COSTS AND CONSEQUENCES OF THE NEW PROTECTIONISM: 
THE CASE OF CANADA’S CLOTHING SECTOR

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Abstract:
This paper analyzes the impact of the present tariff and bilateral quantitative restrictions for clothing on welfare of consumers and producers specifically, the resource cost of this policy for Canada as a whole, and the implications of these policies for the future development of the clothing sector. This sector was chosen because it is a relatively important industry in Canada and illustrates clearly how protection has generated both economic waste and perverse restructuring of the industry.

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Costs and Consequences of the New Protectionism
The Case of Canada’s Clothing Sector

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Since the original version of this monograph was published in 1980, interest in Professor Jenkins's analysis, and in the economic impact of protectionist policies generally, has grown markedly. In order to meet a continuing demand for the publication, the North-South Institute has decided to release this revised edition. The text follows the same format as the original, with one significant change: while the 1980 version used preliminary import and production data for 1979, the author has been able to use revised data in this version. Far from casting doubt on the conclusions of the original study, the new data suggest that the costs of protection in the clothing sector to the Canadian economy are even greater than originally estimated.
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INTRODUCTION

Over the past two decades, Canadian commercial policy has been schizophrenic in its approach to the protection of import-substituting industries. On the one hand, the use of tariffs as import policy instruments has declined for a wide range of manufactured products. In general, this trend can be expected to continue. At the same time, however, a few specific sectors have not only continued to receive high tariff protection, but have also received support from quotas designed to control the competition from imports. These sectors include primary textiles, knitting, clothing and footwear. Without this assistance, these industries would have been forced to undergo major restructuring.

The Canadian government has given several reasons for its highly protectionist policy in these sectors. They have ranged from the prospect of a significant decline in employment in specific regions and the pursuit by other developed countries of similar policies to avoidance of the costs of industrial adjustment. However, the chief rationale has been employment.

What has been ignored in the discussion of protection versus adjustment is the cost of the former, especially relative to the latter. It is clear that any policy of industrial adjustment will produce costs, both social and private, for the owners of the factors of production utilized by the declining firms. These adjustment costs, though generally only temporary, are still very real. Only recently has some empirical information become available on the nature and size of the costs of adjustment in Canada. It appears that the estimates of both the private and economic costs of labour adjustment are
quite modest, although severe for a small segment of the affected labour market. It therefore becomes highly relevant to compare these costs with the economic and private costs of the protectionist policies that have stifled industrial adjustment. If the economic costs of maintaining protection are larger than those of adjustment, then protection will make the economy as a whole worse off. At the same time, if adjustment assistance policies were in force that fully compensated the individuals who incurred the adjustment costs, the elimination of protection could leave everyone in the economy better off.

To date, most of the research on the cost of protection in Canada has focused on the impact of the tariff policy (Helleiner, 1975; Baidwan and Treddenick, 1978; Dauphin, 1978; Pinchin, 1979; Hazledine, 1978; Auer and Mills, 1978; and Wonnacott and Wonnacott, 1967 and 1980). This paper takes another approach: it analyzes the impact of the present tariff and bilateral quantitative restrictions for clothing on the welfare of consumers and producers specifically, the resource cost of this policy for Canada as a whole, and the implications of these policies for the future development of the clothing sector. This sector was chosen because it is a relatively important industry in Canada and illustrates clearly how protection has generated both economic waste and a perverse restructuring of the industry.

II OVERVIEW OF PROTECTION POLICIES FOR TEXTILES AND CLOTHING

Throughout the history of the textile and clothing sectors in Canada, an important determinant of their financial viability has been tariff protection from imports. During World War II, tariffs facilitated the expansion of these
sectors, following which came a period of considerable modernization and
diversification. By the late 1960s, however, imports of textiles produced in
developing countries (starting with Japan) began to force a retrenchment in
certain commodity lines, despite the heavy tariff protection.

The government responded to this competition by negotiating a number of
'voluntary' export restraints with various importing countries, beginning with
Japan in 1960. Then, in 1970, it formulated a Canadian Textile Policy which
attempted to encourage product specialization while at the same time
maintaining quotas on imports of goods particularly vulnerable to competition.

From 1970 to 1977, voluntary export restraints were also applied to
several clothing items. The restraints were not, however, particularly
successful at restraining trade - from 1975 to 1976, imports of knitted and
clothing items increased by over 41 percent (Canada, Department of Industry,
Trade, and Commerce, 1979). This growth can be attributed to three factors:
first, there was considerable excess supply in the exporting countries because
of the U.S. and European bilateral quotas; second, the Canadian dollar was
significantly over-valued; and third, exporters and importers anticipated that
future quotas would be based on current performance and reacted accordingly.

These expectations were correct. In late 1976, the government imposed a
global import quota system on a number of clothing items, thus breaking the
export restraint agreements. The new system applied to all countries
exporting clothing and affected imports in 1977 and 1978. However, because of
the large inventories of goods carried over from 1976, the new quantitative
restrictions did not truly become effective until 1978. Under the new system,
the federal government gave Canadian importers licences to import, with the freedom to find the manufacturers in the exporting countries able to offer the most favourable terms.

This system of quotas had two fundamental drawbacks for the federal government. First, the allocation of the quota licences to importers soon took on political dimensions, with the provincial governments agitating on behalf of their importers. Second, the system lumped the U.S. and other European producers in with low-cost producers such as Hong Kong, Taiwan, and the Republic of Korea (South Korea). As a result, the higher-cost producers, particularly the U.S. ones, feared they would lose their market shares and initiated a vigorous political response.

In June 1978, the government announced it was going to abolish the global quota system in favour of a system of bilateral agreements between Canada and the most important of the low-cost exporting countries. Initially it signed agreements with the 7 largest exporting countries, but by early 1980, the number had expanded to 14. No quotas were levied on clothing imported from the United States and other high-cost European producers. (For a more extensive treatment of the history of protection in these sectors, see Biggs, 1980).

These agreements set the maximum quantity of an item that could be exported from a textile- or clothing-producing country to Canada. The coverage of items varied widely across countries, ranging from Hong Kong, where a variety of goods, classified into 30 broad categories of textiles and clothing, were placed under quantitative control, to Sri Lanka, where only two
classer of goods (shirts with tailored collars and jackets) were specified
(the details are contained in Memoranda of Understanding between the
Government of Canada and the Hong Kong and Sri Lanka Governments Related to
the Export from Hong Kong and Sri Lanka of Textile Products to Canada, issued
in 1979). In general, the level of the quota for any item was to be equal to
90 percent of the 1975 level of shipments from the exporting country to
Canada. The remaining 10 percent was to be withheld to allow for flexibility,
in particular to accommodate countries which were new entrants into the
market.3

The key element in the operation of this system of bilateral quotas was
that it gave the exporting country administrative control over who obtained
the licence to sell to Canadian importers. Canadian importers were no longer
able to seek the lowest-cost supplier; instead, they had to go to a
manufacturer who either had received a licence from its government or was able
to purchase a licence from another supplier. Licences for items where the
demand was expected to be greater than the number specified by the quota
ceiling quickly gained a market value: importers indirectly bid against each
other for the quota, or exporters anticipated the probable degree of scarcity
over the year and set a price for the quota among themselves.

Superficially, it may appear that the only difference between the global
quota system, in which the importing country administered the licences issued
to its importers, and the bilateral quota system was that the former allotted
the scarcity premiums attached to the import licences to the importers, while
the latter gave the windfall income to the exporters. However, as will be
shown later, the bilateral quantitative controls also led to behaviour that
inflicted greater costs on both the economy and consumers in Canada.
Canada's move from global to bilateral quotas did not affect the system of tariffs applying to the goods. However, in conjunction with the imposition of the global quota in 1977, the base for estimating the tariff liability (i.e., the value for duty) was increased 33-1/3 percent on clothing imports from Taiwan, and 15 percent on similar imports from South Korea. By January 1979, the effective increase in the tariff rate had changed to 25 percent for Taiwan, although it remained 15 percent for South Korea. Further, an adjustment factor of 25 percent was imposed on the value for duty on imports from Hong Kong for the first time.

In addition to the system of bilateral quotas and tariffs, the then Office of Special Import Policy of Canada's Department of Industry, Trade, and Commerce also initiated, or threatened to initiate, unilateral actions to prohibit the import of garments which were manufactured in countries not covered by a bilateral agreement or garments which were not under quota in a country that had signed an agreement. However, the Canadian courts ruled that the Office of Special Import Policy had to be more restrained in its actions. Still, the magnitude of the losses by importers who had goods blocked at the Canadian border was sufficient to prevent them from seriously attempting to obtain new supplies from countries which had not been traditional suppliers. As a result, the importers had to increase their demand for items from the traditional exporting countries, hence bidding up the value of the quotas and the amount Canadians paid for imported garments.
III BILATERAL QUOTAS ON GARMENTS:

ADMINISTRATION AND IMPACT ON INDUSTRIAL STRUCTURE

Before attempting to estimate the private and economic costs to Canada of its protectionist package, it is useful to examine the way in which the bilateral quotas and their administration have altered the incentives facing producers and consumers, and their likely responses. Because sales from Hong Kong, Taiwan, and South Korea have accounted for more than 70 percent of Canada's total imports of garments from low-cost countries, this study focuses on the activities in these markets when analyzing likely outcomes.

