Business for Development

Trade in Textiles and Clothing
Challenges for Asia
Will T&C trade become more complicated?

Presentation by
Mr. Matthias KNAPPE
Senior Market Development Officer
Manila, the Philippines, 21 October 2004
The importance of the product sector of T&C for Developing Countries

- World trade in T&C 353 billion US$ (clothing 201 billion US$)
- Accounts For 7% of Global Merchandise Trade & 14% of Employment. Share of clothing in total merchandise trade: LA 10%, Africa 21%; Asia 9%
- Many DCs (extremely) dependent on clothing exports
Asian export concentration

Textile and clothing exports as a share of total merchandise exports

Source: World Bank
Dependence on Quad markets

Percent of clothing exports to Quad markets

<table>
<thead>
<tr>
<th>Country</th>
<th>1992</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sri Lanka</td>
<td>97%</td>
<td>98%</td>
</tr>
<tr>
<td>India</td>
<td>87%</td>
<td>79%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>99%</td>
<td>98%</td>
</tr>
<tr>
<td>Thailand</td>
<td>93%</td>
<td>87%</td>
</tr>
<tr>
<td>Philippines</td>
<td>95%</td>
<td>86%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>93%</td>
<td>87%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>80%</td>
<td>69%</td>
</tr>
<tr>
<td>China</td>
<td>58%</td>
<td>41%</td>
</tr>
</tbody>
</table>

Source: World Bank
Summary: Asian Trade in T&C

- High diversity of players; large integrated industries vs. small CMT suppliers
- 50% of world textile & 54% of world clothing exports originate from Asia (2003)
- Very high dependence on QUAD markets
- Distance to markets requires additional efforts & « services »
Structure

Asian T&C Trade → 7 Challenges For Asia → Finding Responses
1. Challenge: Prices will fall further
More supply and quota rents disappear


Source: Robin Anson, Director Textiles Intelligence; ITMF, Dresden October 2003; www.textilesintelligence.com and Textile Outlook International No. 110 March-April 2004
Japan: Import Price Development for Clothing

### Japan: Unit Price Development - Selected Categories

<table>
<thead>
<tr>
<th>Year</th>
<th>Price - US $ Per Piece</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2000</td>
<td>19.6</td>
</tr>
<tr>
<td>Year 2001</td>
<td>18.4</td>
</tr>
<tr>
<td>Year 2002</td>
<td>17.9</td>
</tr>
<tr>
<td>Year 2003</td>
<td>18.4</td>
</tr>
</tbody>
</table>

- **Clothing**
Japan Import Price Development Textiles

Japan: Unit Price Development - Selected Categories

Japan: Unit Price Development - Selected Categories

Price - US $ Per Piece

Year 2000  Year 2001  Year 2002  Year 2003

Textile
Post-2004 Sourcing Pattern

Likely Post 2004 Sourcing Pattern

Source: US Department of Commerce: Report to the Congressional Textile Caucus on the administration's efforts on textile issues; Washington, September 2002
Challenge 2: Complex System of FTAs & RTAs favouring nearby countries

- Erosion of preferential benefits but efforts to support regional suppliers
- US: CAFTA, Andean & AGOA
  - 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
- EU: envisages a Euro-Mediterranean Zone
- Diagonal cumulation: Use fabrics from Egypt, trims from Turkey, assemble in Morocco and export duty-free to EU
3. Challenge: Use of Trade Remedies

- Safeguards (fairly traded imports): US Section 201
- Antidumping duties (unfairly traded imports): mainly yarns, fabrics & made ups; trade chilling effect
- Countervailing duties: Section 301: Unfair trade practices against US companies
- T&C products as targets for retaliation in dispute settlement cases.
- Possibility of new quotas against China
- 1) Special T&C Safeguards until 31/12/2008
- 2) Product Specific Safeguards until 10/12/2013 (all products, not only T&C)
Possibility for China special T&C Safeguards

- Until 31/12/2008 for ATC products only
- Invoked by any member by asking for bilateral consultations if market disruption (threaten to impede the orderly development of T&C trade)
- Request for consultations implies immediate limitation of exports at a pre-determined level: (7.5% (6%) above the amount imported during the last 12 month)
- Does not necessarily require China's agreement
- No WTO notification; no multilateral surveillance
- Duration: max. 12 months
- Not to remain in effect beyond one year without reapplication, unless agreed
China Textile Safeguard implementation

