC could leave us high and dry by doing a lot of fast deals."[26] Furthermore, Murphy argued that the protocol amending the MFA should "give further latitude of approach to address particular importing [countries'] concerns, but also [it should be] one that *provides discipline and certainty* in order to accommodate exporting country concerns."[27] A regime would also control the LDCs: at one point in the discussions to formulate the American policy position, Murphy felt it would be helpful to have language in the MFA that would "push countries like Taiwan and Brazil to open up more to exports."[28] This was often raised in the actual negotiations and served at times as a bargaining point.

Finally, a renewed arrangement seemed desirable to avoid what Murphy described privately as the alternative of a "chaotic period" without the MFA.[29] Moreover, one major textile newspaper, reporting on a meeting attended by Deputy Special Trade Representative Michael Smith (in which he called for urgent action on the MFA's renewal), commented that "the consensus was that there would be chaos in world textile and apparel trade without it."[30] While not phrased in terms of information and organizational costs, these statements imply high uncertainty costs in the absence of the MFA.

Domestic structure affected the U.S. decision to pursue a regime: in preparing the U.S. position, the government pressed for a multilateral arrangement, which would allow the United States to restrict imports legally under Section 204 of the Agricultural Act.[31] If a multilateral accord was not reached,

23. U.S. Position Paper for the GATT Textile Committee Meeting, 14 July 1981, by Peter Murphy (Office of the U.S. Trade Representative).

24. Ibid., p. 3.

25. Interview with U.S. government officials, December 1981, Washington, D.C.

26. Interview with U.S. government official, December 1981, Washington, D.C.

27. U.S. Position Paper, 14 July 1981 (emphasis added).

28. Ibid.

29. As reported by a U.S. government official in an interview, December 1981, Washington, D.C.

30. *Daily News Record* (New York), 4 May 1981.

31. This Section allowed the United States to restrict imports unilaterally from countries not willing to agree to restraints. The U.S. government could only do this, however, if a multilateral accord was in existence.

American officials feared, the government might be sued or the industry might press for a solution through the Congress. As negotiator Peter Murphy wrote, there was a need to move quickly on a multilateral accord since it would "make the Administration less vulnerable to dangers of serious efforts being attempted at reaching a legislative solution to the issue."[32] A legislative solution would undoubtedly be extremely protectionist and undermine the Reagan administration's espoused free trade stance.

The powerful domestic textile and apparel coalition would have liked to restrict all imports into the United States. Since this was not feasible politically, the coalition pressed for a unilateral global quota as a bargaining ploy to secure a strong protectionist international regime. Bilateral agreements were not thought adequate since they would not prevent new suppliers from entering the market. The American Textile Manufacturers Institute argued for a global quota to restrict imports. Although the American Importers Association and consumer groups opposed such a quota, they had little effect on the final American proposals for the MFA's renewal.[33]

The American policy choice concerning the strength and nature of the regime was affected by American decision makers' perceptions of international and domestic factors. With respect to international power considerations, Murphy noted that "other importing countries . . . are expected to pursue a far more restrictive approach than that being contemplated by the United States." He continued that "It is highly unlikely that an international arrangement for textiles would be likely or viable without the participation of key importing countries, *particularly the EEC.* Therefore any satisfactory arrangement will have to strike a balance of importer and exporter country interests."[34] Recognition of the EEC's textile power extended to other internal discussions. Specifically, Murphy urged that a new protocol be developed quickly since it would "not be in U.S. interest [*sic*] to have exports from the EEC diverted here."[35]

With respect to the nature of the regime, domestic groups argued that low-cost import competition was undermining their position. As one official of the Knitted Wear Association noted, in discussing the increasing number of entrants in apparel exports, "no matter how hard we run, the gap in wage costs between the U.S. and these new developing countries is so great that there will always be vulnerability in certain sectors to devastating import competition from extra low cost countries."[36] The low-wage argument was often used as a scapegoat for technological changes and general softness in the market; still, Congressional supporters of the industry and labor unions

32. U.S. Position Paper, 14 July 1981.
33. Aggarwal with Haggard, "Politics of Protection."
34. U.S. Position Paper, 14 July 1981, emphasis added.
35. Interview with U.S. government official, December 1981, Washington, D.C.
36. Statement of George Vargish on behalf of the U.S. Apparel Council before U.S. House, Committee on Ways and Means, *Oversight Hearings* of the Trade Subcommittee, 21 July 1980.

continued to raise the issue of growing imports from LDCs. Combined with the weakness of the U.S. state, these demands led to a more protectionist U.S. position. American government officials also perceived a growing movement toward protectionism by the Europeans. Commenting on the growth of U.S. exports to Europe and the general displeasure in Europe with increasing imports, U.S. Special Trade Representative William Brock argued that "They're very concerned in Europe, and this is going to mean a very delicate process to renew the M-FA."[37] Rather than the strong protectionist regime the EEC was advocating, however, the United States preferred a weak regime, to temper protectionist pressures and to avoid undermining its international objectives.

