Business for Development

Trade in Textiles and Clothing
Challenges for Africa

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Structure

African Trade in T&C

7 Challenges For Africa

Finding Responses
US Imports from SSA 2001 - 2003

Source: OTEXA
Who is using AGOA Preferences?

Total Export to US in 2003 Using AGOA

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

Source: OTEXA
US Apparel Imports from Africa by Product

- Cotton Trousers (347/348) 41%
- MMF Trousers (647/648) 8%
- Cotton Shirts (338/339) 19%
- MMF Shirts (638/639) 8%
- Other Apparel 24%

Source: OTEXA
Summary: African Trade in T&C

- Exports to the US dominate & increased steadily from 2000
- 95% of all T&C exports in 2003 were clothing
- 63% of exports under AGOA
- 84.1% third country fabric; 15.9% regional fabric
- Future of third country sourcing provision vital
- Weak diversification: 73% of total SSA T&C exports to US in constraint quota categories
- Examples of categories 347/348 Cotton Trousers
Structure

African Trade in T&C → 7 Challenges For Africa → Finding Responses
1. Challenge: Removal of the Quota System

- 1 January 2005: Integration of T&C into the normal WTO rules after 30 years of restrictions
- Artificial advantages will disappear and existing trade patterns will “blow up”
- Companies will gain market share based on competitiveness rather than quotas
- Quota-free & AGOA preferences attracted Asian investment operating in isolation (no roots & linkages)
- But: What after loss of quota-free benefits?
Prices will fall further: More supply and quota rents disappear


US$/sme

1.65 2.2 2.31 2.4 2.41 2.35 2.33 2.23 2.18 2.14 1.89


Source: Robin Anson, Director Textiles Intelligence; ITMF, Dresden October 2003; www.textilesintelligence.com
<table>
<thead>
<tr>
<th>Country</th>
<th>347/348</th>
<th>647/648</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>7.2</td>
<td>2-3</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>18-19</td>
<td>5</td>
</tr>
<tr>
<td>Cambodia</td>
<td>8.3</td>
<td>-</td>
</tr>
<tr>
<td>Philippines</td>
<td>10-12</td>
<td>-</td>
</tr>
<tr>
<td>Thailand</td>
<td>12</td>
<td>10</td>
</tr>
</tbody>
</table>

* February 2004  
Source: Own research
US Imports from China: Expected Price Change due to quota removal

Quota-free Impact

Source: Emergingtextiles.com
## Quota Fill Rates Cotton Trousers (347)

23 countries under quota not in Africa & LA

<table>
<thead>
<tr>
<th>Country</th>
<th>Fill Rate</th>
<th>Country</th>
<th>Fill Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>88%</td>
<td>China</td>
<td>88%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>91%</td>
<td>Bangladesh</td>
<td>87%</td>
</tr>
<tr>
<td>Turkey</td>
<td>83%</td>
<td>Indonesia</td>
<td>98%</td>
</tr>
<tr>
<td>India</td>
<td>92%</td>
<td>Malaysia</td>
<td>98%</td>
</tr>
<tr>
<td>Philippines</td>
<td>100%</td>
<td>Korea</td>
<td>89%</td>
</tr>
<tr>
<td>Cambodia</td>
<td>81%</td>
<td>U.A.E.</td>
<td>99%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>86%</td>
<td>Taiwan(PofC)</td>
<td>83%</td>
</tr>
<tr>
<td>Macau</td>
<td>85%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Emergingtextiles.com
Post-2004 Sourcing Pattern

Likely Post 2004 Sourcing Pattern

Number of Countries

Under Quota   Year 2005/6   Year 2010

Year

Source: US Department of Commerce: Report to the Congressional Textile Caucus on the administration's efforts on textile issues; Washington, September 2002
US T&C Imports by Region in 2002

U.S. Textile & Apparel Imports By Region

- NAFTA: 20.17%
- CBI: 10.00%
- South America: 1.30%
- E.U.: 5.37%
- South Asia: 15.26%
- SSA: 0.79%
- Middle East: 3.42%
- Russia & E. Europe: 1.36%
- Asia: 35.27%

