



Business for Development

Trade in Textiles and Clothing Challenges for Latin America

Presentation by

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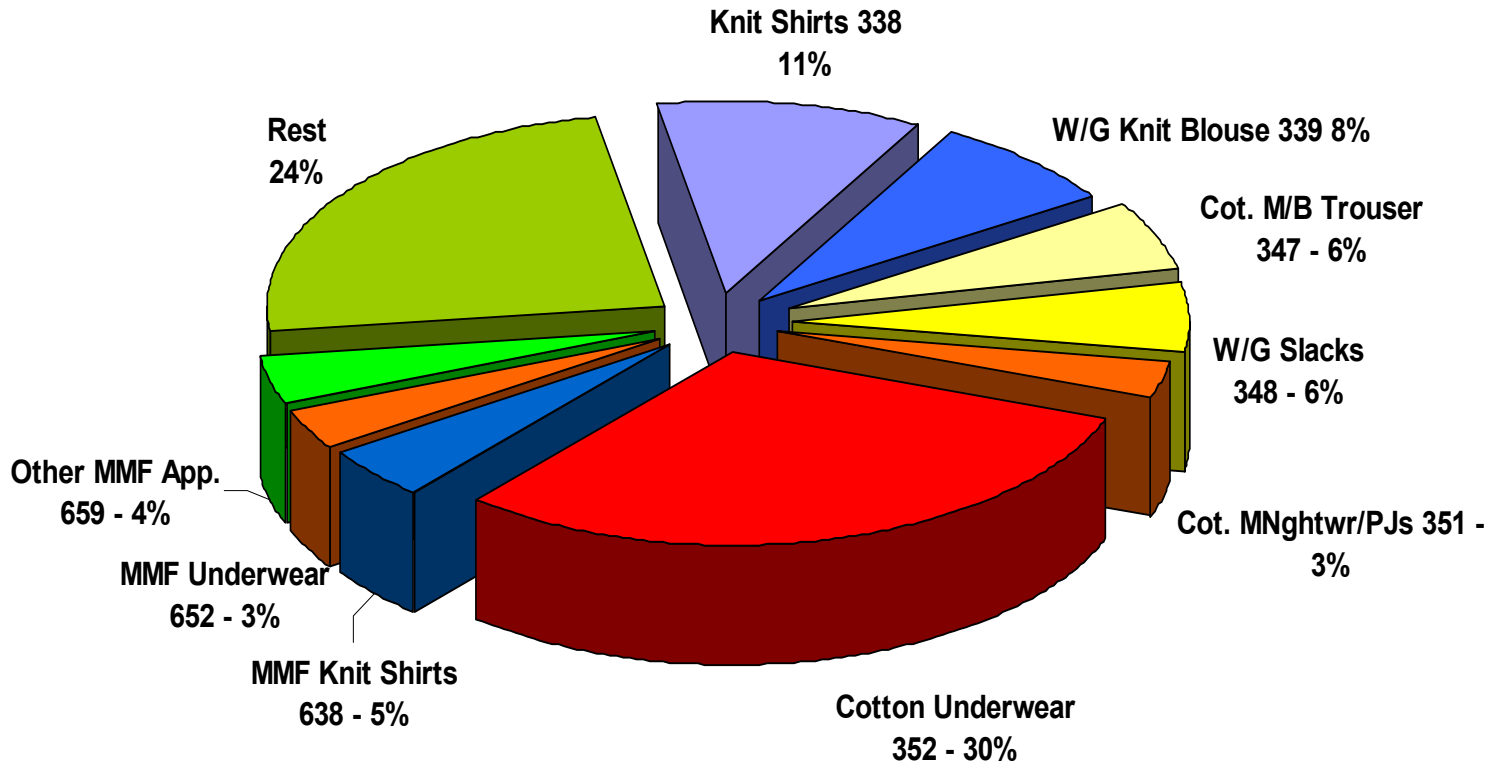
Structure