Domestically, the 1980 U.S. election had given the textile and apparel industries a further opportunity to work toward their long-sought goal of more complete protection. As candidates had done previously, Ronald Reagan offered the industries a "carrot" to secure their support in the election. In a letter to Senator Strom Thurmond (R-S.C.) he promised to renew the MFA, stating that it "needs to be strengthened by relating import growth from all sources to domestic market growth. I shall work to achieve that goal."[38] While the industries had managed to extract a White Paper on textiles from the Carter administration in exchange for an industry pledge not to disrupt the Tokyo Round GATT negotiations, they had not secured an import growth rate keyed to the domestic market's growth.[39] Thus, they greeted Reagan's election with satisfaction.

The textile lobby used its influence in Congress to pressure the Special Trade Representative and various governmental agencies to negotiate a strong protectionist regime. Senators Ernest Hollings and Thurmond (both of South Carolina) continuously attacked U.S. officials. For example, in a letter to Brock, Hollings criticized a statement by the Chairman of the Council of Economic Advisers, Murray Weidenbaum. Weidenbaum had said that President Reagan had pledged to "explore the possibility" of global quotas. As Hollings tersely noted, the President had never used the word "explore" but, on the contrary, had made a commitment to institute global quotas keyed to the domestic growth rate. In his letter, he even called for *negative*

37. *Daily News Record*, 6 April 1981.

38. Letter from Ronald Reagan to Strom Thurmond, 3 September 1980. Keying the import growth rate to the domestic market's growth would freeze the importers' proportion of the American domestic market.

39. The White Paper called for renegotiation of bilateral agreements with the Big Three exporters—Hong Kong, South Korea, and Taiwan—to decrease the swing and flexibility available to them. "Swing" provisions allow countries to use quotas in one category to increase the quota in a restrained category: this is important for exporters to meet changing market conditions. "Flexibility" in terms of "carry over" and "carry forward" similarly permits responses to the market. Carry over allows exporters to use unfilled quotas from the previous year; carry forward allows them to borrow against quotas for subsequent years. Eliminating these provisions makes it more difficult for exporters to sell in the U.S. market.

growth rates for the Big Three in some categories.[40] In another letter to Brock, members of the Textile Caucus of the U.S. House of Representatives expressed their pleasure at his proposal to "isolate . . . [the Big Three] and severely limit their exports to [the U.S.]."[41] In sum, domestic pressure was directed toward securing a more protectionist regime.

The European Community. The Commission was initially disposed toward simply renewing the MFA. There were some splits among the various Directorates but, for the most part, the MFA was seen as placing policy making firmly in the hands of the Commission, thereby promoting greater supranationalism. Pressures for major changes, however, came for both international and domestic reasons.

The Commission's original objective was to reduce the major suppliers' growth rates and they felt this was possible under the existing "reasonable departures" clause of the MFA. In the first meeting to discuss renewal of the MFA in October 1980, the Commission took a low-key approach and, while not offering specifics, appeared favorable to renewal. By April 1981, however, the Commission was under severe pressure from various industrial groups and from protectionist member states. It submitted a proposal to the Council of Ministers in which it called for a lower growth rate for imports; differentiation among suppliers; greater control of cheating; reduction in swing and flexibility; an increase in the number of sensitive products subject to highly restrictive quotas; and a five-year extension of the MFA. A number of other ideas were also suggested, such as greater reciprocity by LDCs, more "burden sharing" of imports by the United States and Japan, and some accord on outward processing to ensure that LDCs would buy from European textile producers.

With regard to the development of a regime rather than bilateral agreements or unilateral measures, the EEC was not concerned with maintaining a multilateral approach to achieve consistency with GATT norms (until the final stages of the negotiations in November 1981). While favoring renewal of the MFA, the EEC primarily emphasized the negotiation of bilateral accords. On a number of occasions the Commission made it clear that it wanted "bilateral textile agreements . . . negotiated at the same time as the Multi-Fiber Arrangement."[42] Nesting considerations influenced the EEC toward a multilateral accord to some extent but primarily it was seen as a legal cover. The EEC's view of the larger trade system in which textiles is nested accounts for this approach: in the GATT itself the EEC was pushing for selective safeguards. Hence, the notion of keeping the textile accord consistent with

40. Letter from Senator Ernest Hollings to William E. Brock III, 15 May 1981.

41. Letter from Congressional Textile Caucus, U.S. House of Representatives, to Ambassador William E. Brock III, United States Trade Representative, 22 May 1981.

42. *Daily News Record*, 2 October 1981.

the GATT norms of multilateralism and nondiscrimination was not important.[43]

The desire to control countries through a regime proved to be a weak constraint on policy formation. The EEC wanted to allow for different accords for different groups of countries. It wished to be more liberal toward the Mediterranean countries with which it had various kinds of preferential agreements. The Lomé countries also demanded preferential treatment. Furthermore, some EEC member states had certain interests in giving their "client" states better accords (the U.K. for Hong Kong, France for some African nations, and so on). Since the MFA was premised on nondiscrimination against specific LDCs, the EEC showed more interest in bilateral accords. Information and organization costs were not a factor.