In all three countries, the bilateral agreements have covered over 95 percent of the value of the exports of garments to Canada. The export licences have been issued by a special branch of the ministry of trade in each of these countries and allocated to producers or exporters on the basis of past performance. In Taiwan, the export licences have been issued only to current or previous manufacturers, while in Hong Kong, they have gone to both manufacturers and trading companies which historically has been exporting commodities to Canada. The governments also held back some of the quota, to be issued throughout the year to those exporters which were short of quotas and met certain qualifications.5

Hong Kong has gone the farthest in treating the quota as a commodity: there has been active buying and selling, through brokers, of quotas that are either temporary (one year) or permanent (for the remainder of the agreement). A manufacturer or exporter which did not get a sufficient quota has been free to purchase it from another. Under most conditions, the quotas
could then be filled under the buyer's name, without any reference to the licencsee initially assigned the quota. The rules for the sale of quotas have been very generous: as long as the original licencsee itself used over 50 percent of its quota allocation in a given year, it would not suffer any reduction in allocation the following year. Even when this restriction was violated, the penalties were not severe, with any future loss in quotas distributed across all of the licencsee's quota holdings (both low and high value).

In Taiwan, the quotas have been administered by the Taiwan Textile Federation, a body set up by the government but largely controlled by the textile and clothing industries. This organization has allocated the quotas based on companies' past performance, with a holdback of 10-15 percent which has been issued as a 'free' quota to either new entrants or to firms short of quota. It has been possible to buy or sell export permits on a permanent or temporary basis under the supervision of the federation. A significant portion of the actual trading of quotas in Taiwan has been carried out by brokers. However, the final export of an item has had to be made under the name of the original quota holder.

To encourage full utilization of the quotas, the Taiwan Textile Federation has been taking back any quota not used in a given year and reassigning it to others the following year. Therefore, if a firm does not fully utilize its assigned quota for one year, it not only loses the current value of the export licence, but also the value of the licence for the remaining years of the agreement.
The assignment of 'free' quota and the reassignment of quotas have been carried out on the basis of the f.o.b. price, computed at the time of export. A manufacturer short of quota for any item has been able to take a potential order to the Taiwan Textile Federation when the additional export licences were being distributed. The licences have then been assigned on the basis of the f.o.b. price statement of the goods within each quota category, with the exporters with the highest prices per unit receiving priority.

As the f.o.b. price and the quality of the garment are positively correlated, this system has provided a powerful inducement to restructure production into higher quality lines within the clothing categories. Thus, Taiwan has used the assignment of garment quotas very deliberately as a tool to get exporters to restructure upward in the market in order to increase the value added of the sector. This policy has been largely successful: all the manufacturers interviewed in Taiwan indicated that they had restructured the quality of their exports to Canada upward and planned to do so further. In addition, the Taiwan Textile Federation has employed a cadre of designers to improve the design of textiles and to assist its members.

In South Korea, the market for export licences for clothing has not been as open as in Hong Kong or Taiwan. However, there has been an active, informal market among the large trading companies for buying and selling quotas. Because of the amount of collusion among the companies, and given that they collectively have had exclusive rights to sell certain clothing items to Canada, it appears that there has been strong potential for their behaving as a monopoly.
The garment quotas Canada has negotiated through the bilateral agreements are defined according to somewhat broad types of garments, such as winter outerwear garments (men's, boys', women's, girls', children's and infants') or shirts with tailored collars (men's and boys'). There have been no restrictions as to quality or price range. For example, boys' shirts selling for $25.00 a dozen use up the same amount of quota as top quality men's shirts selling for $30.00 a dozen. Therefore, excess demand for the quotas for any item will create an incentive to move to the higher valued items, since normally the absolute amount of the trade margin is larger on garments of higher value.

To illustrate further how quantity quotas tend to shift trade toward higher quality items, consider the following situation. Two importers, A and B, buy from two exporters, X and Y. Assume that before the quotas, there was C$1 million in trade between A and X, with A purchasing low quality men's shirts from X at $25.00 a dozen. Similarly, B and Y were completing $1 million of business, but in expensive men's shirts - at $50.00 a dozen. Now assume that a quota system is imposed, under which the two producers get a large enough quota to produce their previous volume, but other producers are cut back. Suppose, too, that the equilibrium market value of the export licence is $10.00 a dozen. If this cost is passed through to the consumers, it will increase the price of the low quality shirts to $35.00 a dozen, a rise of 40 percent, while increasing the price of the expensive men's shirts to $60.00 a dozen, or 20 percent. From the consumers' point of view, the relative price of high to low quality shirts has fallen from 2/1 to 1.7/1. Therefore, they will tend to shift their purchases from the low to the high quality items.
Producers also will have an incentive to shift to the production of higher quality items. The export licences will limit any expansion of business in terms of quantity, but not in terms of the total value of sales. Moreover, it is more reasonable to think of a producer's profit margin as being related to a fraction of sales rather than the number of units sold. Hence, if the demand for low and high quality shirts is growing at about the same rate, producer X can expand the value of his sales and profits by producing fewer low quality shirts and more high quality ones. Based on his previous sales of $1 million, the producer's quota will be 40,000 dozen shirts. By switching to the production of only high quality shirts, but maintaining the same quantity, sales could be increased to $2 million. If the profit margins were 10 percent of sales net of the quota charges, then switching from low to high quality items could increase the profits from $100,000 to $200,000.

The reason that producers are able to make this switch profitably is that the quota will cause an excess of consumer demand in the consumer country for both qualities of items if the prices reflect the foreign producers' costs plus normal profits. However, the excess demand for the high quality items should grow relatively more rapidly because the quota charge will have caused a smaller proportional increase in the price of these items than in that of the low quality goods. Hence, both consumers and foreign producers will have an incentive to move toward consumption and production of the high quality goods. (For an excellent theoretical discussion of the effect of quotas on the quality of imported goods, see Falvey, 1979).
Where does that leave importers and domestic producers? To analyze this issue, it is useful to look at the market for clothing and the production technology in the industry. Two aspects are important. First, with respect to production, many producers can switch from production of lower quality to higher quality items almost overnight if there is a market. In general, the constraints on switching product lines at the manufacturing stage involve problems of communication rather than production technology. As a result, it is not unusual for a clothing producer to manufacture different product lines in successive years. However, time is a more critical factor with high quality items than with low quality ones; location and communications may therefore make it more difficult for producers in some countries to upgrade quickly.

By contrast, the marketing of clothing of the same species but different qualities may require very different skills. The retailer and the importer determine the fashion and design of what a foreign producer makes. Instructing producers and marketing lower quality clothes for discount houses as opposed to higher quality items for boutiques requires very different training, skills and knowledge. As a result, importers typically specialize in different segments of the market—each may deal with a wide range of types of goods, but in a narrowly bounded range of quality. Quotas provide an incentive for consumers and producers to upgrade the quality of items bought and sold and tend to shift business from the importers which specialize in low quality goods to those specializing in higher quality lines. Moreover, as many of the higher fashion goods are imported by retail stores directly, the quota will cause an absolute contraction in the role of the importer as a separate economic unit.
Hence, the impact of the bilateral quota on importers will be: an upward restructuring of the trade sector which was specializing in basic lines of clothing; a relative expansion of those firms which had been concentrating on the middle and upper quality ranges; an expansion of direct importing by retail stores, causing a relative decline in the overall import trade sector; and, in particular, a contraction in the trade carried out by importers of basic quality items. These outcomes help explain why basic or traditional importers have tended to oppose the present bilateral export quota system more strongly than have the newer, higher fashion importers and retailers.

How do the bilateral quotas affect domestic producers? Prior to the quotas, Canadian manufacturers had been concentrating their production on the top two-thirds of the quality range of clothing, leaving the lowest quality segments of the market to be filled by imports. The import quotas have had two effects on domestic producers. First, the decrease in imports has allowed their prices to increase by more than they otherwise would have. Second, as noted, the quotas have encouraged foreign producers to move into the higher quality ranges. As such, domestic producers have found increased, rather than decreased, competition from imports in the lines they have been producing. Moreover, because the quota has increased the relative cost of low quality imports, there has been an incentive for domestic producers to restructure downward and to manufacture the low quality goods previously imported. During 1978 and 1979, some importers even set up small manufacturing operations in Canada to supply their traditional basic lines, while importing some of their higher quality lines.
Because of the wide flexibility in the manufacture of clothing, Canadian garment manufacturers have been able to respond quickly to opportunities for profits. The quotas have provided such an opportunity (though an artificial one), causing domestic producers to restructure into a segment of the market where, if economic forces were allowed to operate unrestricted, they would stand no chance of survival.

It is also ironic that the bilateral quotas imposed by Canada and other countries have probably strengthened the long-run true economic viability of the garment and textile industries in the traditional exporting countries. Hong Kong, South Korea and Taiwan are all countries with relatively high rates of real economic growth, reflected in the high rates of growth of real wages. To prosper, the garment industry in those countries must move into areas where labour can become more productive. In the clothing industry, this tends to occur in the higher quality clothing lines. Moreover, the governments of the exporting countries have been using the bilateral quotas to stimulate this restructuring. In doing so, however, the quotas have been helping the garment industry retain labour that should have been transferred to other industries, given that wage costs have been rising (e.g., in Singapore).

