T&C Trade and Dynamic Products
A specific Look at LDCs

Presentation by
Mr. Matthias KNAPPE
Senior Market Development Officer

UNCTAD Expert Group Meeting on Strengthening Participation of Developing Countries in Dynamic and New Sectors of World Trade: Trends, Issues, Policies

Geneva, 9 February 2005
Structure

Dynamic Products (clothing)

Dynamic Products in SSA?

How to Create Dynamic Products
A Special Look at the LDC Clothing Sector

- Clothing & textiles are two different sectors
- Clothing: labour intensive; Textiles: capital intensive
- LDCs hardly produce any textiles
- Technical textiles are regarded as dynamic: but non-existant in LDCs
- Clothing is most critical for LDCs & small countries
- Important for Poverty Reduction
- Easy to develop (and to lose), and thus very dynamic
Possible Definitions of Dynamic Products

- Import side: High import growth in target markets
- Export side: High export growth
- Fashion Side: Fast changing & demand intensive products
- Development side: Employment creation
- Dynamic migratory industry
Export Performance of Clothing Products

- Assessment of the trade performance of all clothing products of HS 61 and 62
- The export performance of each product at the 4 digit level over the period 1999 - 2003 is reviewed in terms of:
  - Growth of leading export products
  - The dynamics of International Demand
Clothing: Dynamic Growth of Imports

International demand:

- Positive
  - World Import Growth
  - Losses
  - Change in world market share

- Negative
  - Champions
    - Jerseys, Pullovers
    - T-Shirts
  - Achievers in adversity
    - M/B suits, jackets, trousers
  - Underachievers
    - W/G jackets, trousers
  - Losers in declining markets

Size is proportional to market share
The Easy Solution: Look at Past Growth Rates

- World Market Demand & China Export Growth.pdf
- World Market Demand & LDC growth.pdf
- But: ATC distorted trade flows (export side)
- Suppressed opportunities will show its effects now and will then slow down
Summary: Clothing Trade Dynamics 1999 - 2003

- China and LDCs export similar « dynamic » products
- LDCs world market share is 5 times lower
- China operates mainly in « champion » products, while LDCs in « underachieving » products (high demand, low market share)
- ATC third stage effect is visible
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US Apparel Imports from SSA 2001 - 2004

AGOA Performance 2001-2004

Source: Otexa; * Year endings 11/2004
Who is Using AGOA Preferences?

AGOA Exports in 2004

- Kenya: 18%
- Lesotho: 34%
- Malawi: 2%
- Namibia: 2%
- Swaziland: 15%
- Mauritius: 6%
- South Africa: 9%
- Madagascar: 12%
- Rest: 2%

Source: Otexa; * Year endings 11/2004
US Clothing Imports from Africa by Product in 2004*

Rest: 20%

Woven Shirts: 3%

Knit Shirts: 30%

Trousers: 47%

Source Otexa; * Year endings 11/2004
Summary: African Trade in T&C in 2004

- Exports to the US dominate & increased steadily from 2000: dynamic?
- 95% of all T&C exports in 2004 were clothing
- 81% of exports under AGOA
- 89% third country fabric; 11% regional fabric
- (in 2003; 84% third country; 16% regional)
- Future of third country sourcing provision vital
- Weak diversification: 80% of total SSA T&C exports to US in only 3 constraint quota categories
SSA Clothing Exports: Are These Dynamic Products?

Yes because:
- Exports increased over several years from zero
- Created employment & f.x. earnings
- Enterprises are very dynamic (Asian investors)

No, because:
- Purely driven by duty-free market access (trade policy)
- FDI driven which could as easily leave again
- Exports only in products, which were quota protected
- Neither fashion nor « creative » products were exported
Structure

Dynamic Products (clothing) → Dynamic Products in SSA? → How to create Dynamic Products
What are Dynamic Clothing Products in African LDCs?

- Products benefitting from preferential market access and easy rules of origin requirements
- FDI played a major role

But:
- Dynamic foreign investors are not linked to the local industry
- Knowledge transfer is crucial
What are Barriers and Constraints?

**Indigenous:**
- Lack of Capacity at all levels
- Distance to the main markets
- Business is driven by outside decision makers

**Exogenous:**
- Market access (Rofo when duty-free market access; high tariff in larger DCs)
- Private industry standards: Social Compliance
- Supply Chain Security
- Environmental issues
How Should Policies and Enterprises in LDCs Respond to Barriers/Constraints?

**Indigenous:**
- Increase competitiveness
- Capacity building (incl. through TA)

**Exogenous:**
- Business/trade advocacy for market access, incl. GSP & GSTP
- Effective negotiations in MTS/RTAs/FTAs
- Open FDI regulations which target technology/know-how transfer
Could ATC-affected Countries Benefit from Dynamic Products?

