Business for Development

Trade in Textiles and Clothing
Challenges for Latin America

Presentation by
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International Trade Centre UNCTAD/WTO

Rio de Janeiro, Brazil, 9 June 2004
Structure

Latin American Trade in T&C

7 Challenges For LA

Finding Responses
US Imports from CBI by Product in 2003

% of Share in Apparel Exports in Volume

- Knit Shirts 338: 11%
- W/G Knit Blouse 339: 8%
- Cot. M/B Trouser 347: 6%
- W/G Slacks 348: 6%
- Cot. MNghtwr/PJs 351: 3%
- Cotton Underwear 352: 30%
- Other MMF App. 659: 4%
- MMF Underwear 652: 3%
- MMF Knit Shirts 638: 5%
- Rest: 24%

Source: OTEXA
## US Imports from Andean Countries by Product in 2003

### % of Share in Total Apparel Exports (ANDEAN)

<table>
<thead>
<tr>
<th>Product</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knit Shirts 338</td>
<td>12%</td>
</tr>
<tr>
<td>W/G Knit Blouse 339</td>
<td>16%</td>
</tr>
<tr>
<td>Cot. M/B Trouser 347</td>
<td>11%</td>
</tr>
<tr>
<td>W/G Slacks 348</td>
<td>8%</td>
</tr>
<tr>
<td>Cotton Underwear 352</td>
<td>11%</td>
</tr>
<tr>
<td>Rest</td>
<td>42%</td>
</tr>
</tbody>
</table>

Source: OTEXA
### US Imports: Unit Value selected categories 2002

**Imports under Selected Quota Categories in Average Unit Value**

<table>
<thead>
<tr>
<th>Category</th>
<th>CBTPA</th>
<th>Mexico</th>
<th>China</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>338</td>
<td>13.94</td>
<td>5.99</td>
<td>4.73</td>
<td>4.49</td>
</tr>
<tr>
<td>339</td>
<td>6.47</td>
<td>5.02</td>
<td>5.89</td>
<td>5.21</td>
</tr>
<tr>
<td>347</td>
<td>7.09</td>
<td>5.26</td>
<td>4.8</td>
<td>7.9</td>
</tr>
<tr>
<td>348</td>
<td>3.47</td>
<td>1.64</td>
<td>3.32</td>
<td>1.16</td>
</tr>
<tr>
<td>352</td>
<td>1.31</td>
<td>1.31</td>
<td>1.52</td>
<td>1.94</td>
</tr>
<tr>
<td>638</td>
<td>4.42</td>
<td>4.42</td>
<td>4.45</td>
<td>5.12</td>
</tr>
<tr>
<td>647</td>
<td>3.78</td>
<td>3.78</td>
<td>3.36</td>
<td>5.12</td>
</tr>
<tr>
<td>649</td>
<td>7.03</td>
<td>7.03</td>
<td>11.15</td>
<td>10.32</td>
</tr>
<tr>
<td>Others</td>
<td>2.1</td>
<td>2.21</td>
<td>2.84</td>
<td>3.24</td>
</tr>
</tbody>
</table>

Source: US-ITC
Summary: LA Trade in T&C

- Exports to the US dominate but mixed performance since 2000
- Mainly assembly operations taking advantage of trade preferences
- Initial preference programme was vital to get started, but now it is a hindrance to grow
- Concentration on hot quota categories
- Targeting the lower end of the market
- Examples of categories 338/339 Knit Shirts (1/3 of total US imports comes from CBI)
Structure

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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 & duty-free preferences attracted Asian investment operating in isolation
- But: What after loss of quota-free benefits?
Prices will fall further:
More supply and quota rents disappear


US$/sme

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>1.65</td>
</tr>
<tr>
<td>1994</td>
<td>2.2</td>
</tr>
<tr>
<td>1996</td>
<td>2.31</td>
</tr>
<tr>
<td>1998</td>
<td>2.41</td>
</tr>
<tr>
<td>2000</td>
<td>2.33</td>
</tr>
<tr>
<td>2002</td>
<td>1.89</td>
</tr>
</tbody>
</table>

