

## POSITIVE ADJUSTMENT AGAINST PROTECTIONISM: THE CASE OF TEXTILE AND CLOTHING INDUSTRY IN HONG KONG

KUI WAI LI

### I. INTRODUCTION

SUCCESSIVE rounds of multilateral trade negotiations have reduced tariff barriers, but have not liberalized trade because a new form of non-tariff barriers (NTB) in the form of quantity restriction has been erected. Greenaway [5] distinguished tariff barriers as "old protectionism," and non-trade barriers as "new protectionism." A common form of NTB is the granting of an import quota which limits the amount of imports over a given period.

The frequency of exercising NTBs by developed countries on less developed countries has been increasing. Frequency indices on the use of NTB have been documented by Laird and Yeats [17] for the period of 1966 and 1986. Their finding showed that the percentage of manufactured products affected by NTB rose from 5 per cent in 1966 to 51 per cent in 1986, and a large part of the increase was exercised on textile and clothing industries. For example, trade indices for manufactures affected by developed countries' NTB increased from 19 to 58 points between 1966 and 1986, and the greatest increase occurred in the EEC countries and the United States.

One can simplify the quota system in the following way. The importing country would first consider the domestic situation before putting a restriction on the quantity of imports. A process of bilateral or multilateral trade agreements would help to farm out the restricted quantity to various exporters from less developed countries. Usually, the agreement would include a certain degree of flexibility, such as carry forward, voluntary restraints, and the rate of growth over a period of time.

Trade protectionism has generated a lot of debate. Free trade advocates would use the resulting economic implications as arguments. Donges [2] and Gramm [4], for example, argued that protectionism hurts the consumers of the importing

---

An earlier version of this paper was included in the paper entitled "Manufactured Export Expansion and Economic Growth in Hong Kong: Experience and Prospects" (with Edward K. Y. Chen), presented in the *Seminar on Manufactured Export Expansion of Industrializing Economies in East Asia*, Centre of Asian-Pacific Studies, Hong Kong, June 7-9, 1989, a summary of which appeared in *A Research Inventory for the Multilateral Trade Negotiations, 1990*, ed. J. Jalali, World Bank Papers for the Uruguay Round (Washington, D.C.: The World Bank, 1990), p. 71. The author is grateful to two anonymous referees for the comments, and to Mr. Winson Leung for his research support, and is alone responsible for any mistakes found in this paper.

country as much as it does the exporting country. Protectionism as an instrument of politics has also been advocated. Bhagwati [1] concluded that the U.S. administration would use access to the U.S. market as a bargaining tool in dealing with trading partners.

Section II poses a zero-sum hypothesis of a protectionist trade policy and argues that the imposer of the policy believes in a straight "gain-loss" relationship, while affected industries in the victim economy adjusted in a much more flexible and outward-looking manner. Ultimately, the zero-sum hypothesis failed to hold on the side of the exporting economy. By using the case of the textile and clothing industry in Hong Kong, section III shows that despite the experience of different protectionist trade policies over the last thirty years, Hong Kong exports of textile and clothing have been expanding. The evidence on the output and production sides further disputes the zero-sum hypothesis, while section V discusses the four factors of textile and clothing trade expansion, and section VI concludes the discussion.

## II. A ZERO-SUM HYPOTHESIS

The economics of a pure protectionist trade policy can be stated as follows: the policy-imposing country realizes its loss of competitiveness measured in terms of domestic employment, profits, and market share, which have become the exporting country's gain. The intention of a protectionist trade policy would be to haul in such a loss and revert the gains back to the importing country. Based on such a zero-sum assumption that one's losses is exactly another's gain, protectionist trade policy was thought to be an effective instrument in improving the domestic economy of the policy-imposing country.

Would the exporting country adjust according to such a straight "gain-loss" calculations. In an open, free market economy such as Hong Kong, protectionist trade policy would most likely be tackled at the industry level. In Hong Kong, most exporting firms are small and would probably regard the implication of any protectionist policy as a matter of survival. A large number of small firms could give rise to a very flexible industrial structure, and firms in those policy-affected industries would adjust either internally and externally. Internally, adjustment could take the form of: (a) the capture of more overseas orders and buyers, perfecting the scale-economies aspect of production, (b) product quality improvement and the additional use of capital-intensive techniques whenever possible, and (c) creation of brand names as an instrument to maintain consumer loyalty and as a marketing tool. Externally, firms might adjust by: (a) product and market diversification, and (b) utilization of quota granted to neighboring economies.