US Apparel imports form SSA in 2003 rose to 2.1% of total apparel imports

Source: USAITA and OTEXA

What remains: Duty advantage

<table>
<thead>
<tr>
<th></th>
<th>Cotton</th>
<th>MMF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knit Shirts</td>
<td>15.7%</td>
<td>28.9%</td>
</tr>
<tr>
<td>Sweaters</td>
<td>17.1%</td>
<td>32.5%</td>
</tr>
<tr>
<td>Trousers</td>
<td>16.7%</td>
<td>28.1%</td>
</tr>
</tbody>
</table>

DDA aims at reducing high tariffs, tariff peaks and tariff escalation

Source: OTEXA
Erosion of Benefits: EU FTAs & RTAs

• EU envisaged a Euro-Mediterranean Zone
• Diagonal cumulation: Use fabrics from Egypt, trims from Turkey, assemble in Morocco and export duty-free to EU
• But: all countries need to have FTAs among them in place with identical rules of origin requirements
• Joint competitive advantage from the entire region: value chain will remain close to Europe
Erosion of Benefits: US FTAs & RTAs

CAFTA Example of US T&C Trade Policy

- 15% of US Apparel Imports (14% for 347/348)
  CBI: $2.1 garment imports/$1 yarn/fabric export
  Asia: $14.74 garment imports/$1 yarn/fabric exports
  LDCs: $234 garment imports/$1 yarn/fabric imports
- Cafta Yarn-forward rule of origin with NAFTA cumulation
- For Nicaragua: Tariff Preference Levels of 100 mio SME to use third-country inputs (45% of AGOA exports)
3. Challenge: Imposition of New Rules (FTAs, AGOA, Security)

- No quota but duties: no visa & no RofO; preferential benefits: visa & RofO
- US Customs Textile Production Verification Visits: enterprise record keeping requirements (2003: Lesotho, Swaziland, Botswana, Madagascar)
- US Customs-Trade Partnership Against Terrorism: Manufacturer monitoring to include security compliance
- Logistics: US Advance Manifest Rules: Vessel: 24 hours prior to port landing
4. Challenge: Use of Trade Remedies

• Safeguards (fairly traded imports).
• Antidumping & countervailing duties (unfairly traded imports).
• T&C products as targets for retaliation in dispute settlement cases.
5. Challenge: Requirements Imposed by Buyers

- Codes of Conduct - Ethical Sourcing
- Social sourcing as a criteria for trade.
  1. No child labour
  2. Working conditions
  3. No forced labour
  4. Compensation
  5. No discrimination
  6. Working hours
  7. Minimum wages
  8. Freedom of associations

- ECO Labelling: Remain voluntary but can reduce market access
6. Challenge: China as a WTO Member

- US clothing imports from China: 2002: +60%; 2003: +46%
- Japan: In 2001 85% of all clothing imports from China
- Australia: 69% of clothing and 21% of all textile imports from China
- EU: 3rd stage liberalisation: Imports from China increased by 46% (value) and 192% (volume)
- However, accession protocol introduces possibility of new quotas against China
7. Development of Cotton & Value-added Products

- Market Distortion by Subsidies (challenged by West Africa Initiative & Brazil)
- Stable Demand & Growing Supply of Cotton
- Price Volatility & Concentrated Mill demand
- Is there a necessary link between cotton & T&C?
- Regional Cotton & Value-added Development
Summary: / Challenges

1. Loss of Quota-free benefits
2. Erosion of Duty-free benefits
3. Imposition of new rules
4. Use of trade remedies
5. Changing Buyers Requirements
6. China as a WTO member
7. Cotton in Africa
8. Mitumba
What can Africa do?

• Strategic Response: Critical country mass
• Regional/Sub-regional Partnership in Africa
• Regionally integrated industry
• Link foreign investors to local business
• Short term: Analyse/ Improve the logistical value chain
• Medium term: capacity building in key areas of clothing business
ITC’s TA to the Clothing Sector

• Need 1: Sector Strategy Development
  Value Chain Analysis
• Need 2: Know your competitors
  The « FiT »
• Need 3: Sourcing Information and SCM skills
  Supply information and skills building
• Need 4: Understanding changing markets
  Enhanced Garment-Maps
• Need 5: E-Applications in T&C
  A Business Guide
• Need 6: Intra-regional trade along the value chain
  South South Trade Development Approach
THANK YOU!