Domestically, the member states of the EEC were clearly split into two factions: the U.K., France, and Italy on the one hand, and West Germany, the Netherlands, and Denmark on the other. Highly protectionist, the first group was not terribly concerned about maintaining a regime since they were under severe pressure from their domestic industries; hence, they were willing to press for unilateral controls if they did not receive satisfaction through a strong protectionist regime. The French even threatened to impose restraints on imports unilaterally unless they received satisfaction—a credible threat, since they had done so during discussions for the 1977 renewal of the MFA. In fact, the U.S. position paper noted that the Commission was under pressure to use "non-MFA type remedies" in textile trade.[44] The second faction was much more liberal. Since their industries were more competitive, they were under less pressure from domestic interest groups and sought a more liberal international regime.

With respect to the strength and nature of the regime, the Commission initially pressed for a weak protectionist regime. Unlike the United States, it persisted in calling for a continuation of the "reasonable departures" clause (added in 1977), which weakened the MFA by allowing deviations from the 1974 terms of the original MFA. The EEC clearly saw itself as a powerhouse (and the U.S. and the LDCs recognized this). Repeatedly, the Chief Textile Negotiator for the Commission, Horst Krenzler, reminded the other participants that the EEC was "the world's leading importer of textile products" and stressed that "the EEC imported more from developing countries than any other countries."[45] While moving toward a dominant position in the textile and apparel system, however, the EEC still did not have the capability to institute a strong protectionist regime on its own (and the Commission

43. Of course, the MFA violated in part the norm of nondiscrimination, by allowing restraints against LDCs without similar restraints on developed countries. But no discrimination was allowed against *particular* LDCs. Bilateral accords unregulated by the MFA would, however, allow for this possibility.

44. U.S. Position Paper, 14 July 1981.

45. *EUROPE* (Brussels), 8 May and 16 July 1981.

wished to prevent protectionist member states from doing so). The United States still retained a significant share of the import market and was a credible counter to the Community.

The EEC was reluctant to move to a much more protectionist regime, "for the sake of maintaining good relations with the Third World."[46] Since the Commission was interested in broader trading objectives with the LDCs, it worried about "a possible threat of retaliation by developing countries."[47] In addition, as the *Financial Times* commented, the EEC was willing to ease its stance on "cut-backs" and "negative growth rates" because of a "fear . . . that inflammatory language would ensure the talks' immediate collapse in a year expected to see the important resumption of the North-South dialogue between the industrialized West and the developing world."[48] But although these various factors led the Commission to be somewhat liberal and to press for ambiguity in the agreement to give it more leeway in the bilateral negotiations, it was under heavy domestic pressure for a more protectionist accord. Groups such as Comitextil (and protectionist member states) argued that "intervention is widespread in the Third World, where such policies as fiscal measures, exchange control, and aids to exports all contribute to imbalance in the condition of trade."[49]

Comitextil pressed the Community to lower the growth rate of imports and also demanded a global quota. Similarly, the pan-European clothing association argued that such a quota should be introduced category by category and that imports should be allowed only if the EEC were given reciprocity through open markets in the LDCs. With a relatively weak competitive position, the textile and apparel interests preferred unilateral closure; as a fallback, they preferred a strong protectionist regime. The protectionist and liberal factions of member states fought over the nature of the regime. While the Germans argued that there was a need to "defend EEC consumers," the increasingly protectionist British argued that "the 6% growth for quotas included in the original M-FA is highly unrealistic in today's conditions. We must now seek some closer linking of growth rates to the estimated growth of consumption in the Community."[50] Such sentiments were, of course, also voiced repeatedly by French officials. The case of Italy is particularly interesting. While superficially there was little reason for it to be protectionist, as it was competitive with the LDCs, it saw a regime that controlled LDC imports into the Common Market as useful. Since it was one of the more competitive EEC producers, it would be able to take advantage of *other* countries' protection to sell its own goods in the Common Market.

In addition to member states, trade unions and industrial interests exerted

46. *Financial Times*, 14 July 1981.
47. *Textile Asia* (Hong Kong), January 1981.
48. *Financial Times*, 14 July 1981.
49. *Textile Month* (Sutton, U.K.), July 1981.
50. *Daily News Record*, 25 June and 6 July 1981.

pressure on the Commission. For example, trade union representatives walked out of a meeting in Brussels in October 1980, because the Commission would not make a commitment to a ten-year, highly protectionist regime. In sum, then, the Commission found itself in a tug of war between liberal and protectionist interests. This delayed the formulation of a detailed position for the meetings of the international textile committee.

LDCs. While the LDCs on the whole sought a strong liberal regime, there were differences among three groups: first, highly competitive countries (Hong Kong, South Korea, Taiwan, and Singapore); second, countries competitive in some products due to comparative advantage and competitive in other products due to restrictions on the first group of countries (India, Brazil, and Pakistan); and third, countries uncompetitive from the standpoint of comparative advantage that benefited from restrictions on more competitive countries (Thailand, Sri Lanka, and several Latin American countries).

The first group argued against any sort of control on textile and apparel imports. They preferred a free-for-all that would allow them to capture the markets of developed countries. In fact, they had already been successful in garnering most LDC access to developed country markets. The second group preferred a mixture of liberalism and protectionism. In products where they were highly competitive (cotton-based products), they wanted an open market. In other goods, they were not entirely averse to some sort of selective controls—especially if they were not the intended victims. As a Pakistani official in Geneva noted with respect to the agreement on cotton, "The LTA was sold to LDCs as a means to restrain Japan. LDCs were given the impression that they need not fear this device as a restriction on their exports."[51] Finally, industries in the third group—the small, uncompetitive suppliers—wished to ensure that they would have some market access to the developed countries. Thus, they were not averse to bilateral agreements in principle; and they argued that larger suppliers should have their quotas cut.