Source: Robin Anson, Director Textiles Intelligence; ITMF, Dresden October 2003; www.textilesintelligence.com
<table>
<thead>
<tr>
<th>Country</th>
<th>338/339</th>
<th>638/639</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>7.5</td>
<td>5</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>5.5</td>
<td>3</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Cambodia</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Philippines</td>
<td>10-12</td>
<td>-</td>
</tr>
<tr>
<td>Thailand</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>China</td>
<td>15**</td>
<td></td>
</tr>
</tbody>
</table>

* February 2004 Source: Own research
** in 2003; Source: IBERC Group
US Imports from China: Expected Price Change due to quota removal

Source: Emergingtextiles.com
Quota Fill Rates Knit Shirts (338/339)
22 countries under quota; LA: only Brazil

<table>
<thead>
<tr>
<th>Quota Fill rates</th>
<th>338/339</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>88%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>91%</td>
</tr>
<tr>
<td>Turkey</td>
<td>83%</td>
</tr>
<tr>
<td>India</td>
<td>92%</td>
</tr>
<tr>
<td>Philippines</td>
<td>100%</td>
</tr>
<tr>
<td>Cambodia</td>
<td>81%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>86%</td>
</tr>
<tr>
<td>Macau</td>
<td>85%</td>
</tr>
<tr>
<td>China</td>
<td>88%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>87%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>98%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>98%</td>
</tr>
<tr>
<td>Korea</td>
<td>89%</td>
</tr>
<tr>
<td>U.A.E.</td>
<td>99%</td>
</tr>
<tr>
<td>Taiwan (PofC)</td>
<td>83%</td>
</tr>
<tr>
<td>Brazil</td>
<td>61%</td>
</tr>
</tbody>
</table>

Source: OTEXA and Emergingtextiles.com
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
US Clothing Imports by Region in 2003

Source: USAITA and OTEXA

What remains: Duty advantage

<table>
<thead>
<tr>
<th>Item</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: US FTAs & RTAs

CAFTA Example of US T&C Trade Policy

- 23% of US Apparel Imports from LA (incl. Mexico 50% form CA for 338/339)
  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
- 81% of US T&C exports go the CBI & NAFTA
- Cafta Yarn-forward rule of origin with NAFTA cumulation
- Andean Countries: Negotiation of a RTA along CAFTA lines
3. 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
4. Challenge: Use of Trade Remedies

- Antidumping & countervailing duties: mainly yarns, fabrics & made ups; trade chilling effect
- Safeguards: US Section 201
- T&C products as targets for retaliation in dispute settlement cases
- Section 301: Unfair trade practices against US companies
- China: T&C- & product-specific safeguards
5. Challenge: Imposition of New Rules (FTAs, RTAs, Security)

- No quota but duties: no visa & no RoO; preferential benefits: visa & RoO
- US Customs Textile Production Verification Visits: enterprise record keeping requirements (2003: El Salvador, Honduras, Dominican Rep.)
- US Customs-Trade Partnership Against Terrorism: Manufacturer monitoring to include security compliance
- Logistics: US Advance Manifest Rules: Vessel: 24 hours prior to port landing
6. 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
7. Development of Cotton & Value-added Products

- Market Distortion by Subsidies (challenged by West Africa)
- Brazil vs US panel on cotton subsidies
- Stable Demand & Growing Supply of Cotton
- Price Volatility & Concentrated Mill demand
- Is there a link between cotton & T&C?
- Regional Cooperation along the Cotton VC
Summary: / Challenges

1. Loss of Quota-free benefits
2. Erosion of Duty-free benefits
3. China as a WTO member
4. Use of trade remedies
5. Imposition of new rules
6. Changing buyers requirements
7. Cotton issues in the WTO
Structure

1. Latin American Trade in T&C
2. 7 Challenges For LA
3. Finding Responses
What can Latin America do?

- **Strategic Response:** Critical country mass
- **Regional/Sub-regional Partnerships**
- **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: full package
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