- Has been invoked by the US
  - On 23 December 2003: on categories 222 (knitted fabrics), 350-650 (cotton and man-made fiber dressing gowns and bathrobes) and 349-649 (cotton and mmf brassieres)
  - On 22 Oct 2004 treat-based on socks (332, 632) pending consultations with China
- EU industry requested quota on category 35 (synthetic woven fabrics)
- US industry made further requests to CITA
China: the “Transitional Product-Specific” Safeguard Mechanism

- Available until 10 December 2013 for all products, incl. all T&C
- When imports threaten or cause market disruption
- Measure taken after consultations, except in critical circumstances when provisional measure immediate
- Safeguard measure can be a quota, but can take other forms, including withdrawal of concession
- Must be notified to the Committee on Safeguards
- Duration: "only for such period of time as may be necessary to prevent or remedy the market disruption"
- After 2 or 3 years (relative or absolute increase in imports), China has right to suspend application of substantially equivalent concessions or obligations
4. Challenge: Increased Political Pressure against potential winners

- US clothing imports from China: 02: +60%; 03: +46%
- Japan: In 2003 81% of all clothing imports from China*
- T&C Lobby Pressure: Istanbul declaration
- Adjustment-Related Issues and Challenges:
  3 August Informal Consultations by WTO DG
  CTG meeting 01/10/2004: Formal request to conduct study on adjustment related issues and costs; CTG to establish a work programme on dealing with the findings and to help LDCs & small vulnerable economies
- No conclusions on the request
- 20-10-04 request form Tanzania on behalf of LDCs: WTO to identify problems, analyse scenario & suggest measurers so that LDC can maintain market share

* Source: WTO; 91% according to Textile Outlook International No. 111, May-June 2004
5. Challenge: Continued ATC discussions: Market access before and after quotas

- No carry-forward in 2004 (5-6% of trade at stake)
- EU enlargement and quota re-introduction
- All ATC-related admin arrangements will cease to exist as from 1.1.2005: No Visa/export license
- Transshipment issues (verification visits)
- Non WTO member or preferential benefits: visa, admin requirements & US Customs visits
- All 2004 shipments need a visa, regardless of date of entry in US/EU;
- US:CITA reserves the right to deny entry of goods that have been shipped in excess of 2004 limits
- EU: Until 31.03.05 Customs will check quota adherence after that free entry
CTG: Major Review of ATC Implementation

TMB Chairman presented comprehensive report; 5 areas will be further discussed on 18/10/04:

• ATC Integration process
• EU enlargement
• Use of transitional safeguard mechanism
• Carry-Forward
• Administrative arrangements for quota administration and implementation
6. Challenge: DDA related issues for T&C

- Reduction of Tariffs under the DDA: high tariffs, tariff peaks and tariff escalations
- A key trade policy instrument, basis for GSP, preferential treatment, rules of origin
- Thereby affecting trade preferences
- Cotton: Market Distortion by Subsidies (challenged by West Africa & Brazil)
  Market access under Agriculture; Prioritisation of Cotton as Sectoral Initiative
  Development aspects with WB, IMF, FAO & ITC
7. Challenge: Imposition of New Rules (FTAs, RTAs, Security)

- US Customs-Trade Partnership Against Terrorism: Manufacturer monitoring to include security compliance
- Envisaged a supply chain security covering manufacturer monitoring
- Logistics: Mandatory advanced cargo electronic information: That could add extra transit time
8. 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
Summary: / Challenges

1. Price reduction
2. Complex patchwork of FTAs
3. Use of trade remedies
4. Increased political pressure on « winners »
5. Continued ATC discussions
6. DDA challenges
7. Imposition of new rules
8. Changing buyers’ requirements
Structure

Asian T&C Trade → 7 Challenges For Asia → Finding Responses
What can Asia do?

- Strategic response at country regional level
- Rules of Origin require regional cooperation
- Regional Partnership in ASEAN: AFTEX
- AFTEX Trade Fair Source-It
- Countries use their advantage to complement each other
- Trade development among DCs along the regional/interregional value chain
- Jointly penetrate traditional markets and exploit the growing ASEAN market
What can ITC do for you

1.- Sector Strategy Development

2.- Understanding it’s own and competitors’ performance

3.- Developing fabric sourcing skills to become “full-package” suppliers

4.- Understanding changing markets

5.- Applying e-applications in the T&C sector

Implementing tailor-made market penetration approaches in line with buyer requirements

Sales (+Marketing, and Services)

Manufacturing

Outbound Logistics

Customs-GSP/Quota

Export Clearance

Inbound Logistics

Customs, Import Clearance

Sourcing

New ITC T&C website

Workshops

Tailored Product & Market Development

“SHAPE”

“The FiT”

Sourcing Guide and database

Business Guide in e-commerce for T&C

ITC Tailored Consultation

What can ITC do for you
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!