In spite of these sharp differences in competitive positions, the LDCs managed to take a unified position to most of the negotiations—in contrast to their disarray at the 1977 renewal of the MFA. A recognition of common weakness led to a unified policy choice even though the interests of all countries would not necessarily be fully met.

While several LDCs preferred no restraints whatever on textile trade, their policy choice was moderated by international systemic constraints. They recognized that their only feasible option was a textile regime, preferably a strong and liberal one. When asked if it was useful to renew the MFA, Ambassador Felipe Jaramillo of Colombia, the representative of the coordinated LDC group, remarked that "With an MFA there is this discrimination, but we know what the situation is through the bilaterals. Without an MFA

51. Interview with Pakistani official, September 1978, Geneva, Switzerland.

we don't know. . . ."[52] And in another interview, Jaramillo noted, "An MFA is better than the law of the jungle."[53] For the LDCs, the most important benefit of the regime was its role in controlling the protectionist behavior of the developed countries.

Another benefit from the regime, however, was the possibility of sharing information on bilateral accords to ensure that no one country suffered especial discrimination. As a GATT official commented on part of the negotiations leading up to the MFA's renewal, "the LDCs agreed to exchange information on bilaterals to prevent being knocked off one by one."[54]

While preferring a regime over simple bilateral accords, the LDCs also strove to secure a strong regime (and, of course, a liberal one). In their early discussions, they noted the need for "redress[ing] their lack of bargaining power by seeking to inject some discipline into Article 4 [which permitted negotiation of bilateral accords under the auspices of the MFA]."[55] Furthermore, they called for a stronger Textile Surveillance Body (TSB), "because one cannot expect the TSB to correct violations of the MFA, unless it possesses the requisite powers."[56] And, even more directly, they argued "what is required is a stronger MFA, because the interpretation or application of ambiguous law tends commonly to be made against the interests of the weaker party."[57]

The LDCs were greatly concerned with EEC capabilities. As one U.S. official noted, these exporters feared that the EEC might use its power to negotiate restrictive bilateral accords before renewing the MFA—just as it had done in 1977.[58] Moreover, the LDCs wanted some kind of arrangement because they recognized the "enormous size [of the EEC] as a buyer."[59]

Finally, with respect to the nature of the regime, the LDCs pressed for a "gradual return to free trade in conformity with normal GATT rules and practices." They also asked that such ideas as "Cumulative Market Disruption" be eliminated.[60] This concept, supported by the United States, asserted that importers should be allowed to impose restraints merely because imports were at a high level, *without* forcing firms to demonstrate that they were being harmed by imports. While LDCs differed in their competitive positions, they pressed for a larger market with the expectation that all would probably gain. Since there was little question of reciprocity being granted, the LDCs were supported by their domestic industries.

52. *Textile Asia*, August 1981.
53. *Wall Street Journal*, 10 July 1981.
54. Interview with GATT official, July 1981, Geneva, Switzerland.
55. "Aide Memoire of the Bogota Meeting of the Textile Exporting Countries," held 3–6 November 1980 (confidential document made available by a negotiator).
56. Ibid.
57. Ibid. Later in the negotiations, however, an adviser to the ASEAN countries would argue in favor of ambiguity to prevent a highly protectionist accord.
58. Interview with U.S. government official, December 1981, Washington, D.C.
59. *Daily News Record*, 3 November 1981.
60. GATT document Com. Tex/W/85, 9 December 1980.

The international negotiations: October 1980 to November 1981

Although discussion regarding renewal of the MFA took place at the October 1980 meeting of the GATT, little progress was made toward a consensus on renewing the arrangement. Subsequent meetings were held in December 1980, and in May, July, September, and November-December 1981.

At the December 1980 meeting of the Textiles Committee, the LDCs presented their bargaining stance; it was based on consultations they had held with one another in Bogota, Colombia, in November 1980. Among other demands, the LDCs called for free trade and an eventual end to the MFA. More realistically, in the actual bargaining they pressed for the removal of the "reasonable departures" clause inserted in the protocol renewing the MFA in 1977. They found the response by the developed countries, as they would for many months, extremely disappointing. The American delegate, Peter Murphy, simply indicated that the rate of growth in the domestic market had fallen considerably in recent years and that the "arrangement had to address the issues of the years ahead and they [the United States] would work constructively with other members of the Committee to achieve that end."[61] The EEC position was similarly vague: "The Community's position regarding the nature of such a regime had still to be defined."[62]

At the May 1981 meeting, the United States continued to favor a protocol extension of the MFA allowing differentiation between small and large suppliers to its market. Because of internal conflict, the EEC did not submit a draft protocol but made it clear that it wished to see lower import growth. In response, the LDCs attacked the developed countries for allowing the "short-terms interests of limited sectors" to prevail.[63] The May meeting ended with a clear indication that a return to the first MFA was out of the question. Debate had narrowed to how the larger suppliers would be cut back and the extent to which smaller suppliers might also suffer.