IV THE DETERMINATION OF QUOTA VALUES OVER TIME

The economics literature contains extensive discussion of the impact of quotas and tariffs on imports, production and prices when either the exporter or domestic producer has a monopoly position in the market (Bhagwati, 1965 and 1968; Shibata, 1968; Yadav, 1968; McCulloch and Johnson, 1973; McCulloch,
1973; and Ophir, 1969). However, in the case of clothing, the industries in the supplying countries as well as the importers and domestic producers in Canada have been characterized by a high degree of competition. While the export quotas may have given a country a monopoly position, the firms within the country’s clothing sector have been free to operate competitively within the constraints on national production. These conditions have certainly held for most of Canada’s trading partners in clothing, with the possible exception of South Korea. Even there, given the ultimate competition from the high-cost producing countries, whose exports to Canada have not been subject to limits, it is unlikely that the concentrated position of Korea’s producers will lead to a significant increase in prices over that generated by the restrictive quotas. Hence, in the following analysis, it was assumed that the supply of imported clothing to Canada has been provided by competitive industries in the exporting countries and that Canada’s clothing importers have also operated competitively. (For some evidence of the large number of importing firms dealing in various clothing items, see Halleiner, 1978.)

In its simplest form, the quota will take on a value equal to the difference between the cost of imports, gross of the tariff, and the costs of domestic production. As illustrated in Figure 1, if $P_0$ is the price of imported goods sold in the domestic market in the absence of a tariff, then the quantity demanded by consumers will be equal to $Q_{d0}$, while the quantity supplied domestically will be $Q_{s0}$, and the quantity imported ($I_0$) will be equal to the difference ($Q_{d0} - Q_{s0}$). When only a tariff of $T$ is imposed, the domestic price will increase to $P_1$, or ($P_0 + T$), causing the total quantity demanded to fall to $Q_{d1}$ and the domestic supply to increase to $Q_{s1}$. Imports ($I_1$) will now equal ($Q_{d1} - Q_{s1}$). If, in addition, a quota of $K$ is imposed,
FIGURE 1
DETERMINATION OF PRICES AND QUOTA VALUES
then the domestic price of the good is no longer determined by the price of imports and the tariff, but is instead determined by the interaction of the domestic supply (augmented by imports of K), shown by the curve $(S_0 + K)$, and the domestic demand for the good $(DD)$. In this case, the domestic price with a quota of $K$ units is equal to $p_1$ or $(p_1 + v)$. It will in turn be equal to the world price $p_0$, plus the tariff of $T$ plus a value of $v$ for the quota.

This quota charge is determined as a residual, as are all other types of economic rents. If no tariff were imposed, then the quota value per unit would be equal to the distance $CL$, or $v + T$. When production costs in the producing countries increase relative to domestic production costs, then the quota value will fall and vice-versa.

Suppose that instead of a quota of $K$, the quota is $K^1$. In this case, the total supply curve is $S_0 + K^1$, creating an excess of quota. In theory, no value should be placed on the rights to use the quota. However, an examination of the administrative records of the Canadian bilateral quota system shows that, although not all the allocated quotas were utilized for many categories, positive and often very significant quota charges existed throughout the year. While at first this result may appear to be a contradiction, the nature of the market for garments is such that it is plausible, even when the markets in the exporting country are competitive. Alternatively, it may result from manipulation by the controlling authorities in the exporting countries in an effort to maximize total earnings.

Both these rationales arise because, although the quota for a category of garments is specified for one year, the bulk of the transactions which
importers and producers enter into are carried out in the early part of the year. In addition, the organization of the market is such that the importers of basic items, which are not affected as much by fashion, generally place their orders first, followed by the importers and retail stores dealing in higher quality lines which must be more closely tuned to seasonal fashions. The export licences used when a good is traded come from the quota of the year in which the good is shipped. However, the licence is purchased when the order is made, which may be months earlier.

As a general approximation, assume that the importers of basic items place their orders in November and December for the summer and fall seasons, while the importers of more fashionable items purchase in late January and early February. If the demand for an item is very strong (in the terminology of the textile trade, a 'hot' item), there might be repeat orders.

This brief description shows that at the time an importer of basic items completes the manufacturing agreements (in order to meet the delivery dates to retailers), there is very little information as to the likely scarcity value of the quota later in the year. If a manufacturer builds a quota charge of $2.00 a dozen into a sale made in January, but runs out of quota and thus cannot complete an opportunity for a transaction coming in July which pays $10.00 a dozen for the quota, it will have lost from the decision to sell early. At the same time, if it asks too high a price for the quota early in the year and turns away buyers, it will end up with a surplus of quota at the end of the year and also will have lost.
Most, if not all, items under the bilateral quotas have a positive probability of having their quotas run out near the end of the year, despite a strong demand for the good. Where this is the case, the quota for an item is likely to have a positive expected value early in the year, when most of the orders are being placed. Thus, importers will be charged a positive amount for the right to import into Canada, even though at the end of the year a surplus quota may in some cases still be available. In Taiwan, where holders of unused quotas have future quotas taken from them, it is not uncommon for a positive quota charge to exist for an item throughout most of the year, only to take a negative value in the final months, as the holders try to utilize the quotas before the end of the period so that their present value in future years is positive.

The administration of the quota by the exporting countries may also lead to both high charges for export licences and surplus quota at the same time. Usually, the governments of the exporting countries hold back part of the total quota in the early months of the year when most of the buying is done. Hence, quotas may be very scarce during this period when it is needed, becoming available later when there may be less demand. The exporting governments may carry out this action if they think they have some influence over the prices in the importer's domestic market and thus can extract some monopoly rents for remit firms which own export quotas. As imported garments have dominated the lower price levels of clothes in Canada for several years, this notion has some validity.

Because Canada has attempted to negotiate bilateral quota agreements with most actual and potential exporting countries or has threatened border
sions, the quotas have effectively prevented importers from moving to new
countries with lower cost supplies. Therefore, if, over time, the traditional
exporting countries are not able to maintain a rate of real productivity
growth in the textile and clothing sectors equal to, or greater than, that
experienced in other industries, their real supply costs for clothing will
rise. If they rise faster than the increase in the costs of domestic
producers in the importing country, then the quota charges should fall over
time. In this case, however, a falling value does not mean that Canadians
will pay less for their imports. Rather, it means that the costs of
production in the exporting country are absorbing a larger portion of the
quota's scarcity rent.

If new exporting countries such as China, Sri Lanka and Indonesia are
effectively restrained from taking over the role of producer of basic garments
from the traditional exporters, then the quota charge as measured in the
present exporting countries will seriously underestimate the loss to Canada
from imposing this type of import constraint. This underestimate will
increase the further Canada moves from the year on which the quotas were
based, in this case 1975.

V ESTIMATING THE PRIVATE AND ECONOMIC COSTS OF PROTECTION

To estimate the total cost to Canada of the protection provided to the
garment industry, it is necessary to analyze not only the joint impact of the
tariffs and quotas but also the costs inflicted on Canada because importers
have not been allowed to purchase from the lowest cost sources of supply. In
practical terms, a comparison should be made between the f.o.b. price paid for
similar garments purchased by an importing country which does not have bilateral quotas, and the l.o.o. price net of the quota charge faced by Canadian importers in the traditional exporting countries.

The following analysis of the costs of protection does not, however, take this latter source of economic loss into consideration. The principal reason is that prior to 1979, Canadian importers were purchasing clothing from the lowest cost sources. Although the base year for the bilateral quotas was 1975, the pattern of purchases in 1979 was not so different from the distribution in 1975 as to indicate major changes across countries in relative production costs. Given the present growth rates of real wages in Taiwan, Hong Kong and South Korea as compared to China, Sri Lanka and Indonesia, it is likely, nevertheless, that the economic costs arising as a result of being locked into a given set of suppliers will rapidly become a very significant factor.

An analysis of the costs of protection from the tariff and quotas was carried out in some detail for outerwear and shirts. These two products, which represent products in which manufacturers in Taiwan, South Korea and Hong Kong could supply most of the product lines demanded by Canadian consumers, have been significantly constrained by the bilateral quotas. If all quotas and tariffs were eliminated entirely, it is likely that these sectors would be severely affected.

The same set of calculations was carried out in summary form for all the quota categories in the bilateral agreements with Hong Kong, Taiwan, and South Korea.
FIGURE 2
MARKET FOR GOODS SUBJECT TO BOTH TARIFF AND QUOTA
Figure 2 illustrates the market situation for a good that is subject to both tariffs and bilateral quotas. With a quota and tariff in place, the domestic price is $p_d$, resulting in a total demand for this good in the domestic market of $Q^d$. The quota is set at $K$ units, which can also be shown as the difference between domestic demand ($Q^d$) and supply ($Q^s$), or 

$Q^d - Q^s$.

If the c.i.f. price net of tariff and quota charges is denoted as $P_0$, then the difference between $p_d$ and $P_0$ will be distributed between the quota charge and tariff. The higher the tariff, the lower the quota charge.

Figure 2 shows the value of the tariff collected as the area LHIJ, while the value of the quota and the charges is equal to VCHI. If the quotas did not exist and the amount of the tariff remained constant at $T$, then the market price would fall to $P_1$ and domestic demand would increase to $Q^d_1$, while domestic supply would decline to $Q^s_1$. Imports would then increase to $(Q^d_1 - Q^s_1)$. However, because the quota charges are built into the base for calculating the amount of tariff due, if the quota is eliminated, the actual amount of tariff paid on a unit of imports falls from $T$ to $T_1$, and the market price for the good becomes $P_2$. Therefore, final demand will settle at $Q^d_3$, with domestic suppliers cutting back further to $Q^s_3$, leading to imports of $(Q^d_3 - Q^s_3)$.

If both the quotas and tariffs were eliminated, total domestic demand would increase to $Q^d_0$, while domestic supply would contract to $Q^s_0$ because of the competition from imports. The quantity imported would then equal $(Q^d_0 - Q^s_0)$.