US Imports from CBI by Product in 2003

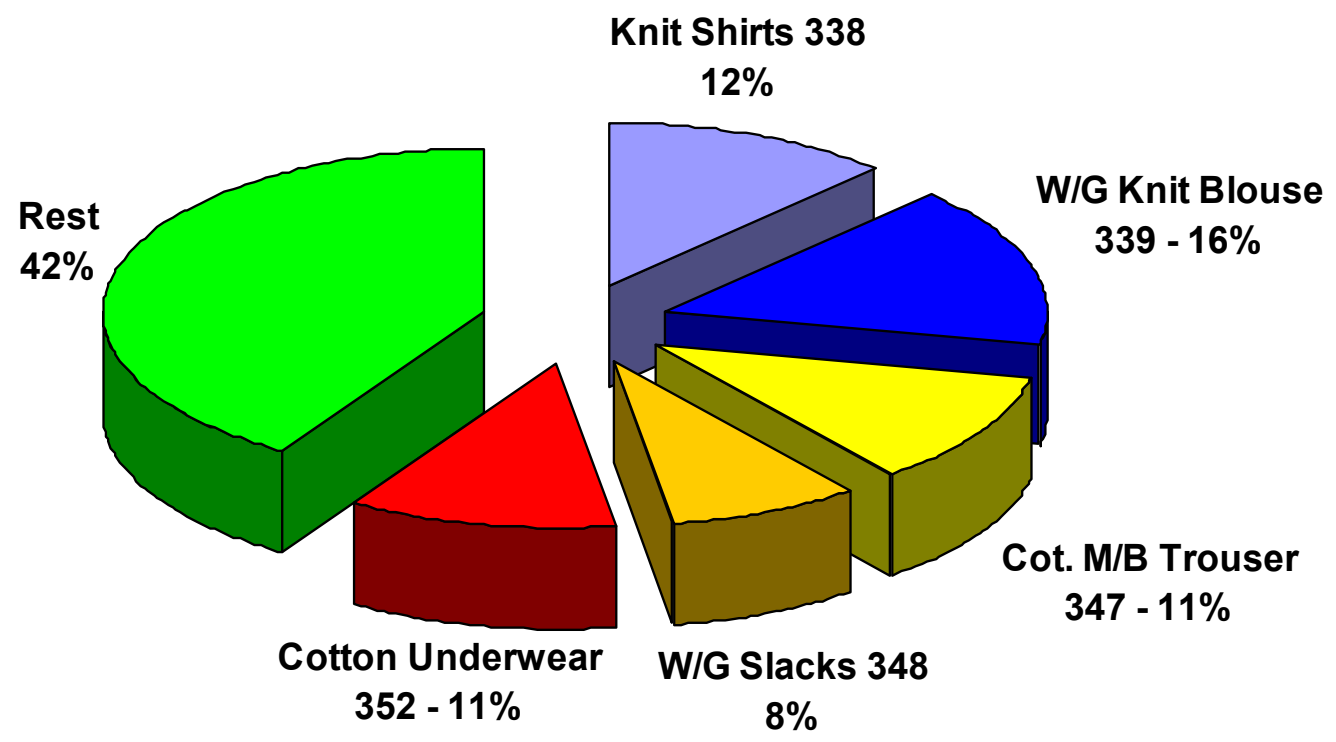
% of Share in Apparel Exports in Volume