The protectionist trade policy becomes both a threat and a pushing force at three levels. At the firm level, some would become uncompetitive and close down as a result of the policy, but the surviving firms would become stronger, more dynamic and competitive economically. At the industry level, the protectionist trade policy would enable the exporting economy to speed up the process of industrial restructuring. In the case of Hong Kong, for example, government

intervention has been regarded as minimal. The Hong Kong government did eventually look at the issue of economic and industrial diversification as a result of increasing trade protection in the mid-1970s. The government's concern culminated in the publication of the *Report of the Advisory Committee on Diversification* in 1979 [15]. At the export level, the quota specified in the protectionist trade policy could be regarded as a guarantee to the rate of growth. Such a protected rate of growth helped to secure the exporting country's position as an early developer and discriminated against late developers or new comers in the exporting market.

On the supply side, exporters did not adjust according to the the zero-sum hypothesis either. Indeed, as more restrictive policies were being launched by the protectionist policy imposing countries, exporters adjusted by taking the restricted quota as the base line, and output and market improvement become the longer term goal of these firms. If adjustment is done at the firm level, the macroeconomic effects may even be positive. Typically, falls in employment would quickly be absorbed by other firms in the industry, while a loss of share in one export market is replaced by expansion in another. The extent of dynamism in the adjustment process is so rapid that economic loss is outpaced by the gains.

The zero-sum hypothesis failed to hold. Given a flexible industrial structure composed mainly of small firms, industrial firms in the policy victim economy turned the protectionist trade policy into a force of growth and expansion.

### III. THE PERFORMANCE OF TEXTILE AND CLOTHING EXPORTS

The textile and clothing industry in Hong Kong began in the early 1950s, the main source of attraction at that time being the supply of cheap labor. However, since the 1950s, the industry has been subjected to NTBs imposed by developed countries. The degree of protectionism was mild at the beginning, but gradually became more severe and restrictive. Table I summarizes the main features of different protectionist trade policies imposed on the exports of textile and clothing from Hong Kong. The first trade protectionist policy imposed by Britain on Hong Kong textile exports was in 1959, known as the Lancashire Pact, which limited Hong Kong's export of garments to an annual total of 164 million yards. By 1972 when the Lancashire Pact was extended for the third time, restriction had extended to woven cotton and polyester/cotton fabrics. The Multi-Fibre Arrangement I (MFA I) in 1974 limited the export growth rate to 6 per cent. By 1982 when the MFA III was in force, restriction was further imposed on exporters' flexibility and growth rate was lower than 6 per cent annually. By 1986/87, restriction was extended to silk and the overall average annual growth rate was 1.7 per cent.

Based on different regimes of protectionism, Table II shows the highest, the lowest, and the trend average percentage changes of textile and clothing exports from Hong Kong. The trend average of total export under the Lancashire Pact regime between 1959 and 1962 was 15 per cent. The highest trend average of total export was 28 per cent in the 1968-73 Arrangement. The corresponding