Before the Textiles Committee meeting on 14 July, the policy positions stood as follows: the United States was ready to present a proposal at the forthcoming meeting; the LDCs were meeting in Hong Kong to develop their own position; and the EEC was still debating numerous issues and had yet to develop a single coherent set of demands. At the July meeting, the LDCs once again took the offensive and presented their unified demands. They asked for a modification in the concept of "minimum viable production" (MVP)[64] on a nondiscriminatory basis, to ensure that if developed countries were the largest suppliers to a particular market, they would be cut back first; further specifications of when "market disruption" was taking place to

61. GATT document Com. Tex/20, 13 February 1981.
62. Ibid.
63. Ibid., 8 May 1981.
64. The Scandinavians had inserted the MVP clause in the original MFA arguing that there was a limit to which their textile and apparel industries could be reduced in light of "strategic" considerations—hence the notion of a "minimum viable production."

prevent its misuse by developed countries; a program of industrial adjustment by the developed countries; special treatment (that is, more favorable treatment) for new entrants, small suppliers, and exporters of cotton products; a phasing out of restrictions on exports from the developing countries; the strengthening of the Textile Surveillance Body and improved procedures for settling disputes; and elimination of the "reasonable departures" clause.[65]

In contrast to the May meeting, the EEC Commission presented more specific points though the Council of Ministers continued to be sharply divided between protectionist and liberal factions. France was pressing for cutbacks in the quotas to be given to developing countries and also asked for "negative" growth rates but opposition by West Germany and the Netherlands prevented the Commission from presenting this as its position. The Commission seemed keen on the continuation of a regime to "prevent chaotic conditions in trade" and wished to differentiate among exporting countries. While some saw this differentiation as a cynical move to divide the LDCs, others saw the Commission as being motivated by a genuine desire to help the poorer LDCs.[66] At the July meeting, the EEC Chief Textile Negotiator reemphasized the preeminent position of the EEC as an importer of textile and apparel products and argued that "cheap textile imports were among the factors which had placed the EEC's own textile industry in its present difficulties."[67] He went on to state that the EEC would only agree to a renewed MFA if there were changes in the growth rate of imports, a five-year extension, differentiation among suppliers, changes in flexibility, and some solution to the cheating problem. Significantly, he argued there was "a vital and necessary link between the satisfactory conclusion of bilateral agreements and the renewal for the MFA."[68]

The development of the U.S. bargaining position for the July meeting was complicated. Originally, the United States had planned to submit a highly restrictive draft protocol as a bargaining ploy; it would have included the "reasonable departures" language with further specification of the conditions under which this clause could be used.[69] Unfortunately for the U.S. delegation, strong pressure from the Congress forced the United States to withdraw even its "protectionist" bargaining proposal. Responding to a briefing given by Murphy, a number of Congressmen argued that "the government should be taking the toughest possible stance at the outset of the negotiations, rather than a 'weak' initial position."[70] Murphy was thus forced to talk in generalities at the July meeting; he simply criticized proposals put forth by the EEC and the LDCs as possibly leading to a breakdown in negotiations. The response

65. See GATT document Com.Tex/24, 8 September 1981, for a discussion.
66. *Textile Asia*, June 1981.
67. *EUROPE*, 16 July 1981.
68. Ibid.
69. See U.S. Position Paper, 14 July 1981.
70. *Daily News Record*, 14 July 1981.

from the LDCs was sharp. They condemned both the EEC and the United States—the former for its restrictive proposals, the latter for inadequate preparation and the lack of concrete proposals.

The acrimonious debate between the U.S. industry and the government over the nature of the U.S. proposal continued throughout August. In addition, Chief Negotiator Murphy and Paul O'Day, top textile official in the Commerce Department, went to the Far East for discussions with the ASEAN countries. Reporting on his efforts to gather international support for the U.S. position, Murphy noted that such countries as Singapore, Malaysia, and Thailand could be convinced to agree to cuts to Hong Kong, South Korea, and Taiwan since they would gain by taking over the trade concerned. Discussing strategy, Murphy argued that the U.S. position in September would be to present the previously agreed proposal with some modifications and then "jam it down the industry's throat."[71]

Supported by Special Trade Representative Brock, who argued that even the "present protocol, if renewed, would be acceptable to the White House,"[72] Murphy prevailed in the internal discussions. To counter protectionist sentiments, he argued, the United States had to put "something on the table that ruled out rollbacks in trade" since this would allow the United States to break the exporters' coalition. At the 22 September meeting of the Textiles Committee, the United States finally presented a proposal (almost identical to the original July proposal that had been blocked) calling for recognition of the current problems in textile and apparel trade. Specifically, Murphy argued that the decline in the growth rate of per capita textile consumption and the impact of large quotas on market shares in sensitive products necessitated changes. The latter implicit reference to the Big Three exporters was accompanied by a statement calling for the possible elimination of swing and flexibility in "exceptional cases or circumstances"—the language replaced the 1977 protocol's "reasonable departure" clause. But Murphy did promise that the United States would not seek "reductions or negative growth rates" in imports.[73]