• Individual positive (product) examples
• But: to have an impact on employment creation & poverty a holistic reform approach is needed
• Dynamic products cannot be looked at independently from competitive environment, and from
• The MTS with its possibilities for preferential and differential treatment
Key determinants in Effective Trade Participation & Pro-development Holistic Approaches

- A holistic approach is needed, covering
  1) Competitiveness at the sector and enterprise level
  2) Trade facilitation
  3) Trade policy incentive
  4) Closer regional cooperation
  5) South-south trade development
1) Competitiveness at the Sector and Enterprise Level

- Consolidation of the industry demands a strategic approach
- Need for product and market diversification
- Knowledge about the competitive environment
- Full-package service development
- E-business developments
2) Trade Facilitation

- Overall value chain perspective
- Trade logistics
- Infrastructure development
3) Trade Policy Incentives (Distortions!)

Negative:
• Discriminatory policies against efficient competitors

Positive:
• Open market access for LDCs with meaningful RofoO
• New EU GSP scheme
• Larger DCs to provide also duty-free access
4) Closer Regional Cooperation

• Small countries will not be able to develop a vertically integrated industry
• A regional vertical approach is needed
• Working along the regional (or inter-regional) value chain: from cotton to clothing
• Present Rofo requirements demand regional cooperation
• Example: AFTEX: developing regional complementarities & exploiting synergies
5) South-South Trade Development

a) DCs as a market;
   • QUAD market: 80% of world imports; post-ATC growth rate expected to be 1-5%
   • Large DC will grow much faster
   • But high tariff protection; cultural barriers
   • GSTP could be a door-opener
b) VC cooperation to jointly tap traditional QUAD markets
   • From cotton to clothing using comparative advantages of different regions
In Sum

• Many clothing products have a high growth rate in QUAD markets
• But SSA LDCs do benefit only in traditional clothing items (very limited – dynamic?)
• In order to exploit dynamic products a holistic approach is needed consisting of:
  • Improving Competitiveness at the enterprise level
  • Trade facilitation
  • Trade policy incentives
  • Closer regional cooperation
  • South-south trade development
THANK YOU!

For more information

http://www.intracen.org/textilesandclothing

Contact:

Matthias Knappe, Senior Market Development Officer
Knappe@intracen.org

China's world market share in the sector = 27% (8% all products)

6101 Men's overcoats
6102 Women's overcoats
6103 Men's suits
6104 Women's suits, dresses
6105 Men's shirts
6106 Women's blouses & shirts
6107 Men's underpants
6108 Women's slips
6109 T-shirts
6110 Jerseys, pullovers
6111 Babies' garments
6112 Track suits, ski suits
6113 Garments, knitted or crocheted, nes
6114 Garments, knitted or crocheted, nes
6115 Panty hose
6116 Gloves
6117 Clothing accessories nes
6118 Babies' garments
6119 Gloves
6120 Clothing accessories nes
6121 Men's overcoats, o/t those of hd 62.04
6122 Women's overcoats, o/t those of hd 62.04
6201 Men's suits
6202 Women's suits
6203 Men's shirts
6204 Women's blouses & shirts
6205 Men's singlets, pyjamas
6206 Women's singlets, pyjamas
6207 Men's singlets, pyjamas
6208 Women's singlets, pyjamas
6209 Babies' garments
6210 Garments
6211 Track suits, ski suits
6212 Brassieres, girdles
6213 Handkerchiefs
6214 Shawls, scarves
6215 Ties, bow ties and cravats
6216 Men's underpants
6217 Clothing accessories nes
6218 Women's underpants
6220 Men's overcoats, o/t those of hd 62.03
6221 Women's overcoats, o/t those of hd 62.03
6222 Men's suits, dress
6223 Women's suits, dresses
6224 Women's blouses, shirts
6225 Men's shirts
6226 Women's shirts
6227 Women's underpants
6228 Men's underpants
6229 Women's overcoats, o/t those of hd 62.04
6230 Men's overcoats, o/t those of hd 62.03
6231 Men's suits, dress
6232 Women's suits, dresses
6233 Women's blouses, shirts
6234 Men's shirts
6235 Women's shirts
6236 Women's underpants
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6296 Women's blouses, shirts
6297 Men's shirts
6298 Women's shirts
6299 Women's underpants
6300 Men's underpants
6301 Women's overcoats, o/t those of hd 62.04
6302 Men's overcoats, o/t those of hd 62.03
6303 Men's suits