TABLE I  
MAIN FEATURES OF PROTECTIONIST TRADE POLICIES APPLIED TO  
EXPORTS OF TEXTILES AND CLOTHINGS FROM HONG KONG

---

<p><i>1959-62: The Lancashire Pact</i></p> <p>Known as the Undertaking, the pact was imposed by Britain and was extended to December 1962. Britain restricted Hong Kong's exports of garments and piece goods to an annual total of 164 million yards.</p>
<p><i>1961-62: Short Term Arrangement on Cotton Textiles (STA)</i></p> <p>Initiated by the United States, GATT participants reached temporary STA under which importing countries could conclude bilateral agreements with exporting countries, or impose restraints whenever the import countries faced "market disruption" from imports.</p>
<p><i>1962-67: Long Term Arrangement on Cotton Textiles (LTA)</i></p> <p>Consolidated the principal issue in STA. Hong Kong had concluded a number of bilateral agreements with countries such as Sweden and Norway.</p>
<p><i>1963-65: First Extension of the Lancashire Pact</i></p> <p>Total quota limits from Britain increased. Products were grouped into finer categories so that different quota restrictions could be exercised. An interim arrangement was extended to the first half of 1966.</p>
<p><i>1966-72: Second Extension of the Lancashire Pact</i></p> <p>A new undertaking imposed by Britain. Greater flexibility in the form of "carry forward" and "overuse" of quota was allowed.</p>
<p><i>1968-73: Arrangement Regarding International Trade in Cotton Textile (CTA)</i></p> <p>Extended the restrictions based on LTA. Restraints had gone beyond the scope of textiles.</p>
<p><i>1972-74: Third Extension of the Lancashire Pact</i></p> <p>A new arrangement between Hong Kong and Britain was made beyond the scope of cotton textiles and covered the restriction on woven cotton and polyester/cotton fabrics, garments, and made-up articles. This Undertaking lasted for 15 months from October 1972, and was Hong Kong's last bilateral agreement with Britain, due to Britain's entry to the Common Market.</p>
<p><i>1974-77: Multi-Fibre Arrangement I (MFA I)</i></p> <p>Importing countries might impose restrictions unilaterally under certain conditions if consultation with export countries broke down. Bilateral agreements would be concluded on "mutually acceptable terms." A Textile Surveillance Body was set up to ensure bilateral agreements were compiled with. An annual growth rate of 6% was given to restricted items.</p>
<p><i>1978-81: MFA II</i></p> <p>More restrictive than MFA I as extraordinary terms were added. The "reasonable departure" clause enabled the importing countries to depart from particular elements of the agreement temporarily. Largest exporters were required to have their 1978 exports to the Common Market reduced below the 1976 level. Hong Kong faced an overall cut of 9%. Growth rates ranged from 0.3% to 4.1%.</p>
<p><i>1982-86: MFA III</i></p> <p>Dropped the "reasonable departure" clause, replaced by the "anti-surge" clause. The new clause permitted importing countries to safeguard their internal market if exporters attempted to fulfill the underutilized quotas of sensitive products in a sudden and substantial manner. Exporters' flexibility in shifting their export composition was removed. A lower than 6% growth rate was placed on "highly sensitive" products.</p>

---

TABLE I (Continued)

<i>1982-86: Bilateral Agreement with the United States</i>
Restrained 64% of Hong Kong's export of cotton, wool, and man-made fibers to the United States.
<i>1984: Country of Origin Rule</i>
Imposed by the United States, the rule prevented exports against Hong Kong's quota allowances of sweaters from panels knitted in China. Threatened 70% of sweater exports from Hong Kong.
<i>1985-87: Textile and Apparel Trade Enforcement Act</i>
Popularly known as the Jenkins' Bill, it was passed by the U.S. Congress but vetoed by the U.S. president. The bill restricted all imports of fiber textiles and apparel products, called for an import licensing system and future improvements to be permitted at 1% growth annually on the 1986 level.
<i>1986-91: The Hong Kong/U.S.A. Textile Agreement</i>
Extended the restriction into silk and vegetable fiber textiles, which were not covered in MFA III. The annual growth rate was set at 0.5% in 1985-86, rising to 2.5% in 1990-91, giving an average of 1.7% over the five-year period. Inter-group swing and carry-over is 1%.
<i>1987-91: The Hong Kong/EEC Textile Agreement (MFA IV)</i>
Covered 97 categories of textile products of cotton, man-made fiber, and wool. Annual growth rate ranged from 0.2% to 6%, depending on different categories. The aggregate average is 1.3% annual growth rate.
Sources: [22] [3] [19] [13] [14].

TABLE II  
PERCENTAGE CHANGES OF EXPORTS UNDER  
DIFFERENT PROTECTIONIST REGIMES

Periods	Export of Textile			Export of Clothing			Total Export		
	H	L	A	H	L	A	H	L	A
1947-49, 1952-58	115	-22	25	—	—	—	—	—	—
Lancashire Pact, 1959-62	34	-12	14	3	-15	15	30	-2	15
Long Term Arrangements, 1962-67	18	2	12	21	9	20	17	10	17
1968-73 Arrangement	52	9	25	27	12	29	28	12	28
MFA I, 1974-77	44	-22	-1	40	-3	20	41	-4	15
MFA II, 1978-81	42	12	28	28	16	27	30	15	27
MFA III, 1982-86	86	-18	29	36	-4	20	34	-5	22
MFA I-III, 1974-86	86	-22	25	40	-4	41	41	-5	37
1986-90	46	-3	14	25	*	10	29	*	10

Sources: [9] [7, various issues] [12, various issues].