The EEC Commission, as part of its bargaining, wished to secure a weak regime—allowing it to handle the LDCs on a bilateral basis without regime constraints. This represented a delicate balance. While the Commission felt that a weak regime would allow it more leeway to contend with protectionist member states, the protectionists planned to use a weak regime to press for restrictive bilaterals if they failed to secure a strong protectionist regime. The LDCs were incensed; Jaramillo saw the MFA as "setting the *maximum* limits of protectionist measures permitted to importing countries."[74] He at-

71. Interview with U.S. government official, December 1981, Washington, D.C.
72. *Daily News Record*, 10 September 1981.
73. Interview with U.S. government official, December 1981, Washington, D.C.
74. *Daily News Record*, 22 September 1981. Emphasis added.

tacked the EEC, stating "It is difficult to discuss the so-called proposals put forward by the Community with any measure of seriousness."[75] The September meeting closed with much ill-feeling and few results.

The LDCs' concern with a strong regime may have been misguided. While a strong *liberal* regime was clearly desirable from their perspective, a strong protectionist regime would prove the worst of all possible worlds. As one adviser to the ASEAN countries argued, in a brief outlining trade-offs between strength and nature in the regime,

> The relatively broad and general formulation does not offer a high degree of protection from abuse to the exporting countries. Nevertheless, a more precise definition could well cause greater problems for then the developed importing countries would most likely want to express the lowest common denominator. With today's political and economic climate . . . an attempt [to secure greater precision] would be more severely restrictive.[76]

Simply put, a weak protectionist regime might give some LDCs a better chance than a strong protectionist regime. Several LDCs would follow this advice in the final negotiations.

Throughout October and early November 1981, the EEC member states fought over the proposal to be presented at the final negotiating session, which was to start on 18 November. They argued fiercely about three key issues: the type of global ceilings for imports; the rate of growth of imports; and whether base levels should be cut. As the EEC discussions dragged on into November, France threatened once again to "apply unilateral measures if no MFA mandate could be thrashed out in time for the discussions in Geneva."[77] Anxious to develop consensus, the Commission suggested a compromise. Rather than a global ceiling on imports, which would be imposed externally, the Commission would negotiate on the basis of an "internal" global ceiling. Focusing on bilateral accords to meet the ceiling rather than on a strong protectionist regime placated the liberal Germans, who did not want harsh language in the accord.[78]

With respect to the weak regime's proposed nature, the idea of negative growth rates was rejected; instead, the Commission would press for rates of between zero and one percent in the most sensitive categories and at least one percent overall. Furthermore, rather than base-level cutbacks it would propose an elaborate "surge mechanism" whereby, to prevent sudden surges,

75. Ibid., 25 September 1981.

76. Confidential memo made available by a consultant to ASEAN, 9 October 1981.

77. *EUROPE*, 11 November 1981.

78. An internal ceiling differs from an external ceiling in that exporting countries would have to agree to the latter. Under the MFA, this would probably be illegal. When the British tried to justify their global ceiling in 1966 under the predecessor to the MFA, the LTA, the Textiles Committee ruled this was not permitted under the regime's rules.

if exporters did not fill their quota in a particular year, they would lose their right to the full quota in the next year. But they would be able to recoup their right to the negotiated quotas over the remaining life of the MFA. In addition, the major suppliers would be asked to reduce their quotas in exchange for outward-processing quotas. Finally, the Commission agreed to seek reductions in flexibility for the major suppliers in sensitive products, to avoid transfers of quotas from one category to another and carryovers to other years. Having secured member states' agreement, the Commission presented these demands on 20 November.

ASEAN countries attacked the EEC for the "ambiguities and incertitudes" in its proposal while Mexico and Brazil asked the EEC to display "more understanding and flexibility."[79] The United States, which had maintained its September proposal, joined in the criticism. The main cause of American displeasure was the EEC's proposal to give LDCs outward-processing quotas in exchange for quota cutbacks, which would have obliged exporting countries to buy cloth from the EEC. Moreover, the United States did not want cutbacks specified in the MFA since this would increase domestic pressure on the U.S. government to match the EEC's cuts to suppliers.

The LDCs' unity began to break down as negotiations dragged on. Small suppliers worked to develop a strong regime by arguing for "as much rigidity as possible to ensure that importing countries are locked into making concessions."[80] At the same time, they indicated privately to the United States that they would be "prepared to accept cutbacks on dominant suppliers for more favorable treatment [by importers]." Meanwhile, Hong Kong, South Korea, and the ASEAN countries, seeing the writing on the wall, began to argue for "an ambiguous formulation" with respect to flexibility provisions. This would allow them possibly greater success through bilateral negotiations.

Meanwhile, domestic lobbying by the U.S. industry increased. In support of the textile and apparel industries, the Congressional House Textile Caucus members threatened to withhold support from President Reagan's foreign aid bill in early December. Recognizing that the Caucus could obstruct his legislative efforts, Reagan had an aide notify Rep. Carroll Campbell, a key member of the Textile Caucus, that "... the President has instructed the U.S. negotiators in Geneva to strengthen the U.S. proposal in Geneva on the renewal of the MFA." Further, Reagan pledged, "this Administration will make every effort to conclude an M-FA that will allow us to relate total import growth to the growth in the domestic textile and apparel market."[81]

79. *EUROPE*, 12 December 1981.