US Imports from Andean Countries by Product in 2003

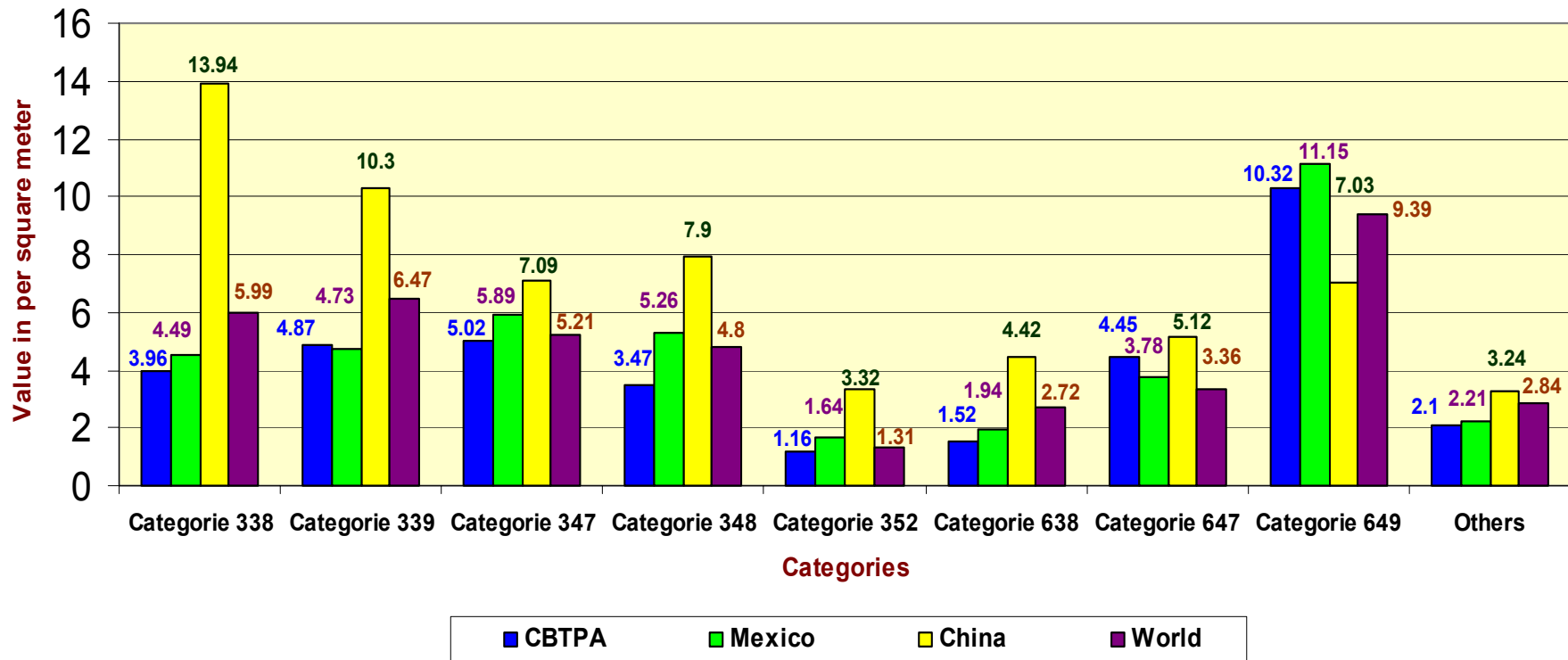
% of Share in Total Apparel Exports (ANDEAN)