Notes: H=highest, L=lowest, A=trend average=[(current year-base year)/base year]/number of years less 1, and percentage changes=[(current year-base year)/base year] × 100.

\* insignificant.

TABLE III  
HONG KONG EXPORTS OF TEXTILE (SITC 65) AND  
CLOTHING (SITC 84)

	(HK\$ million)		
	Textile	Clothing	Total
1947	269	—	—
1952	440	—	—
1956	873	—	—
1960	554	1,010	1,564
1965	834	1,773	2,607
1970	1,277	4,337	5,614
1975	2,145	10,202	12,347
1980	4,535	23,258	27,793
1983	7,084	34,365	41,449
1986	10,955	52,162	63,117
1989	16,814	71,874	88,688

Source: [12, various issues].

figure for MFA I-III (1974-86) stood at 37 per cent. In the case of textile exports, the worst period was MFA I with a trend average of -1 per cent, but the trend averages of all other regimes were 10 per cent, well above the restriction stated in each policy regime. The performance of clothing exports was even better. The trend averages of all regimes were positive and high. One should notice that the gap of fluctuation in textile exports in the pre-Lancashire Pact period (highest 115 per cent, lowest -22 per cent) was larger than any of the protection regimes. If such evidence can be regarded as strong, one can argue that protection regimes do produce an export stabilizing effect, since the quota in effect guaranteed the export volume. Between the two industries, textiles suffered a wider degree of fluctuation (highest 86 per cent, lowest -22 per cent) in the entire period of 1959-86, while clothing experienced a milder fluctuation (highest 40 per cent, lowest -15 per cent).

To demonstrate the magnitude of the textile and clothing exports from Hong Kong, figures in nominal terms are recorded in Table III. In the thirty years between 1960 and 1989, the nominal value of total exports of textile and clothing has increased by 5,571 per cent from HK\$1,564 million to HK\$88,688 million. Table IV shows market destination of export expansion. As far as textile is concerned, the OECD market was larger than the non-OECD market in the 1960s and 1970s. However, by 1980, the reverse was true; textile exports to non-OECD countries had exceeded that of the OECD total. By 1987, the value was more than double of the OECD total. This reflects the growing size of the clothing industry in non-OECD countries. In the case of clothing exports, the trend has been static, the OECD market is much larger than the non-OECD market.

Quota restriction acted as a guarantee of the growth rate and market share. Table V shows the quota utilization of total Hong Kong textile and clothing exports to the United States, the United Kingdom, and West Germany. The United

TABLE IV  
EXPORTS OF TEXTILE AND CLOTHING TO  
OECD AND NON-OECD MARKETS

(HK\$ million)

	OECD	Non-OECD
1968 Textile	758	277
1968 Clothing	2,648	366
1970 Textile	877	400
1970 Clothing	3,824	512
1975 Textile	1,452	1,286
1975 Clothing	9,215	986
1980 Textile	2,190	2,345
1980 Clothing	20,818	2,440
1985 Textile	3,156	4,667
1985 Clothing	42,233	2,679
1987 Textile	4,510	11,494
1987 Clothing	62,057	3,264

Source: [10, various issues].

TABLE V  
QUOTA UTILIZATION OF HONG KONG EXPORTS

(%)

Year	U.S.A.	U.K.	F.R. Germany
1977	85.21	—	—
1978	92.24	—	—
1979	78.97	—	—
1980	73.72	85.4	76.6
1981	76.34	85.8	71.4
1982	94.04	78.2	68.5
1983	99.72	86.7	71.4
1984	99.52	82.6	71.6
1985	95.74	78.9	59.4
1986	99.75	88.2	71.9
1987	98.50	96.2	86.7
1988	94.63	94.4	79.5
1989	95.96	86.6	75.6
1990	93.68	84.4	79.2

Source: Hong Kong, Trade Department.