80. As many of the LDCs saw it, "If the M-FA isn't renewed the only course left would be to regulate trade on a country by country basis. Because of its enormous size as a buyer, the EEC would carry much greater bargaining power in negotiations for such separate accords than it does in an international forum, where it is one group among nearly 100 participating countries" (*Daily News Record*, 3 November 1981). This paragraph is based on interviews with U.S. government officials, December 1981, Washington, D.C.

81. *Daily News Record*, 14 December 1981.

Murphy was in a delicate position. Domestic interests and the EEC were clamoring for a rigid protectionist MFA while the LDCs were still pressing for liberal provisions. Without agreement and with only two weeks left before the expiration of the MFA, Murphy cabled Washington with his analysis of the situation and the available options. These were, briefly, an MFA without the EEC, continued efforts to seek consensus with a short extension of the MFA as a fallback, an MFA that allowed the EEC its objectives, and simply letting the MFA expire without replacement. Murphy argued that an MFA without the EEC would meet domestic legislative needs and gain the support of LDCs (even though the agreement would have to be more protectionist to meet the new Presidential directive) but exacerbate tensions with the EEC and possibly lead to intense pressure from the U.S. industry as the EEC pursued protectionist measures. Moreover, the LDCs would not favor an agreement without the largest importer. The second option (which Murphy supported) of consensus language with a simple one-year extension as a fallback would allow the United States more time to pressure the EEC and permit trade to continue but might lead to a more protectionist EEC position and greater domestic pressure during the extension. The third option, a protectionist MFA, would resolve the conflict between the EEC and the United States but hurt the United States among the LDCs and lead the American industry to demand that every EEC protectionist move be matched. Finally, simply letting the MFA expire would put the industry on the spot and allow the United States to maintain goodwill with the LDCs. But Murphy saw this as unrealistic: Congress would undoubtedly press for highly protectionist measures and the option might lead to problems with the use of GATT Article 19 on a selective basis.[82]

Authorized by the government to follow option two with extension as a fallback, Murphy pressed for consensus language in the MFA. He was supported by Secretary of State Alexander Haig and Ambassador Brock of the Special Trade Representative's office, who were in Brussels on other business. They told the EEC that the United States was determined to have the MFA renewed and would do so even without the EEC. The tactic appeared to work. Not wanting to bear the brunt of LDC displeasure, the EEC agreed to extremely vague language to get around U.S. objections.

The Agreement: December 1981

The international negotiations came to an end on December 1981. The American and EEC demands were met in four key paragraphs of the final protocol. Paragraph 6 noted the "goodwill expressed by certain exporting countries now predominant in the exporting of textile products in all three fibres . . . in contributing to mutually acceptable solutions to particular prob-

82. Interviews with U.S. government officials, December 1981, Washington, D.C.

lems relative to particularly large restraint levels. . . . "[83] This paragraph satisfied the EEC's demands for authority to impose cutbacks on major suppliers and met U.S. demands for vague language. To ensure that the major exporters would actually show "goodwill" in the negotiations, the EEC exchanged letters with Hong Kong and Macao stating its intentions to seek reductions in access. While the U.S. recognized that this paragraph could be used for cutbacks not only in quotas but in trade, it pledged not to cut trade levels. But the Americans saw the paragraph as a potential source of power with which to threaten the Big Three if they did not cut growth rates in quotas and flexibility to American satisfaction.

Paragraph 9 met American demands to cut back the Big Three by allowing differential treatment of suppliers. It permitted the negotiation of lower quota growth rates (as long as some growth was allowed) and any "mutually acceptable arrangements with regard to flexibility [provisions]" for major exporters who accounted for a large share of an importing country's market.[84]

Paragraphs 10 and 13 addressed two problems raised by the EEC—underutilized quotas and outward-processing quotas to replace cutbacks. The medium-sized exporters strongly opposed the surge mechanism of paragraph 10. Since dominant suppliers generally filled their quotas, cuts due to underutilization would mainly harm the medium suppliers. Paragraph 13, intended by the EEC as an "outward-processing clause," was watered down in the text due to opposition by exporters and U.S. pressure but the EEC clearly intended to force major exporters to buy its fabric for outward-processing.

Thus, the EEC met the import "problem" in three ways: outright cuts for big suppliers, some compensation in the form of outward-processing quotas, and a surge mechanism directed primarily at the medium-sized exporters. And the United States achieved its goals through the differentiation contained in paragraph 9. No country was able simply to impose its will and the weak protectionist MFA3 is the result.

4. Conclusion

The international regime that regulates intervention by countries in textile trade is unraveling. Developed in the early 1960s, the regime became weaker in strength and increasingly protectionist in nature after 1977. This trend was confirmed in 1981. The renewal of the Multi-Fiber Arrangement examined here sheds light on three issues of interest in international political economy—two substantive and one methodological. Substantively, the analysis indicates some of the reasons why international regimes, rather than simple bilateral accords or unilateral controls on trade, are developed; and

83. MFA Protocol, GATT document, 23 December 1981.
84. Ibid.

why these regimes change in strength and nature. Methodologically, a process tracing of the decision-making process provides a tool for systematic investigation of the factors affecting international negotiations.