The direct cash cost to Canadian consumers from the tariff and quota combined is shown as the area $P_0$POMJ, which is the difference between the
price \( p_d \) they are paying for clothing with this system, and the price \( p_0 \) which would exist if there were neither quotas nor tariffs, multiplied by their current level of consumption \( q_2^d \). In addition, they suffer a loss in their standard of living because the prices of the goods are higher, causing them to decrease their purchases of the good from \( q_2^d \) to \( q_2^d \). The value they place on these goods is an amount equal to the area \( q_2^d \) \( N \) \( q_2^d \), or \( p_0 (q_2^d - q_2^d) \). Under free trade, they would have had to pay only \( p_0 (q_2^d - q_2^d) \). Hence, they lose the difference between these two measures, shown as the area \( A \) and measured by \( p_0 (q_2^d - q_2^d) \).

This total loss to the consumers is in turn distributed as gains to: the federal government, in the form of tariff revenues (area \( WH \) or \( T(q_2^d - q_2^d) \)); the producers, owners of export quotas and governments in exporting countries (area \( NCH \), or \( T(q_2^d - q_2^d) \)); and the domestic producers in the form of higher profits (area \( 2p_0 \text{CA} \), or \( T(q_2^d - q_2^d)(p_d - p_0) \)). It is also wasted through the inefficient use of resources in the domestic garment industry (area \( ACL \), or \( (p_d - p_0)(q_2^d - q_2^d) \)); and depriving consumers of the opportunity to purchase clothing at international prices (area \( \text{MF} \), or \( (p_d - p_0)(q_2^d - q_2^d) \)).

Through interviews with exporters and quota brokers in Hong Kong, Taiwan, and South Korea, as well as with Canadian importers, it was possible to develop the information needed to estimate the various costs and transfers resulting from present Canadian policies. While the estimations described in the following sections were based on the levels of trade, production, and consumption in 1979, some of the quota charges could only be obtained for the early months of 1980. For several categories, it is believed that the quota
<table>
<thead>
<tr>
<th>Country</th>
<th>F.O.B. net of duty and quota ((5.98 - 1.57))</th>
<th>Quota charge</th>
<th>Duty (25%) ((5.98))</th>
<th>Freight and insurance</th>
<th>Foreign buying costs at 5% of f.o.b.</th>
<th>Landed cost each</th>
<th>Protection expressed as the ratio of net landed cost = (\frac{3.43}{5.37})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>4.41</td>
<td>1.37</td>
<td>1.86</td>
<td>.66</td>
<td>.30</td>
<td>8.80</td>
<td>.64</td>
</tr>
<tr>
<td>South Korea</td>
<td>6.35</td>
<td>2.15</td>
<td>2.44</td>
<td>.66</td>
<td>.43</td>
<td>12.03</td>
<td>.62</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>8.60</td>
<td>1.32</td>
<td>3.16</td>
<td>.66</td>
<td>.51</td>
<td>14.45</td>
<td>.48</td>
</tr>
</tbody>
</table>

The F.O.B. values are the average unit import values obtained from official monthly import quantities and values by Import Commodity Classification (ICC) category. The reported values were reduced by 25 percent for Taiwan and 15 percent for South Korea to account for the administrative adjustment to the value for duty made by Canadian customs authorities.

The quota charges were obtained from the exporters and quota brokers in the respective countries. They correspond to the values charged in February and March 1979 for Taiwan and South Korea and in March 1980 for Hong Kong.

The rate of duty is 25 percent for outerwear and 22.5 percent for skirts with tailored collars. However, for 1979 they must be increased by 25 percent for Taiwan to reflect the increased value for duty imposed by Canada, and increased by 15 percent for South Korea. Since December 1979, the increased value for duty for Hong Kong has been 25 percent.

The freight costs were estimated from an examination of the importers' costs.

This is an estimate the importers gave of the costs for buying, banking and brokerage charges.
### TABLE 2

**Determination of the Import Costs for Shirts with Tailored Collars from Taiwan, South Korea and Hong Kong, 1979 ($US)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taiwan</strong></td>
<td>f.o.b. net of duty and quota (2.59 - .78)(^a)</td>
<td>1.81</td>
</tr>
<tr>
<td></td>
<td>Quot. charge(^b)</td>
<td>.78</td>
</tr>
<tr>
<td></td>
<td>Duty = .225(1.25)(2.59)(^c)</td>
<td>.73</td>
</tr>
<tr>
<td></td>
<td>Freight and insurance(^d)</td>
<td>.50</td>
</tr>
<tr>
<td></td>
<td>Foreign buying costs at 5% of f.o.b.(^e)</td>
<td>.13</td>
</tr>
<tr>
<td></td>
<td>Landed cost each</td>
<td>3.95</td>
</tr>
<tr>
<td></td>
<td>Protection expressed as the ratio of net landed cost = 1.51/2.44 =</td>
<td>.62</td>
</tr>
<tr>
<td><strong>South Korea</strong></td>
<td>f.o.b. net of duty and quota (2.87 - 1.10)</td>
<td>1.77</td>
</tr>
<tr>
<td></td>
<td>Quot. charge(^b)</td>
<td>1.10</td>
</tr>
<tr>
<td></td>
<td>Duty = .225(1.10)(2.81)</td>
<td>.74</td>
</tr>
<tr>
<td></td>
<td>Freight and insurance(^d)</td>
<td>.50</td>
</tr>
<tr>
<td></td>
<td>Foreign buying costs at 5% of f.o.b.(^e)</td>
<td>.14</td>
</tr>
<tr>
<td></td>
<td>Landed cost each</td>
<td>4.23</td>
</tr>
<tr>
<td></td>
<td>Protection expressed as the ratio of net landed cost = 1.84/2.41 =</td>
<td>.76</td>
</tr>
<tr>
<td><strong>Hong Kong</strong></td>
<td>f.o.b. net of duty and quota (1.40 - 1.23)</td>
<td>1.17</td>
</tr>
<tr>
<td></td>
<td>Quot. charge(^b)</td>
<td>1.23</td>
</tr>
<tr>
<td></td>
<td>Duty = .225(1.25)(1.40)</td>
<td>.56</td>
</tr>
<tr>
<td></td>
<td>Freight and insurance(^d)</td>
<td>.50</td>
</tr>
<tr>
<td></td>
<td>Foreign buying costs at 5% of f.o.b.(^e)</td>
<td>.17</td>
</tr>
<tr>
<td></td>
<td>Landed cost each</td>
<td>5.03</td>
</tr>
<tr>
<td></td>
<td>Protection expressed as the ratio of net landed cost = 2.19/2.64 =</td>
<td>.77</td>
</tr>
</tbody>
</table>

\(^a\)The f.o.b. values are the average unit import values obtained from official monthly import quantities and values by import commodity classification (INC) category. The reported values were reduced by 25 percent for Taiwan and 15 percent for South Korea to account for the administrative adjustment to the value for duty made by Canadian customs authorities.

\(^b\)The quota charges were obtained from the exporters and quota brokers in the respective countries. They correspond to the values charged in the currency and March 1979 for Taiwan and South Korea and in March 1980 for Hong Kong.

\(^c\)The rate of duty is 25 percent for outerwear and 12.5 percent for shirts with tailored collars. However, for Taiwan they must be increased by 25 percent for Taiwan to reflect the increased value for duty imposed by Canada, and increased by 15 percent for South Korea. Since December 1979, the increased value for duty for Hong Kong has been 15 percent.

\(^d\)The freight costs were estimated from an examination of the importers’ costs.