States is the largest market and the quota utilization rate has been close to 100 per cent. An utilization rate of 95 per cent is effectively equivalent to 100 per cent due to wastage and rejected items. The utilization rate to West Germany has been the lowest among the three export markets, indicating that Hong Kong exports are not competitive in the German market. Furthermore, quota utilization

TABLE VI  
PERCENTAGE CHANGE IN IMPORT VALUES OF TEXTILE MACHINERY  
UNDER DIFFERENT PROTECTION REGIMES

	H	L	A
1955-58	85	-38	21
Lancashire Pact, 1959-62	104	-34	-1
Long Term Arrangement, 1962-67	138	-19	21
1968-73 Arrangement	96	-44	18
MFA I, 1974-77	40	-32	10
MFA II, 1978-81	43	26	48
MFA III, 1982-86	50	-19	28
MFA I-III, 1974-86	50	-32	64
1984-89	55	3	52

Source: [9] [12, various issues] [8, various issues].

rate has been declining in the three markets since 1987, reflecting the increasing labor cost in Hong Kong and a loss of competitiveness. Nonetheless, the quota restriction should be considered as a realistic reflection on the growth rates of the three major markets.

#### IV. PRODUCTION PERFORMANCE OF THE TEXTILE AND CLOTHING INDUSTRY

This section tries to show that on the production side, the performance of firms was much more positive than the prediction of the zero-sum hypothesis. The first indicator is the import of textile machinery. Based on different protection regimes, Table VI shows the highest, lowest, and the trend average percentage changes in each of the protection regimes. As far as the trend average is concerned, the figures are positive and large except the Lancashire Pact 1959-62 regime when a -1 per cent was experienced. In the three MFA regimes, the change was 64 per cent. Since the Country of Origin rule was imposed in 1984, percentage changes have been large. The gap of fluctuation between the highest and lowest become narrower since MFA I as compared to earlier regimes. The worst performance was -44 per cent in the 1968-73 Arrangement regime. In nominal terms, the import of textile machinery increased from HK\$14 million in 1955 to HK\$100 million in 1965, HK\$366 million in 1975, HK\$1,669 million in 1985, and to HK\$3,912 million in 1988.

A second indicator is the number of establishment and persons engaged. Table VII summarizes the highest, lowest, and trend average percentage changes under different protection regimes. The trend average figures for both textile and clothing are all positive except for three occasions where the negative figures were small. Furthermore, the lowest percentage changes were not large negatives, particularly under the MFA regimes. The largest negative was -18 per cent in the number of clothing establishments in 1974-86. Output has also expanded drastically. In the case of textiles, gross output expanded nominally from HK\$8,518 million in 1973



TABLE VII  
PERCENTAGE CHANGES OF ESTABLISHMENTS AND PERSONS ENGAGED

	Textile						Clothing					
	No. of Establishments			Persons Engaged			No. of Establishments			Persons Engaged		
	H	L	A	H	L	A	H	L	A	H	L	A
1. 1955-58	6	2	4	14	-3	5	168	8	75	112	18	86
2. Lancashire Pact, 1959-62	20	6	13	17	-24	*	17	3	11	18	-5	4
3. Long Term Arrangement, 1962-67	16	-1	10	57	3	20	20	-7	12	25	-7	10
4. 1968-73 Arrangement	32	6	23	6	-11	-2	82	15	60	27	9	20
5. MFA I, 1974-77	14	-5	8	19	-12	3	41	1	24	41	-6	16
6. MFA II, 1978-81	37	-2	11	24	-1	8	3	-7	-1	2	-8	-2
7. MFA III, 1982-86	5	-5	*	7	-6	1	5	-3	*	3	-2	1
8. MFA I-III, 1974-86	37	-5	6	24	-12	2	41	-18	7	41	-8	5
9. 1984-88	6	-5	1	7	-6	*	5	-3	-1	1	-4	-2

Source: [12, various issues].  
\* insignificant.

to HK\$18,817 million in 1980, HK\$29,076 million in 1984, and to HK\$47,445 million in 1988. For clothing, the corresponding figures respectively were HK\$6,383 million, HK\$26,922 million, HK\$41,309 million, and HK\$59,771 million [11, various issues]. The evidence from the production aspect does not support the zero-sum hypothesis and the industry has grown from being "protected by protectionism."

## V. FACTORS OF EXPORT EXPANSION

Export expansion can take place due to various reasons. Tyszynski [20] pointed out four factors: (1) increase in world trade, (2) commodity composition differentials, (3) market distribution differentials, and (4) increased competitiveness.

(1) Increase in World Trade (IWT) can be measured by the following formula:

$$\sum_i p X_{bi} - \sum_i X_{bi} = (p - 1) \sum_i X_{bi},$$

where  $X_b$  = domestic export receipts in base year,  $p$  = growth rate of world exports during the period of investigation,  $i$  = different commodity groups. The formula measures the extent of world trade expansion on domestic exports.