US Imports: Unit Value selected categories 2002

Imports under Selected Quota Categories in Average Unit Value





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



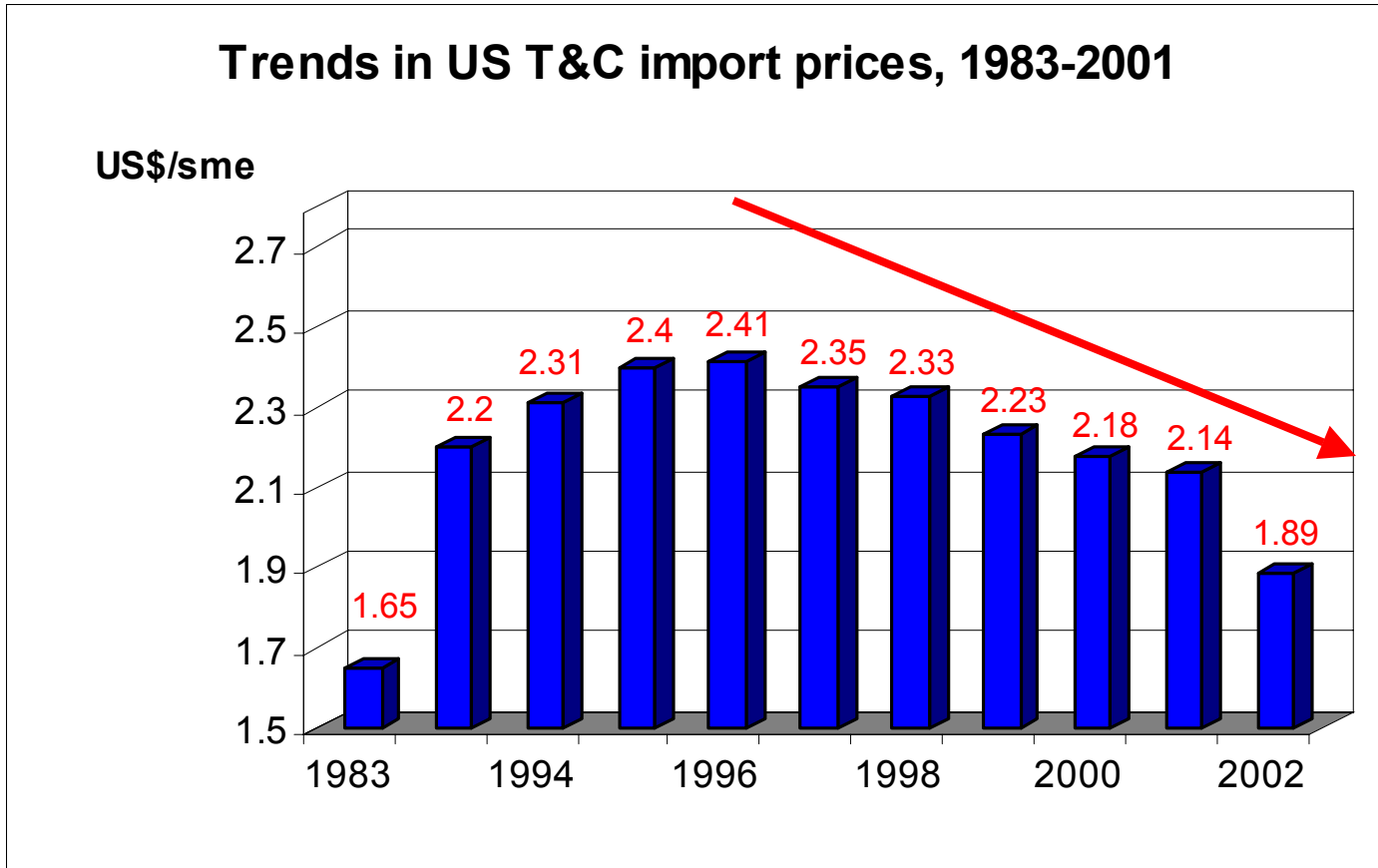


1. Challenge: Removal of the Quota System