\(^e\)This is an estimate the importers gave of the costs for buying, banking and brokerage charges.
<table>
<thead>
<tr>
<th>Garment Category</th>
<th>F.O.B. net of duty and quota charge (per unit)</th>
<th>Duty</th>
<th>Total protection</th>
<th>Freight insurance</th>
<th>Foreign buying cost</th>
<th>Loaded cost</th>
<th>Protection net loaded cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outerwear</td>
<td>1.32</td>
<td>1.92</td>
<td>2.50</td>
<td>4.42</td>
<td>0.66</td>
<td>0.43</td>
<td>12.03</td>
</tr>
<tr>
<td>Structured suits, blazers</td>
<td>1.49</td>
<td>1.70</td>
<td>3.43</td>
<td>5.13</td>
<td>0.70</td>
<td>0.61</td>
<td>16.93</td>
</tr>
<tr>
<td>Shirts with tailored collars</td>
<td>1.89</td>
<td>1.07</td>
<td>0.80</td>
<td>1.87</td>
<td>0.50</td>
<td>0.15</td>
<td>4.44</td>
</tr>
<tr>
<td>Slacks and shirts</td>
<td>3.42</td>
<td>0.32</td>
<td>1.11</td>
<td>1.53</td>
<td>0.50</td>
<td>0.25</td>
<td>5.83</td>
</tr>
<tr>
<td>Sweaters, pullovers, cardigans</td>
<td>3.66</td>
<td>0.30</td>
<td>1.16</td>
<td>1.46</td>
<td>0.50</td>
<td>0.26</td>
<td>5.88</td>
</tr>
<tr>
<td>T-shirts and sweatshirts</td>
<td>1.39</td>
<td>0.34</td>
<td>0.48</td>
<td>0.62</td>
<td>0.50</td>
<td>0.11</td>
<td>2.82</td>
</tr>
<tr>
<td>Trousers, slacks (men's and boys')</td>
<td>3.15</td>
<td>0.33</td>
<td>1.22</td>
<td>1.55</td>
<td>0.60</td>
<td>0.25</td>
<td>5.55</td>
</tr>
<tr>
<td>Trousers, slacks 'women's and girls'</td>
<td>3.34</td>
<td>0.40</td>
<td>1.02</td>
<td>1.42</td>
<td>0.80</td>
<td>0.22</td>
<td>5.38</td>
</tr>
<tr>
<td>Overall and coveralls</td>
<td>1.24</td>
<td>0.28</td>
<td>0.65</td>
<td>0.73</td>
<td>0.50</td>
<td>0.10</td>
<td>2.57</td>
</tr>
<tr>
<td>Dresses and skirts</td>
<td>5.59</td>
<td>0.47</td>
<td>2.16</td>
<td>2.63</td>
<td>0.50</td>
<td>0.41</td>
<td>9.13</td>
</tr>
<tr>
<td>Underwear</td>
<td>0.40</td>
<td>0.14</td>
<td>0.10</td>
<td>0.24</td>
<td>0.15</td>
<td>0.03</td>
<td>0.82</td>
</tr>
<tr>
<td>Shorts</td>
<td>1.06</td>
<td>0.23</td>
<td>0.55</td>
<td>0.56</td>
<td>0.49</td>
<td>0.06</td>
<td>2.12</td>
</tr>
<tr>
<td>Pajamas and sleepwear</td>
<td>2.43</td>
<td>0.07</td>
<td>0.32</td>
<td>0.74</td>
<td>0.50</td>
<td>0.15</td>
<td>3.82</td>
</tr>
<tr>
<td>Bedding and garments</td>
<td>4.72</td>
<td>0.31</td>
<td>1.41</td>
<td>1.72</td>
<td>0.50</td>
<td>0.32</td>
<td>2.28</td>
</tr>
<tr>
<td>Swimsuit</td>
<td>1.09</td>
<td>0.19</td>
<td>0.36</td>
<td>0.56</td>
<td>0.40</td>
<td>0.08</td>
<td>2.21</td>
</tr>
<tr>
<td>Overcoats, topcoats and rainwear</td>
<td>13.66</td>
<td>1.57</td>
<td>4.23</td>
<td>5.80</td>
<td>0.66</td>
<td>0.94</td>
<td>21.06</td>
</tr>
</tbody>
</table>
charges in 1980 were lower than those in 1979, so that the estimates have a slight downward bias when used as proxies for 1979 quota values.

Tables 1 and 2 present the f.o.b. prices, quota charges and effective tariff rates for outerwear and shirts, respectively, imported from Taiwan, South Korea and Hong Kong. The quotas have had the greatest effect on restraining imports in these two categories. Hence, the analysis for them was detailed. Table 3 presents the weighted averages across the three countries of the f.o.b. prices, quota charges and effective duties for most of the garment categories subject to quotas.

As imports from these three areas have dominated the Canadian market, the error from extrapolating the information on them to the rest of the Canadian market for imports was probably small. However, the nature of the loss to Canada differs slightly according to whether the imports were obtained from low- or high-cost suppliers of garments. For the low-cost suppliers, the quota charge would be a pure rent to those holding the export licences. The existence of the quota charges in these economies would raise the c.i.f. price and, therefore, induce Canadian importers to turn to the high-cost producers in countries such as the United States. When buying from these high-cost producers, the higher prices Canadian importers would be willing to pay would be used largely to pay for the higher cost of the productive inputs in those countries and would only result in marginal increases in profits to the high-cost suppliers. As the c.i.f. prices for garments of the same quality would be equalized across sources, the high-cost country production costs would place an upper limit on the low-cost country quota charges. The existence of the export quotas in the low-cost producing countries would
result in the same economic losses to Canada regardless of whether it imported from low- or high-cost producers. However, the gain in profits from foreign producers would be determined by their relative production costs.

To measure the response in consumer demand and domestic production to a change in the level of protection, estimates of the elasticities of domestic supply and demand for these items were needed. Several were made for the demand elasticities for imports.\(^1\) For overall imports, the demand elasticity estimates were in the range of -2.00 to -4.00. However, it would be expected that since only about one-third of the total clothing purchased was imported, the demand elasticity for imports might be somewhat higher. It would also be expected that the elasticity of demand for all garments would be less than the domestic supply elasticity. To be consistent with these observations, a value of -0.5 was used as the compensated own-price elasticity of demand for garments (imports plus those domestically produced), while a value of 1.0 was used for the elasticity of the supply of garments from domestic producers. These elasticities were evaluated at the current landed price and the retail price for supply and demand, respectively.\(^1\)

Table 4 contains the data used to measure the various costs and transfers arising from the tariffs and bilateral quotas on outerwear and shirts. Table 5 presents the results of the estimations for these two sectors, along with aggregated effects for the remaining categories to which the bilateral quotas apply. The estimations in Table 5 compare a completely free trade situation and the present situation in which there are both tariffs and quotas.
<table>
<thead>
<tr>
<th></th>
<th>Overwear</th>
<th>Shirts with tailored collars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average landed cost per unit</td>
<td>12.03</td>
<td>4.41</td>
</tr>
<tr>
<td>Average landed cost less duty and quota</td>
<td>7.61</td>
<td>2.54</td>
</tr>
<tr>
<td>Average tariff plus the quota charge</td>
<td>4.42</td>
<td>1.87</td>
</tr>
<tr>
<td>Quota charge</td>
<td>1.91</td>
<td>1.07</td>
</tr>
<tr>
<td>Tariff</td>
<td>2.50</td>
<td>0.80</td>
</tr>
<tr>
<td>Tariff plus the quota as a percentage of the net landed price</td>
<td>58%</td>
<td>74%</td>
</tr>
<tr>
<td>Tariff plus the quota as a percentage of the retail price</td>
<td>18.37%</td>
<td>21.20%</td>
</tr>
<tr>
<td>Elasticity of demand</td>
<td>-0.5</td>
<td>-0.5</td>
</tr>
<tr>
<td>Elasticity of supply</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Total Canadian demand (000 units) ($Q^D_2$)</td>
<td>17,408</td>
<td>34,008</td>
</tr>
<tr>
<td>Imports (000 units) ($Q^i_2$ - $Q^o_2$)</td>
<td>6,565</td>
<td>14,713</td>
</tr>
<tr>
<td>Canadian production (000 units) ($Q^p_2$)</td>
<td>10,863</td>
<td>19,295</td>
</tr>
<tr>
<td>Canadian consumption with no tariff or quota (000 units) ($Q^c_0$)</td>
<td>19,128</td>
<td>37,982</td>
</tr>
<tr>
<td>Canadian production with no tariff or quota (000 units) ($Q^p_0$)</td>
<td>6,872</td>
<td>11,114</td>
</tr>
<tr>
<td>Imports with no tariff or quota ($Q^i_0$ - $Q^o_0$)</td>
<td>12,256</td>
<td>26,768</td>
</tr>
</tbody>
</table>

*The values, prices, tariffs and quota charges are taken from Tables 1 and 2.

The quantities of consumption, production and imports were estimated using data for 1979 prepared by the Textile and Clothing Board (1979).

The quantities of consumption, production and imports were estimated according to the usual demand and supply elasticity relationships. Because of the differences in the producer and retail prices, the percentage changes in price for the latter were smaller when the tariff and quota were removed. From examination of the relationship between retail prices and landed prices, it was found that the former were approximately 200 percent of the latter. This broad average was used to estimate the changes in consumer prices as a result of the elimination of tariffs and quotas.
<table>
<thead>
<tr>
<th></th>
<th>Outerwear</th>
<th>Shirts</th>
<th>All other garment categories</th>
<th>Total, all garments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Consumer cost</td>
<td>80,743</td>
<td>67,216</td>
<td>629,923</td>
<td>777,882</td>
</tr>
<tr>
<td>2. Additional payment to foreign suppliers</td>
<td>12,556</td>
<td>15,743</td>
<td>47,877</td>
<td>76,170</td>
</tr>
<tr>
<td>3. Tariff revenue</td>
<td>16,362</td>
<td>11,770</td>
<td>195,135</td>
<td>183,267</td>
</tr>
<tr>
<td>4. Gain to domestic producers</td>
<td>39,194</td>
<td>28,432</td>
<td>350,544</td>
<td>418,170</td>
</tr>
<tr>
<td>5. Economic waste of resources in production</td>
<td>8,820</td>
<td>7,669</td>
<td>54,791</td>
<td>71,260</td>
</tr>
<tr>
<td>6. Loss in standard of living from reduced consumption</td>
<td>3,201</td>
<td>3,622</td>
<td>21,582</td>
<td>29,005</td>
</tr>
<tr>
<td>TOTAL</td>
<td>80,743</td>
<td>67,216</td>
<td>629,923</td>
<td>777,882</td>
</tr>
<tr>
<td>7. Overall economic loss to Canada (2+5+6)</td>
<td>25,187</td>
<td>27,014</td>
<td>124,244</td>
<td>176,445</td>
</tr>
</tbody>
</table>
As always, consumers ultimately paid the entire cost of the protectionist policies. In 1979, it amounted to approximately C$777.8 million for the garment categories under bilateral import quotas. Of this total cost, about 19 percent was associated with outerwear and shirts with tailored collars. This consumer cost included a gain to foreign suppliers of approximately $76.2 million, of which the foreign manufacturers of outerwear and shirts received about 37 percent. The Canadian federal government gained tariff revenues of approximately $83.3 million. Garment manufacturers in Canada gained approximately $418.2 million.