(2) Differential Commodities Composition (DCC) measures the degree of export product diversification. The larger the number of export products, the more likely that trade would expand. The following formula works out the DCC;

$$\sum_i p_i X_{bi} - \sum_i p X_{bi},$$

where  $p_i$  = growth rate of export  $i$ .

(3) Differential Market Distribution (DMD) measures the degree of market diversification, and is computed by the following formula:

$$\sum_i \sum_j p_{ij} X_{bij} - \sum_i p_i X_{bi},$$

where  $j$  = the number of different markets.

(4) Increased Competitiveness (IC) is defined as follows:

$$\sum_i \sum_j X_{cij} - \sum_i \sum_j p_{ij} X_{bij},$$

where  $X_c$  = domestic export receipts in current year (or the last year in the period). The sum of these four effects is the total export increment in any period, namely,

$$\sum_i \sum_j X_{cij} - \sum_i X_{bi}.$$

Lin and Lin [18] employed these formulae to work out the contribution of each of the factors on Hong Kong's major industrial groups for the period of 1964 and 1974, and classified the world into developed and less developed countries.

Tyszynski's [20] formulae aimed to measure export performance at the aggregate level. At the product level, the four formulae could be simplified by restricting subscript  $i$  to an export commodity, say textile or clothing, and classify subscript  $j$  into two market groups of OECD and non-OECD countries. Table VIII shows the four factors of export expansion respectively for Hong Kong's export of textile

TABLE VIII  
ANALYSIS OF CHANGE IN TEXTILE AND CLOTHING EXPORTS

	1968-73	1972-74	1974-77	1978-81	1982-86	1985-87	1974-86 (HK\$ million)
<b>A. Textile</b>							
Changes in exports	1,317	594	503	2,433	5,903	8,182	8,810
a. Due to IWT	1,090 (82.8)	1,219 (205.4)	526 (104.5)	2,268 (93.2)	1,968 (33.3)	2,271 (27.8)	6,278 (71.3)
b. Due to DCC	-120 (-9.1)	-554 (-93.3)	-289 (-57.4)	-735 (-30.2)	758 (12.8)	1,535 (18.8)	-545 (-6.2)
c. Due to DMD	32 (2.4)	-20 (-3.4)	36 (7.1)	119 (4.9)	-313 (-5.3)	205 (2.5)	317 (3.6)
d. Due to IC	315 (23.9)	-51 (-8.6)	231 (45.8)	781 (32.1)	3,491 (59.1)	4,171 (51.0)	2,760 (31.3)
<b>B. Clothing</b>							
Changes in exports	4,440	2,639	5,156	12,579	23,338	20,409	43,410
a. Due to IWT	3,175 (71.5)	4,801 (181.9)	2,147 (41.6)	12,420 (98.7)	11,226 (48.1)	13,037 (63.9)	25,612 (59.0)
b. Due to DCC	831 (18.7)	-2,847 (-107.9)	2,584 (50.1)	-1,463 (-11.6)	12,720 (54.5)	18,811 (92.2)	24,030 (55.4)
c. Due to DMD	974 (21.9)	437 (16.6)	-381 (-7.4)	-629 (-5.0)	3,350 (14.4)	-1,302 (-6.4)	2,919 (6.7)
d. Due to IC	-540 (-12.2)	248 (9.4)	805 (15.6)	2,251 (17.9)	-3,959 (-17.0)	-10,137 (-49.7)	-9,151 (-21.1)

Sources: [10, various issues] [21, various years] [16, various years] [6, various years].

Note: Figures in parentheses are percentages.

and clothing under different protection regimes. The percentage calculation showed that the more significant factors of export expansion for textile and clothing were Increase in World Trade and Increased Competitiveness.

As far as Increase in World Trade is concerned, both textile and clothing experienced high and positive percentage increase, with the largest at 205.4 per cent and 181.9 per cent for textile and clothing respectively in 1972-74. However, the percentage increase for textile has fallen behind that of clothing since 1978, implying that textile is becoming a declining industry. In the case of the Increased Competitiveness factor, the percentage of the textile industry has remained high in most protection regimes, peaking at 59.1 per cent in 1982-86, though the percentage was lower at 31.3 per cent in the whole period of 1974-86. However, the performance of clothing is unsatisfactory. The figures for 1970s were positive, while the corresponding figures for the 1980s were all negative, implying that the competitiveness of Hong Kong clothing export is declining.