- 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





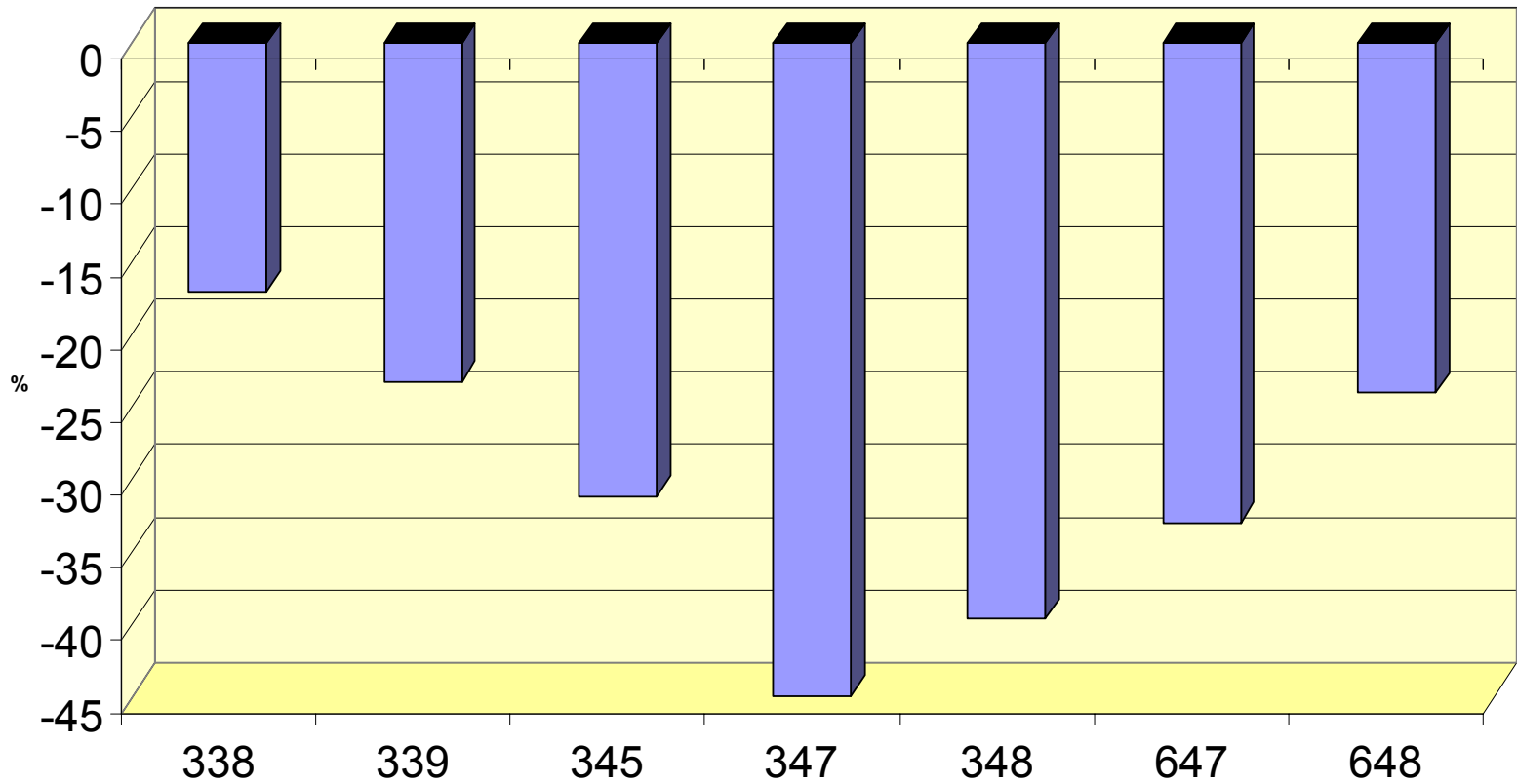
Quota costs in \$ per dozen: Cotton shirts (338/339)/MMF shirts (638/639) *

	<u>338/339</u>	<u>638/639</u>
Indonesia	7.5	5
Sri Lanka	5.5	3
Bangladesh	5	2
Cambodia	5	1
Philippines	10-12	-
Thailand	10	5
China	15**	



