INNOVATION TO IMPROVE TRADE COMPETITIVENESS

Trade in Textiles and Clothing (T&C)
The Challenge of 2005

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The importance of T&C for Developing Countries (DCs)

- World trade in T&C is 353 billion US$ (clothing 201 billion US$)
- Share of clothing in total merchandise trade: LA 10%, Africa 21%; Asia 9%
- Many DCs (extremely) dependent on clothing exports
- Quota system shaped trade in T&C
In 2005 Trade in T&C will never be the same again

- Identifying market opportunities will not be sufficient anymore: value chain approach is needed
- ITC Action Plan:
  - MDS to bundle inputs from other sections
  - Mobilise partners
Structure

Trade after 2004 - T&C Market Changes

5 Needs of DCs and 5 TA responses

Cooperation with Development Partners
1 January 2005: Integration of T&C into the normal WTO rules

- 30 years of quota restrictions come to an end
- Artificial advantages will disappear and existing trade patterns will “blow up”
- Companies will gain market share based on competitiveness rather than quotas
- But tariff differences remain: no free trade in T&C
• There will be two immediate effects
1. Prices will Fall Further:  
More supply and quota rents disappear


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Source: Robin Anson, Director Textiles Intelligence; Hong Kong 3 October 2002; www.textilesintelligence.com

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Geneva, 27 November 2003

Informal Session of the Joint Advisory Group
2. 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
Expected Winners & Losers: Countries

• Countries limited by quotas will increase their exports.
• Countries not using their quotas are unlikely to benefit.
• DCs free from quotas will face intense competition.
• DCs without meaningful export quantities will have difficulties to enter world markets.
Expected Winners & Losers: Companies

- Large suppliers are favoured over SME suppliers.
- Mass products: high competition.
- The more specialised/ wider range: the lower the impact.
And Risk of New Hurdles

- ECO Labelling
- Codes of Conduct - Ethical Sourcing
- Increased patchwork of Free Trade Agreements with complex rules of origin requirements
Summary

• From a sellers to a buyers market
• Prices will fall
• Buyers will reduce the number of sources
• SMEs have to fight against economies of scale
• Companies face new possible trade hurdles
Trade after 2004 - T&C Market Changes → 5 Needs of DCs and 5 TA responses → Cooperation with Development Partners
What Buyers Want

• Vertical capabilities
• Supply Chain Management
• Full service from product design through logistics
• Low Landed costs
Changing Trade Competitiveness

- 5 Needs
- 5 ITC Responses
1st Need: A Sector Strategy  
(Action Plan)

- Develop overall country response
- Build critical country mass
- Build PPP based on strong sector associations
- Do a sector value chain analysis
1st Response: The Value Chain Analysis

- Product Develop./Design
  - Manufacturing (cut, sew & finishing)
    - Inbound logistics - Customs – Import Clearance
      - Sourcing of Raw materials /Accessories
        - Outbound logistics – Customs – GSP/Quota – Export Clearance
          - Selling & Distribution (Agents)

Obstacles – Improvements needed

Exploitable Advantages
2nd Need: Know your competitors

- Quotas stifle competition
- Now competitors are everywhere
2nd Response: The « FiT »

Programme for Competitiveness Improvement for SMEs

THE FiT
Benchmarking for SMEs in the Garments sector
3rd Need: a) Information on Sourcing
b) Supply Chain Management Skills

Cost-structure of a woven shirt up to the FOB point

75% of cost = sourcing

- Fabric: 59%
- Trimmings: 16%
- Cut & make Labour: 7%
- Other overhead: 8%
- Profit: 10%
3rd Response: Provide sourcing information and develop SCM skills

- Supply information: ITC Trade Information Services applied to Sourcing Requirements

- Skills development: Existing training material specifically adapted to the needs of garment manufacturers
4th Need: Understand changing markets & adapt products accordingly

- Numerous competitors and complex trade structure;
- Opportunities in higher-end and niche markets with value-added products;
- Exploit market potential in other developing countries, especially in a regional context.
4th Response: ITC P-Maps: Enhanced Garment Map

- Create monitoring system on business opportunities and new possible NTBs
- Identify niche markets
- Exploit growing markets
5th Need: E-trade to attract larger buyers

- Major buyers are e-connecting the VC to reduce lead time and improve control
- Customer satisfaction becomes the target
5th Response: Business Guide

• Introduce IT into garment management:
  • A Business Guide on E-Applications in the T&C Sector:
  • To be published in 2004
Summary

• 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
structure

1. Trade after 2004 - T&C Market Changes
2. 5 Needs of DCs and 5 TA responses
3. Cooperation with Development Partners
ITC Partnership with Beneficiary and Development Partners

• For many DCs garment exports are critical for employment generation and export earnings
• DCs need to be well prepared for the business and market changes
• Development partners have a responsibility to ensure that any negative impact does not undermine commitment to the DDA
After 2004: Trade in T&C will never be the same again

Many countries can retain T&C as an important export sector, but need assistance:

• Provide TA along the value chain
• Partner with ITC to provide assistance