At the same time, there was a waste of economic resources (energy, capital, land and labour) through their use in this inefficient industry rather than in other sectors of the Canadian economy. The waste amounted to approximately C$71.3 million in 1979, with about 21 percent involving outerwear and shirts.

Because the estimation procedure assumed linear supply curves, the gain in profits to domestic producers may have been overestimated. However, to the degree that the gain in profits was overestimated, the loss in economic waste was underestimated, as there is a dollar-for-dollar trade-off between these two items in the estimations.

Last, part of the consumer cost arose because, at the artificially increased prices, consumers were discouraged from purchasing as many garments as they would have otherwise. This loss was equal to the difference between what they valued the items at and the price at which the goods would have been bought had there been no tariff or quota. In 1979, this consumer loss amounted to approximately C$29 million.
In Table 5, line 7, all the transfers to the federal government through tariffs and to domestic producers through higher profits were subtracted from the consumer costs. The result was a net measure of the economic loss to Canada. For the garment sector, the tariff and quota policies in 1979 inflicted a loss of approximately $176.4 million. About 43.2 percent was the result of the extra payments Canadians must make to foreign suppliers because of the bilateral quota agreements, while 40.4 percent was attributable to the wasteful use of resources. The remaining 16.4 percent was the loss in the standard of living to consumers because they were induced to decrease their purchases of garments.

So far, the analysis has compared the present system (tariff plus a quota) with free trade in garments. It was also assumed that whatever distortions existed in the textile sector by way of tariffs or quotas remained in place. As textiles were an input into the garment sector, if protection was simultaneously removed from the domestic textile and garment industries, the latter would become more competitive by using imported textiles. Hence, the removal of both tariffs and quotas would require less adjustment by local garment producers than is indicated in Table 5.

It may be unrealistic to assume that both the tariffs and quotas will be removed. Accordingly, the costs of protection were also evaluated for the case in which the present quota scheme was added to the prior system of tariffs. As the evaluation for duty has been based on the f.o.b. price (including any quota charge), the import duties per unit would decrease if the quotas were removed. This aspect is illustrated in Figure 2 by drawing $T_1$ (duty if there is no quota) less than $T$ (duty if there is a quota).
### Table 6

**Weighted Average Duty Payments, F.O.B. Prices and Rates of Protection with Tariff but No Quota**

<table>
<thead>
<tr>
<th>Garment Category</th>
<th>F.O.B. net of duty and quota</th>
<th>Duty (no quota)</th>
<th>Freight and insurance</th>
<th>Foreign freight and insurance</th>
<th>Landed cost</th>
<th>Protection (net of landed cost)</th>
<th>Change in rate of protection due to quota</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overcoats, topcoats and rainwear</td>
<td>13.66</td>
<td>5.84</td>
<td>2.66</td>
<td>0.94</td>
<td>19.10</td>
<td>0.27</td>
<td>0.13</td>
</tr>
<tr>
<td>Jackets and overcoats</td>
<td>1.05</td>
<td>0.31</td>
<td>0.40</td>
<td>0.08</td>
<td>1.88</td>
<td>0.30</td>
<td>0.15</td>
</tr>
<tr>
<td>Foundation garments</td>
<td>4.72</td>
<td>1.32</td>
<td>0.50</td>
<td>0.32</td>
<td>6.86</td>
<td>0.24</td>
<td>0.07</td>
</tr>
<tr>
<td>Nightwear</td>
<td>2.43</td>
<td>0.66</td>
<td>0.50</td>
<td>0.15</td>
<td>3.76</td>
<td>0.22</td>
<td>0.02</td>
</tr>
<tr>
<td>Trousers and sleepwear</td>
<td>1.16</td>
<td>0.30</td>
<td>0.44</td>
<td>0.09</td>
<td>1.84</td>
<td>0.19</td>
<td>0.13</td>
</tr>
<tr>
<td>Underwear</td>
<td>0.40</td>
<td>0.07</td>
<td>0.15</td>
<td>0.03</td>
<td>0.65</td>
<td>0.11</td>
<td>0.09</td>
</tr>
<tr>
<td>Dresses and skirts</td>
<td>5.59</td>
<td>1.37</td>
<td>0.50</td>
<td>0.41</td>
<td>6.87</td>
<td>0.24</td>
<td>0.16</td>
</tr>
<tr>
<td>Overalls and coveralls</td>
<td>1.26</td>
<td>0.35</td>
<td>0.50</td>
<td>0.10</td>
<td>2.13</td>
<td>0.19</td>
<td>0.11</td>
</tr>
<tr>
<td>Socks</td>
<td>0.40</td>
<td>0.07</td>
<td>0.15</td>
<td>0.03</td>
<td>0.65</td>
<td>0.11</td>
<td>0.09</td>
</tr>
<tr>
<td>Blouses and nightwear</td>
<td>3.36</td>
<td>0.94</td>
<td>0.50</td>
<td>0.22</td>
<td>5.10</td>
<td>0.23</td>
<td>0.11</td>
</tr>
<tr>
<td>Slacks (women's, girls')</td>
<td>3.15</td>
<td>0.69</td>
<td>0.60</td>
<td>0.25</td>
<td>4.99</td>
<td>0.22</td>
<td>0.17</td>
</tr>
<tr>
<td>T-shirts and sweatshirts</td>
<td>1.39</td>
<td>0.39</td>
<td>0.50</td>
<td>0.11</td>
<td>2.19</td>
<td>0.20</td>
<td>0.21</td>
</tr>
<tr>
<td>Sweaters, pullovers, cardigans</td>
<td>3.66</td>
<td>1.03</td>
<td>0.50</td>
<td>0.20</td>
<td>5.34</td>
<td>0.24</td>
<td>0.14</td>
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<td>Blouses with tailored collar</td>
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<td>0.51</td>
<td>0.50</td>
<td>0.15</td>
<td>3.00</td>
<td>0.20</td>
<td>0.14</td>
</tr>
<tr>
<td>Blouses and shirts</td>
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<td>5.34</td>
<td>0.24</td>
<td>0.14</td>
</tr>
<tr>
<td>Blouses</td>
<td>0.45</td>
<td>2.94</td>
<td>0.70</td>
<td>0.61</td>
<td>14.74</td>
<td>0.25</td>
<td>0.18</td>
</tr>
<tr>
<td>Blouses, trousers, slacks (men's and boys’)</td>
<td>3.15</td>
<td>0.69</td>
<td>0.60</td>
<td>0.25</td>
<td>4.99</td>
<td>0.22</td>
<td>0.17</td>
</tr>
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<tr>
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<td>0.69</td>
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</tr>
<tr>
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<td>0.60</td>
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<td>0.25</td>
<td>0.18</td>
</tr>
<tr>
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<td>0.69</td>
<td>0.60</td>
<td>0.25</td>
<td>4.99</td>
<td>0.22</td>
<td>0.17</td>
</tr>
</tbody>
</table>
Determining the impact of adding (or dropping) the existing bilateral quota system was a two-step procedure. First, the various cost and transfers were estimated for a situation in which there was only a tariff. Second, the values of the costs and transfers were subtracted from the corresponding items when both a tariff and quota were imposed to determine the incremental impact of adding the bilateral quotas.

Table 6 contains the basic data on the amount of duty which would be paid per unit if no system of import quotas were imposed (column 2). An estimation of the change in the nominal level of protection arising from the addition of the quota is presented in column 7.

Table 7 presents the results for three cases: tariff only (column 1), tariff plus quota (column 2) and the incremental effect of adding an import quota to the tariff system (column 3). In 1979, the bilateral import quotas on garments cost Canadian consumers approximately C$327.3 million. This was in addition to the consumer cost of the tariff alone of $450.6 million. The consumer cost of the quota system was made up of additional payments to foreign producers of $76.2 million, a loss in total tariff collections of $7.3 million, a gain to domestic producers of $191.3 million, economic losses from inefficient domestic production of $47.8 million, and a reduction in consumption of $19.3 million.

The incremental economic waste created by the quota was estimated to be C$143.3 million in 1979. This was made up of the additional transfers to foreign producers, inefficient domestic production and a reduction in consumption resulting from the distortions. As compared to the economic waste
<table>
<thead>
<tr>
<th>Item</th>
<th>Tariff system alone (1)</th>
<th>Tariff plus quota (2)</th>
<th>Addition of bilateral quotas (2 - 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Consumer cost</td>
<td>450,375</td>
<td>777,882</td>
<td>327,507</td>
</tr>
<tr>
<td>2. Gain to foreign producers</td>
<td>0</td>
<td>76,180</td>
<td>76,180</td>
</tr>
<tr>
<td>3. Tariff revenue</td>
<td>190,548</td>
<td>183,267</td>
<td>-7,281</td>
</tr>
<tr>
<td>4. Additional profits to domestic producers</td>
<td>226,899</td>
<td>418,170</td>
<td>191,281</td>
</tr>
<tr>
<td>5. Economic waste of resources in production</td>
<td>23,458</td>
<td>71,260</td>
<td>47,802</td>
</tr>
<tr>
<td>6. Loss in standard of living from reduced consumption</td>
<td>9,680</td>
<td>29,005</td>
<td>19,325</td>
</tr>
<tr>
<td></td>
<td>450,375</td>
<td>777,882</td>
<td>327,507</td>
</tr>
<tr>
<td>7. Overall economic loss to Canada (1+3+6)</td>
<td>33,130</td>
<td>176,445</td>
<td>143,307</td>
</tr>
</tbody>
</table>
created by the tariff alone, the additional loss created by the quota was 4.3 times as large. Hence, the bilateral quota was a relatively inefficient instrument to use to protect the domestic manufacturing of garments.