US Imports from China: Expected Price Change due to quota removal

Quota-free Impact





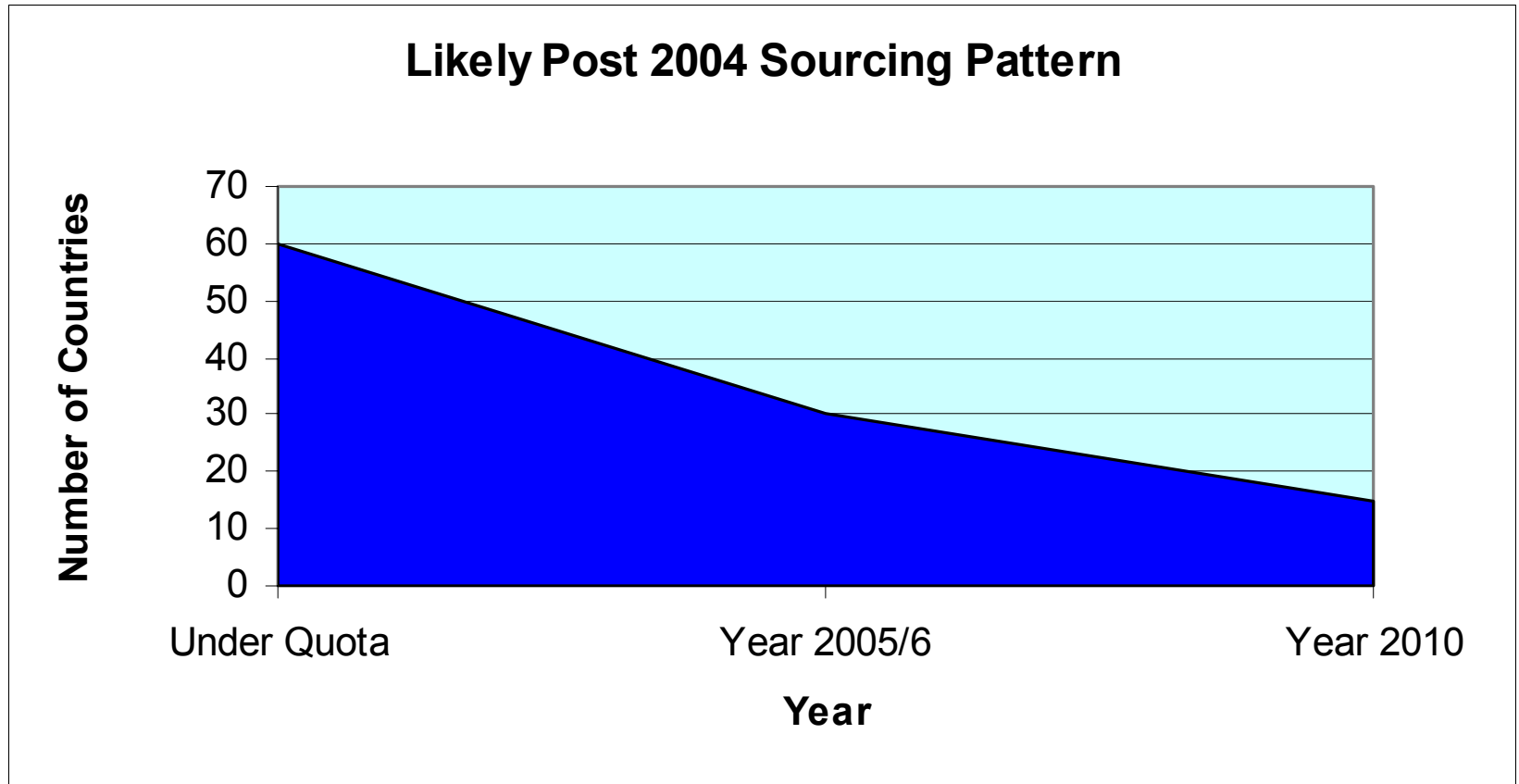
Quota Fill Rates Knit Shirts (338/339)