The bargaining that led to the 1981 renewal of the MFA provides evidence for the role of international and domestic factors in influencing the development and change of international regimes. The international factors are "nesting," control of others, and information and organizational costs. Nesting proved to be an important factor: American and EEC Commission decision makers recognized that constraints arose from the broader international system and the trading system. All countries wished to employ a regime to regulate others' behavior, albeit for different purposes. American decision makers, for example, wished to prevent the EEC from being unduly protectionist in order to avoid a diversion of goods to the American market. They also hoped to use the regime as a device to control LDCs from exporting too much and to force them to open up their own markets. Since the LDCs were weak relative to the developed countries, their hope in securing market access lay in a strong regime that would constrain the behavior of developed countries. Finally, all actors recognized the advantages of a regime in minimizing information and organizational costs, though such advantages served as an inducement to varying degrees.

Domestic structure, in terms of the relationship between state and society and between Commission and EEC member states, proved to be a significant constraint on the choice of a regime. For legal reasons, the United States preferred a regime to the likely alternative, a unilateral quota advocated by textile and apparel interests. The Commission was particularly constrained by member states who in some cases were quite willing to see the end of the regime and its replacement by unilateral measures.

Internationally, changes in the strength and nature of the regime appear to be caused by a shift in the distribution of capabilities and increasing competition from newly industrializing countries in the textile and apparel subsystem. In the matter of regime strength, the absence of a hegemon to impose or cajole others into subscribing to an international regime led to an accord that was of necessity a product of compromise between two key actors—the EEC and the United States.[85] In the matter of regime nature, the MFA in 1981 became somewhat more protectionist as developed countries faced increasing competition from the LDCs across a wide range of textile and apparel products. Domestic textile and apparel industries in the developed countries responded to this competition with increased lobbying. In the case of the EEC, however, LDC and U.S. pressure tempered protectionist demands.

Domestically, the U.S. government and EEC Commission were faced with numerous groups that wanted a strong *protectionist* regime. The American

85. See Aggarwal, "Hanging by a Thread," for a discussion of the difference in the conduct of negotiations under different structural conditions.

textile and apparel industries lobbied hard and managed to force the United States to move in a more protectionist direction, especially toward the end of the negotiations. They repeatedly demonstrated the weak ability of the U.S. government to resist strong protectionist pressures. The United States did manage, however, to develop a weak regime and prevent a strong protectionist accord. Similarly, the Commission was forced by its member states and pan-European lobbies to move away from its initial position of maintaining the regime without major changes.

With respect to the characteristics of regimes, analysts have incorrectly tended to associate strong international regimes with liberalism. The current trend in textile trade, however, appears to be toward the development of a strong *protectionist* regime. This could occur if the EEC continues to gain power in the textile and apparel system. In such a case, it might find it to be in its interest to bind the United States into a more protectionist regime if, for example, the United States were shipping clothing made of LDC textiles to the European market. Growing domestic protectionist pressures from member states to force the Commission into more protectionist policies and give it less leeway in bilateral negotiations could lead to the same outcome. Small protectionist importing countries would push for a strong protectionist regime as well since such an accord would permit them to restrain imports more easily than on a bilateral basis. Such a result could be potentially worse for the LDCs than a situation in which developed countries imposed restraints without a regime.

International and domestic structural approaches have often been criticized for their correlational nature. The process tracing of decision making in international negotiations may be one way to address this criticism. For the most part, the evidence indicates that decision makers recognize and respond to structural constraints and incentives.

Like any theoretical approach, a structural model illuminates certain facets of a phenomenon while potentially ignoring or obscuring other aspects. For example, I have omitted consideration of alternatives that might explain regime change, such as the effect of world prosperity or recession, domestic state ideologies, or learning in negotiations by decision makers. These factors are undoubtedly important but the advantages of parsimony and predictive ability that structural theories provide must be weighed against the possible gains in explanatory power potential in a much more complex model.

What implications does this case have for other issue-areas? If one considers trade in steel, footwear, shipbuilding, and consumer electronics, it is striking that international regimes as defined here have not come into being.[86] There appears to be less incentive to set up such regimes: nesting constraints due

86. While further work on this question is needed, Tun-jen Cheng has made an interesting effort to examine differences in regime formation in different areas. See his "Trade Controls in Surplus Industries—Is the Textile Regime Setting up a Precedent or Merely an Exception?" mimeo (University of California, Berkeley, August 1981).

to the GATT are much weaker; in some issue-areas the organizational costs outweigh the advantages of a regime; and LDCs' learning from an increasingly protectionist regime in textiles may make them wary of efforts by developed countries to form sector-specific regimes. And, from the perspective of capabilities, a hegemon is absent in many of these issue-areas. Still, some efforts to form regimes have taken place and the prospects for such regimes are worth further investigation.

From a policy standpoint, the current developments in the MFA are disturbing. During the 1960s and early 1970s, the LTA and its successor, the MFA, appeared to be a promising case of "organized trade" that served to temper protectionist pressures and to allow a smooth movement toward increasingly freer trade. Yet shifting international and domestic structural constraints have led policy makers to spin a more entangling web of protection, which can only hinder the growth and adjustment efforts of developed and developing countries.