VI EMPLOYMENT AND PROTECTION POLICY

Those who favor policies that increase protection for declining industries facing international competition principally argue that employment will suffer without these policies. There is no doubt that employment would have been reduced in the Canadian garment industry had it not been for the protection from imports provided by the tariffs and quotas. The critical questions are, however, how many person-years of employment the policies actually saved, and what was the cost to Canada?

From the model in Figure 2, the number of units of each garment category that would have been produced under three cases can be estimated: free trade and no tariffs or quotas (Q^0); only a tariff (Q^3); and both tariffs and quotas (Q^2). The difference (Q^2 - Q^0) is the additional number of units produced as a result of the introduction of a tariff into a free trade situation, while (Q^3 - Q^0) is the incremental quantity of units manufactured domestically resulting from the introduction of bilateral quotas into a market where tariff protection already existed. These values are presented in Table 8, columns 1 and 2, for the tariff and quota respectively.

To move from the estimates of additional units produced to the person-years of additional employment, it was necessary to know the labour required to produce each garment class. Fortunately, the Department of Industry, Trade, and Commerce has obtained that information for a sample of
<table>
<thead>
<tr>
<th>Sector</th>
<th>Increase in domestic prod. resulting from the tariff (1) (000 units)</th>
<th>Increase in domestic prod. due to addition of quota (2)</th>
<th>Person-hours required per unit of production* (3)</th>
<th>Person-years of employment gained by tariffs (4)</th>
<th>Person-years of employment gained by quota (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outerwear</td>
<td>1,743</td>
<td>2,248</td>
<td>0.76</td>
<td>662</td>
<td>854</td>
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<tr>
<td>Structured suits, blazers</td>
<td>682</td>
<td>508</td>
<td>1.42</td>
<td>484</td>
<td>361</td>
</tr>
<tr>
<td>Shirts with tailored collars</td>
<td>2,231</td>
<td>5,950</td>
<td>0.50</td>
<td>558</td>
<td>1,488</td>
</tr>
<tr>
<td>Blouses and shirts</td>
<td>5,407</td>
<td>2,703</td>
<td>0.50</td>
<td>1,352</td>
<td>676</td>
</tr>
<tr>
<td>Sweaters, pullovers, cardigans</td>
<td>3,388</td>
<td>1,414</td>
<td>0.50</td>
<td>847</td>
<td>354</td>
</tr>
<tr>
<td>T-shirts, sweatshirts</td>
<td>2,908</td>
<td>3,206</td>
<td>0.50</td>
<td>727</td>
<td>802</td>
</tr>
<tr>
<td>Trousers, slacks</td>
<td>8,304</td>
<td>6,158</td>
<td>0.53</td>
<td>2,201</td>
<td>1,632</td>
</tr>
<tr>
<td>Overalls, coveralls</td>
<td>492</td>
<td>534</td>
<td>0.53</td>
<td>130</td>
<td>142</td>
</tr>
<tr>
<td>Dresses and skirts</td>
<td>6,039</td>
<td>4,078</td>
<td>0.70</td>
<td>2,114</td>
<td>1,422</td>
</tr>
<tr>
<td>Underwear</td>
<td>9,193</td>
<td>22,327</td>
<td>0.04</td>
<td>276</td>
<td>670</td>
</tr>
<tr>
<td>Shorts</td>
<td>270</td>
<td>252</td>
<td>0.40</td>
<td>54</td>
<td>56</td>
</tr>
<tr>
<td>Pajamas and sleepwear</td>
<td>5,756</td>
<td>508</td>
<td>0.28</td>
<td>806</td>
<td>71</td>
</tr>
<tr>
<td>Foundation garments</td>
<td>3,860</td>
<td>1,170</td>
<td>0.45</td>
<td>869</td>
<td>263</td>
</tr>
<tr>
<td>Swimwear</td>
<td>564</td>
<td>436</td>
<td>0.20</td>
<td>56</td>
<td>44</td>
</tr>
<tr>
<td>Overcoats, topcoats, rainwear</td>
<td>864</td>
<td>441</td>
<td>1.80</td>
<td>778</td>
<td>397</td>
</tr>
</tbody>
</table>

Total person-years increased employment in 1979

|                      | 11,914                                                                  | 9,231                                                  |

Consumer cost per person-year of increased employment (annual)

|                          | $37,819                                                                  | $35,457                                                 |

Economic loss per person-year of increased employment (annual)

|                        | $2,701                                                                  | $15,525                                                  |

*The values for labour input per unit of output in each garment category were obtained from a survey of garment manufacturers in Canada, Department of Industry, Trade, and Commerce (1979).

To estimate the person-years of employment from person-hours, a conversion rate of 2,000 person-hours per person-year was used. The values in column 4 = the values in column 1 x column 3 - 2,000; the values in column 5 = the values in column 2 x column 3 - 2,000.
Canadian manufacturers. The average labour input required per unit of output by garment category is presented in Table 8, column 3. Assuming that a person-year of employment consists of approximately 2,000 hours of work, the person-years of incremental employment were estimated and are presented in columns 4 and 5 for the tariff and quota, respectively.

The analysis indicates that the tariff was responsible for approximately 11,914 person-years of additional employment in garment manufacturing in Canada a year. At the same time, the quotas resulted in an increase in employment of 9,211 person-years. However, these estimates overstate the total impact of the tariffs and quotas on employment because, by necessity, they also reduced the employment in the importing and retail parts of the sector. In the analysis that follows, these reductions were not netted out from the positive employment effects of the policies. Therefore, the measures of cost per person-year of employment are biased downward.

By combining the employment impact reported in Table 8 with the costs imposed by the policies reported in Table 7, the various costs and transfers can be expressed in terms of the incremental employment generated. The consumer cost of an additional person-year of employment in the garment industry produced by tariff protection was approximately C$37,800 in 1979. The consumer cost per person-year of employment created by the addition of the bilateral quota in this sector was approximately C$33,500. These consumer costs were measured over and above the normal cost of importing the goods produced by an additional person-year of employment. Clearly, these policies imposed a tremendous burden on the Canadian consumer relative to their impact on employment.
If the distinction of who gains and loses from these policies (producers versus consumers) is disregarded and the economy as a whole and, hence, the economic resource costs of these policies are considered instead, the results are very disquieting. The economic loss of Canada per additional person-year of garment worker employment generated by the tariff policy was approximately C$1,781 per year, while the economic cost per person-year of employment created by the bilateral import quotas was approximately C$13,525 per year.

Given that garment workers have tended to be in one of the poorest paid occupations in Canada, the cost imposed on Canadians to preserve these jobs using either the tariff or the quota policies has been excessive. However, the use of bilateral quotas has been clearly more inefficient than the tariff. It would have been better for Canada in economic terms had the people employed in the garment industry because of the quotas been paid their garment industry salaries, not allowed to remain unemployed or free to engage in other non-market activities.

In summary, the argument that there are economic or social reasons for preserving employment in the Canadian garment manufacturing sector through the use of bilateral quotas is very difficult, if not impossible, to support. The magnitude of the cost to the consumer and the economic waste from inducing employment in these sectors are so large that compensation of displaced workers for their private income losses would be preferable.

Such extreme alternatives are not realistic, or even necessary. Previous experience indicates that most, if not all, workers new employed in the garment industry would find employment elsewhere (Jenkins, Gleedey, Evans and
Montmarquette, 1978; Glenday, Jenkins and Evans, 1982). There is no evidence that artificial assistance to maintain an uncompetitive and declining sector improves the long-run employment conditions in the country. Such policies serve largely to continue to trap workers in areas of employment with no future.

VII. THE DISTRIBUTION OF THE COSTS OF PROTECTION BY INCOME GROUP

Given these estimates of the costs and transfers and of the impact on employment induced by these protectionist policies, the next step was to assess the distribution of the costs across income groups.

Earlier in this study it was pointed out that imports have tended to dominate the lower price and quality ranges of each clothing category. Moreover, because the quota charge has been a fixed amount, it would have had a bigger percentage impact on the prices of the basic quality items than on the higher priced fashion goods. Both these factors have tended to make the cost of protection to consumers weigh more heavily on the poorest segments of the Canadian population, whose purchases of clothing have been concentrated in the lower, basic quality imported types.

Average values of tariffs and quota charges were used to calculate the consumer cost of protection presented in Tables 5 and 7, with no differentiation made between the high and low price grades. Still assuming that the tariff and quotas would increase the prices of all goods in each commodity class by the same percentage, it was possible to estimate the consumer cost to the various income classes. From the Survey of Family
Expenditures in Canada (Canada, Statistics Canada, 1978), the proportion of total expenditures on clothing made by the various income levels was developed. The results are presented in Table 9.

The analysis showed that the bilateral quotas on garments caused households earning less than C$12,000 in 1978 to lose at least $39.3 million as consumers; those earning between $12,000 and $20,000, over $78.6 million; those earning from $20,000 to $30,000, $108.0 million; and households earning over $30,000, $101.5 million.

On a per household basis (column 4), families earning less than C$11,000 lost an average of $17.70 because of the bilateral quotas, while families earning from $12,000 to $20,000 lost approximately $36.47 each, those from $20,000 and $30,000, approximately $54.60, and those over $30,000, $83.33 each.