22 countries under quota; LA: only Brazil

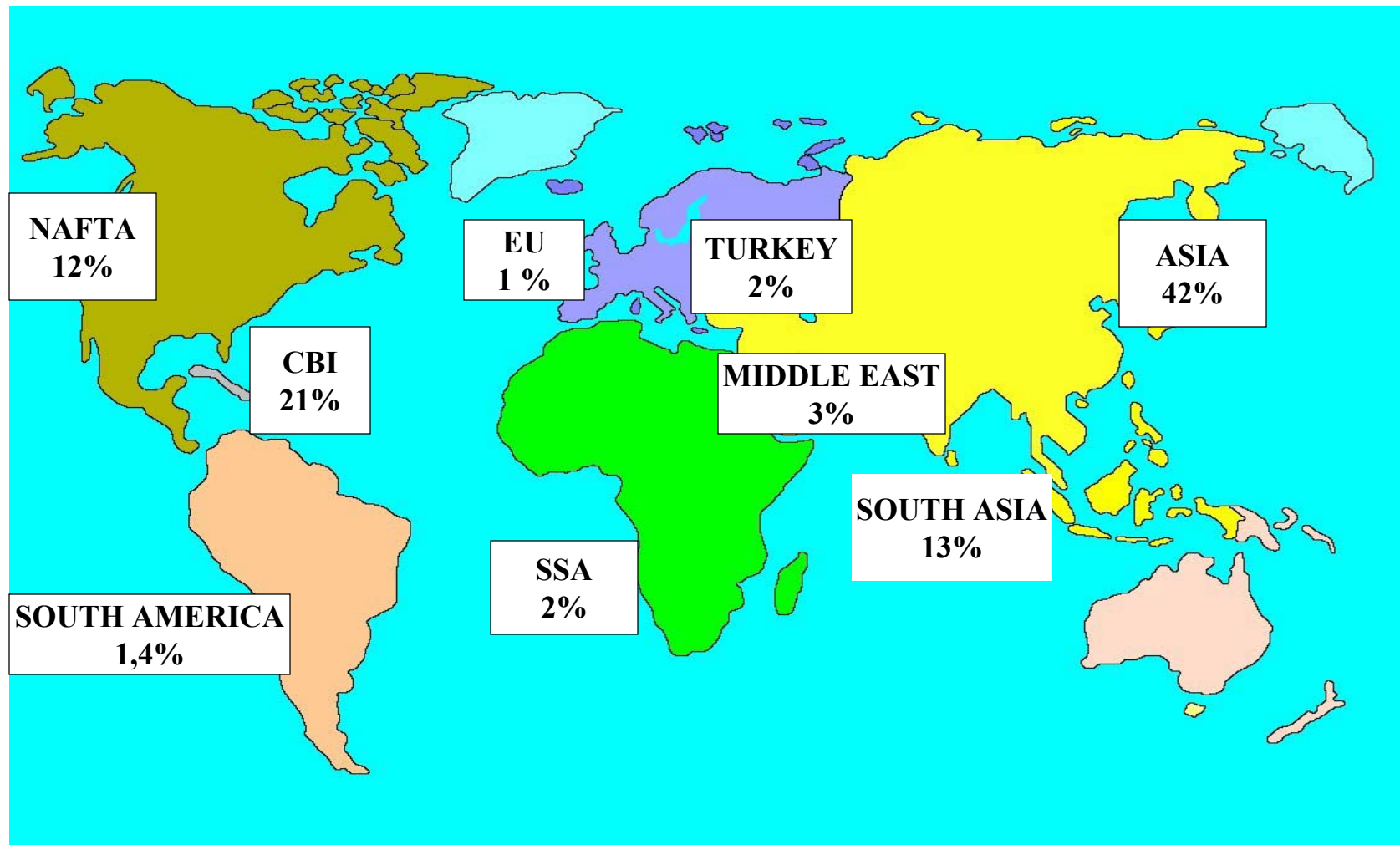
Quota Fill rates	
	338/339
Pakistan	88%
Vietnam	91%
Turkey	83%
India	92%
Philippines	100%
Cambodia	81%
Hong Kong	86%
Macau	85%
China	88%
Bangladesh	87%
Indonesia	98%
Malaysia	98%
Korea	89%
U.A.E.	99%
Taiwan (PofC)	83%
Brazil	61%



Post-2004 Sourcing Pattern



US Clothing Imports by Region in 2003





2. Challenge: Erosion of Preferential Duty-free Market Access: DDA

What remains: Duty advantage

	Cotton	MMF
Knit Shirts	15.7%	28.9%
Sweaters	17.1%	32.5%
Trousers	16.7%	28.1%

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



Erosion of Benefits: US FTAs & RTAs

CAFTA Example of US T&C Trade Policy

- 23% of US Apparel Imports from LA (incl. Mexico 50% from 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
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5. Challenge: Imposition of New Rules (FTAs, RTAs, Security)

- No quota but duties: no visa & no RofO; preferential benefits: visa & RofO
- 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
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Structure





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
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