## VI. CONCLUSION

If the running speed of a horse were to represent the rate of industrial development, then protectionism would become the "whip," while the protection policy imposing country would be the "rider." The harder the horse were being whipped, the faster would the horse run. The zero-sum hypothesis taken up by the imposer of protectionism failed to generate negative impacts on the industrial growth of exporting countries. To the exporters, protectionism became a matter of survival, and production has to take place at a more advanced level such that a higher growth rate could be achieved. Such "preparing for the rainy day" attitude defeats the dichotomous effect that the zero-sum hypothesis predicted. Over time, the pushing force coming from the threat of additional protectionism could really drive exporters to perform to their best potential.

The experience of the textile and clothing industry in Hong Kong is a clear case in which protectionism has acted indirectly as "an engine of growth." Given the large number of small industrial enterprises and a flexible production structure, production and market switching become a common strategy to tackle the foreseeable protectionist policies. Looking at both the export and production performances of the textile and clothing industry over the last three decades, one cannot conclude that their growth had been restricted by the presence of different protectionist regimes. Protectionism in fact insulated the industry from new competition from late comers to the exporting markets.

However, unequal trade and protectionism have in recent years shifted to the issue of anti-dumping, which concerned both price and quantity restrictions, and covered not only traditional export commodities, but a whole range of new exportables. Once again, Hong Kong's expanded comparative advantage is subjected to opposition from importing countries.

## REFERENCES

1. BHAGWATI, J. *Protectionism* (Cambridge, Mass.: The MIT Press, 1988).
2. DONGES, J. B. *Implications on the Multifibre Agreement for Developed Countries* (London: Trade Policy Research Centre, 1981).
3. FARRANDS, C. "Textile Diplomacy: The Making and Implementation of European Textile Policy, 1974-1978," *Journal of Common Market Studies*, Vol. 18, No. 1 (September 1979).
4. GRAMM, B. "New Protectionism—Old Sophistry," *Asian Wall Street Journal*, October 11-12, 1985.
5. GREENAWAY, D. *International Trade Policy: From Tariffs to the New Protectionism* (London: Macmillan Press, 1983).
6. Hong Kong, Census and Statistics Department. *Hong Kong Annual Digest of Statistics* (Hong Kong: Government Printer).
7. ————. *Hong Kong Monthly Digest of Statistics* (Hong Kong: Government Printer).
8. ————. *Hong Kong Review of Overseas Trade* (Hong Kong: Government Printer).
9. ————. *Hong Kong Statistics, 1947-1967* (Hong Kong: Government Printer, 1969).
10. ————. *Hong Kong Trade Statistics: Annual Supplement* (Hong Kong: Government Printer).
11. ————. *Survey of Industrial Production* (Hong Kong: Government Printer).
12. Hong Kong Government. *Hong Kong Annual Report* (Hong Kong: Government Printer).
13. ————. *The HK/EEC Textile Agreement, 1987-1991* (Hong Kong: Trade Department, 1988).
14. ————. *The HK/US Textiles Agreement, 1986-1991* (Hong Kong: Trade Department, 1988).
15. ————. *Report of the Advisory Committee on Diversification, 1979* (1979).
16. International Monetary Fund. *International Financial Statistics, Yearbook* (Washington, D.C., International Monetary Fund).
17. LAIRD, S., and YEATS, A. "Non-Tariff Barriers of Developed Countries, 1966-1986," *Finance and Development*, Vol. 26, No. 1 (March 1989).
18. LIN, T. B., and LIN, M. C. "Exports and Employment in Hong Kong," in *Hong Kong: Economic, Social and Political Studies in Development*, ed. T. B. Lin et al. (New York: M.E. Sharpe, 1979).
19. LIN, T. B., and MOE, V. *Trade Barriers and the Promotion of Hong Kong Exports* (Hong Kong: The Chinese University Press, 1980).
20. TYSZYNSKI, H. "World Trade in Manufactured Commodities, 1899-1950," *Manchester School of Economic and Social Studies*, September 1951.
21. United Nations, Statistical Office. *International Trade Statistics Yearbook* (New York: United Nations).
22. WOLF, M. *Issues in the MFA Negotiations* (London: Trade Policy Research Centre, 1981).