With respect to the combined consumer cost inflicted by both the tariff and quota on garments, the analysis indicated that households earning less than C$12,000 in 1978 paid at least $93.3 million more for their clothes, or an average of $42.06 per family. For those earning between $12,000 and $20,000, the cost was more than $186.7 million, or $86.72 per family; from $20,000 to $30,000, at least $256.7 million, or $82.93 per family; and over $30,000, $241.1 million, or $98.05 per family.

A comparison of the average income of C$7,172 for families earning less than $12,000 per year with the $40,479 of those earning over $30,000 per year shows that an average family in the low-income group earned only 17.7 percent
as much as an average family in a high-income category. However, they bore over 21 percent as much of the burden of the consumer costs of protection as did a high-income family. Hence, the tariff and quota policies on garments have hurt marginally the relative income position of poor families in Canadian society.

VIII. POLICY ALTERNATIVES

The review of the impact of bilateral quotas on clothing imports does not provide any positive recommendations for that policy. It has wasted Canada’s resources to an extent substantially in excess of the wages paid to the additional labour force it induced into this sector. It has transferred resources disproportionately from the poorer groups of Canadian consumers to the elites of the traditional exporting countries who have been privileged to get export licences. It has created an artificial incentive for the traditional exporting countries to shift their exports of garments to Canada into those higher quality categories that compete more directly with Canadian manufacturers. The same mechanism has also provided an incentive for Canadian producers to shift their production downward into the lower quality items which they had abandoned to low-cost suppliers years ago, as they stood no chance of attaining a comparable level of economic efficiency. In addition, the bilateral quotas have created an artificial disruption in the Canadian importing sector. The quotas have created artificial incentives which have caused traditional high volume importers of basic quality goods to be replaced by the higher fashion wholesale and retail store importers.
The policy question is: what should Canada do now?

Given the magnitudes of the economic losses, the second-best policy is to eliminate the bilateral quotas and rely only on the present level of tariffs to provide some short- and medium-term protection to Canadian garment manufacturers, with the ultimate objective of reducing the level of tariff protection over time.

This approach will no doubt require some adjustment of the sector into the higher quality ranges of production and some retrenchment. Accompanied by an enlightened adjustment assistance program for labour, the economic and private adjustment costs could be minimized. The adjustment assistance program could even be designed to yield positive income benefits for the vast majority of the displaced labour force. (See Glenaday, Jenkins, and Evans, 1982 for a detailed discussion of this question.)

If the government’s policy objective is to maintain a healthy garment industry, then the logical first step is to reduce the level of protection provided to the domestic textile industry so that fabric can be imported at internationally competitive prices. In many fabric lines, the U.S. textile industry is internationally competitive. With a North American (Canada and United States) rationalization of this sector, similar low costs of production could be enjoyed by Canadians.

An alternative to the bilateral garment quotas is a system of global import quotas administered in Canada. This policy would eliminate the approximately C$76.2 million annually which Canadian consumers of garments are
transferring to foreign producers. Over time, as these import quotas became binding, they would also develop a scarcity value approximately equal to the quota charges now existing in the traditional exporting countries. For a short period of time, garment prices would likely be somewhat lower in Canada if the import licences were allocated to the traditional importers. This outcome is apt to arise because in the low quality ranges, the traditional importers have completely dominated the market, and thus the import quotas would be sufficient to provide a surplus of supply in these garment categories. At the same time, these importers would have some difficulty adjusting to serve the higher fashion segments of the market. However, it would only be a question of time before the distribution of imports and the implicit value of the quotas would be similar to the present situation with the bilateral export quotas. The major (and very important) difference is, however, that the economic rent associated with the import licences would accrue either to Canadian importers (if the licences were distributed on the basis of historical performance) or to the Canadian government (if it sold the licences). In addition, global quotas would allow importers to go to the most efficient sources of supply, even if it meant importing from a different set of countries over time.

Usually, governments have avoided auctioning import or export licences for fear that the traditional producers or importers would be ousted and displaced. However, this happens no matter how the licences are allocated. In both Hong Kong and Taiwan, it has been very common for those who initially are issued the licences to sell them to others who can manufacture more competitively. Hence, the groups that initially received the quotas have earned large amounts of income as brokers of privilege instead of...
manufacturers of garments. The important point, though, is that the reallocation of production has taken place in the same manner as if the quotas had been auctioned in the first place. The only difference is that instead of the government obtaining the revenue from the sale of the quotas, those privileged to receive the quotas obtained the income. There is no evidence that the Canadian import community would react any differently over time than the foreign export community would.

In the event that import quotas are sold, it should be done on both a permanent (2- or 3-year) and a temporary (1-year) basis. This approach would allow importers to buy long-term quotas, thus enabling them to plan their business without the uncertainty of future import licences. Generous provisions should also be made for the carry-forward or backward of quotas between years to help stabilize the prices of controlled items over time.

Nevertheless, it must be concluded that instituting one type of quota system for another will serve primarily to heighten the powers of ingenuity in the industry to circumvent the intent of the rules and so build up the animosity of the bureaucrats to regulate and control. In such situations, the interests of Canadian consumers and the long-term economic viability of the country tend to be overshadowed by the problems of the regulatory process. Given the relative competitive positions of the Canadian and foreign garment manufacturing industries and the costs inflicted on Canadians by the present protectionist policies, it would appear that the only viable alternative is for Canada to move to a more liberalized trade policy in garments.
FOOTNOTES

1Canada has followed the tariff structure prescribed by the multilateral trade negotiations under the General Agreement on Tariffs and Trade (1975) for a wide range of manufactured products.

2For an estimate of the adjustment costs associated with the decline of firms, see Jenkins, Glenday, Evans and Montmarquette (1978); see also Glenday, Jenkins and Evans (1982).

3Sri Lanka was such a case. The negotiated quota could not be based on the level of 1975 export sales to Canada because there had been no sales that year.


5This information on the quota systems of Taiwan, Hong Kong and South Korea is based on interviews with the Taiwan Textile Federation and Taiwanese manufacturers, Hong Kong manufacturers, and Canadian importers who had had extensive dealings with all these countries.

6Based on information obtained from interviews with Canadian importers, foreign producers and Canadian retailers.

7Figure 1 assumes that the commodity whose level of imports is controlled by the quota is homogeneous. Usually this is not so: instead, a single commodity class may contain several different qualities of the item. In this case, the market price of the different qualities of the commodity will have different market prices. However, the export or import licence will have the same market price no matter what the quality of the commodity traded with the permit. It is also assumed here that there are no wholesale or retail margins. As they exist in reality, the price received by the domestic producer would be lower than that paid by the final consumer.
Imports of clothing of basic quality are almost always shipped by sea. Hence, there is a 2-3 month shipping period between the time the clothing is made in the Far East and its arrival in Canada. By contrast, high fashion items are transported by air, so that the time interval between manufacturing and delivery in Canada is much shorter.

In this analysis of the tariff and quota on garments, a partial equilibrium framework was used. As recent research has indicated (e.g., Baldwin, Stern and Kierzowski, 1979), such a partial equilibrium model is far from complete. It will tend to provide an upward bias to the employment impact of these policies.

The Micro-Economic Analysis Branch, Department of Industry, Trade, and Commerce, recently completed a survey of empirical studies for clothing. At least three studies have been completed which have estimated the own-price elasticity of demand for Canadian imports on a partially disaggregated basis. Generally, the higher the level of disaggregation, the greater the absolute value of the own-price elasticities. Hence, the empirical estimates tend to give a downward bias to the value of the own-price elasticity of demand for clothing. For the aggregated sector, "other manufacturers of other consumer goods," which includes clothing, the following own-price elasticity of demand for imports into Canada were obtained:

- Estimated value = -3.4 (Kreinen, 1967, Table 4, p. 515)
- Estimated value = -3.15 (Yadav, 1975, Table 2, p. 416)
- Estimated value = -3.176 (Yadav, 1977, Table 2, p. 708).

The relationship between the compensated own-price elasticity of demand for imports of a good $M^*_I$, the compensated own-elasticity of total demand for the good $N^*_I$, and the elasticity of domestic supply $E^*_S$ is:

$$ E^*_S = N^*_I \left( \frac{Q^*_T}{Q^*_I} \right) $$

where:
- $Q^*_T$ = total quantity demanded
- $Q^*_I$ = the quantity imported
- $Q^*_S$ = the quantity of clothing domestically supplied in Canada
- $Q^*_T/Q^*_I$ = approximately 3 and
- $Q^*_S/Q^*_I = 2$. 


If \( N_{1}^d \) is assumed to be -0.5 and \( R^a = 1.0 \), then the estimate of \( N_{1}^d \) is -3.5. This estimate is entirely consistent with the empirical estimates of this parameter (see fn. 10).

12The average wage earned by a clothing worker in Canada in December 1979 was C$190.11 per week, or $9,885.72 per equivalent man-year (Canada, Statistics Canada, 1980, Table 2).

13From Glenday, Jenkins and Evans, 1982, Table 3, p. 48, it can be seen that the total present value over 5 years of the economic costs of adjustment for displaced textile workers in the Sherbrooke region (which is a worse labour market than the Montreal area, where the clothing workers are concentrated) is on the average not more than C$14,153. This is less than the annual cost of protection per worker through bilateral quotas of $15,525. Using a general equilibrium approach, which also includes the multiplier effect on the region, it was found (ibid., p. 50) that the economic loss for displacing temporary workers was only 3.1 percent of their wage bill (annual cost $306 in 1979), although for workers employed throughout the year it could reach as high as 44.8 percent of their wages (annual cost $4,428.80). However, in both cases, the annual cost of displacing the workers was small (not more than 31.3 percent) as compared to the welfare loss from the bilateral quotas.


