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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

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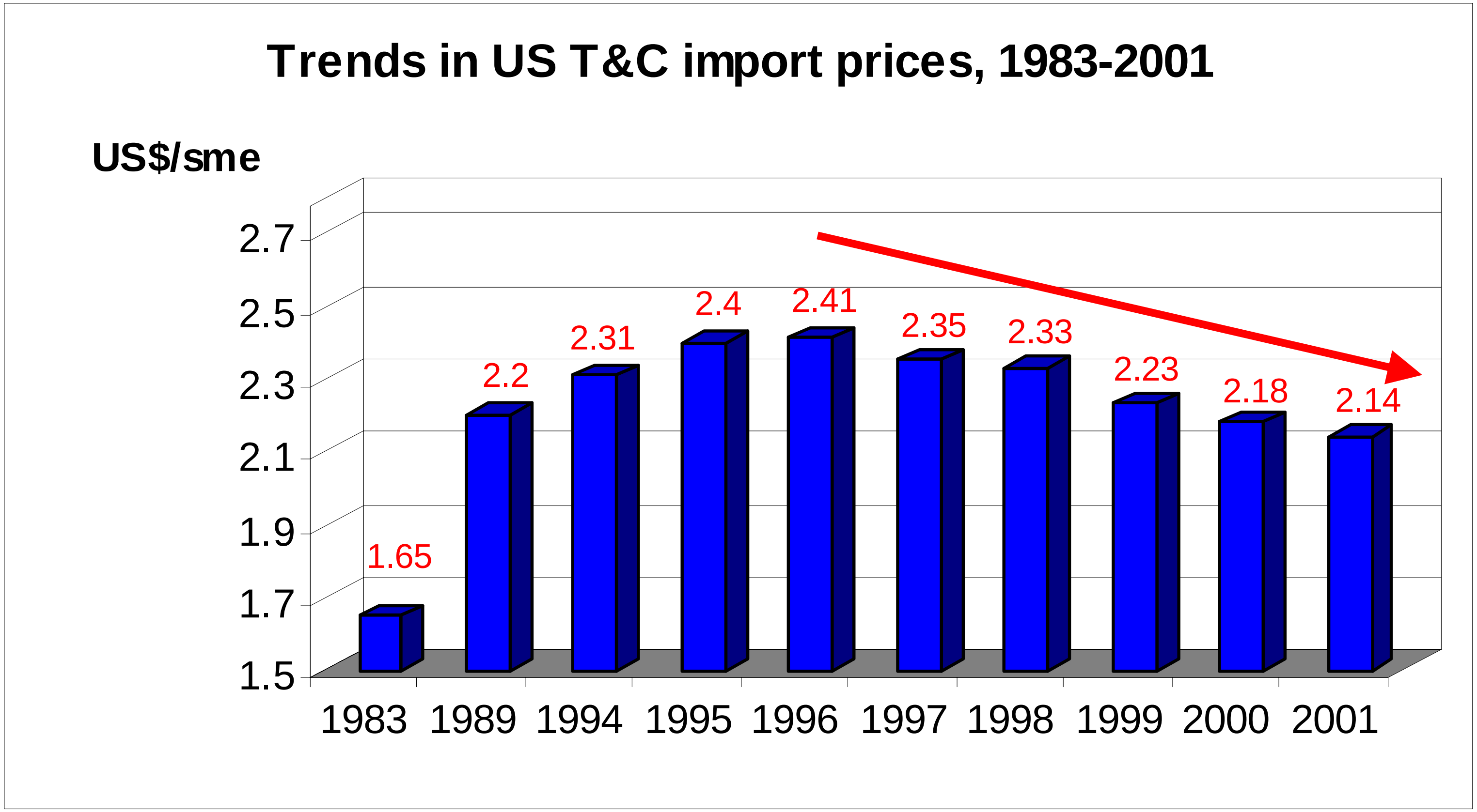
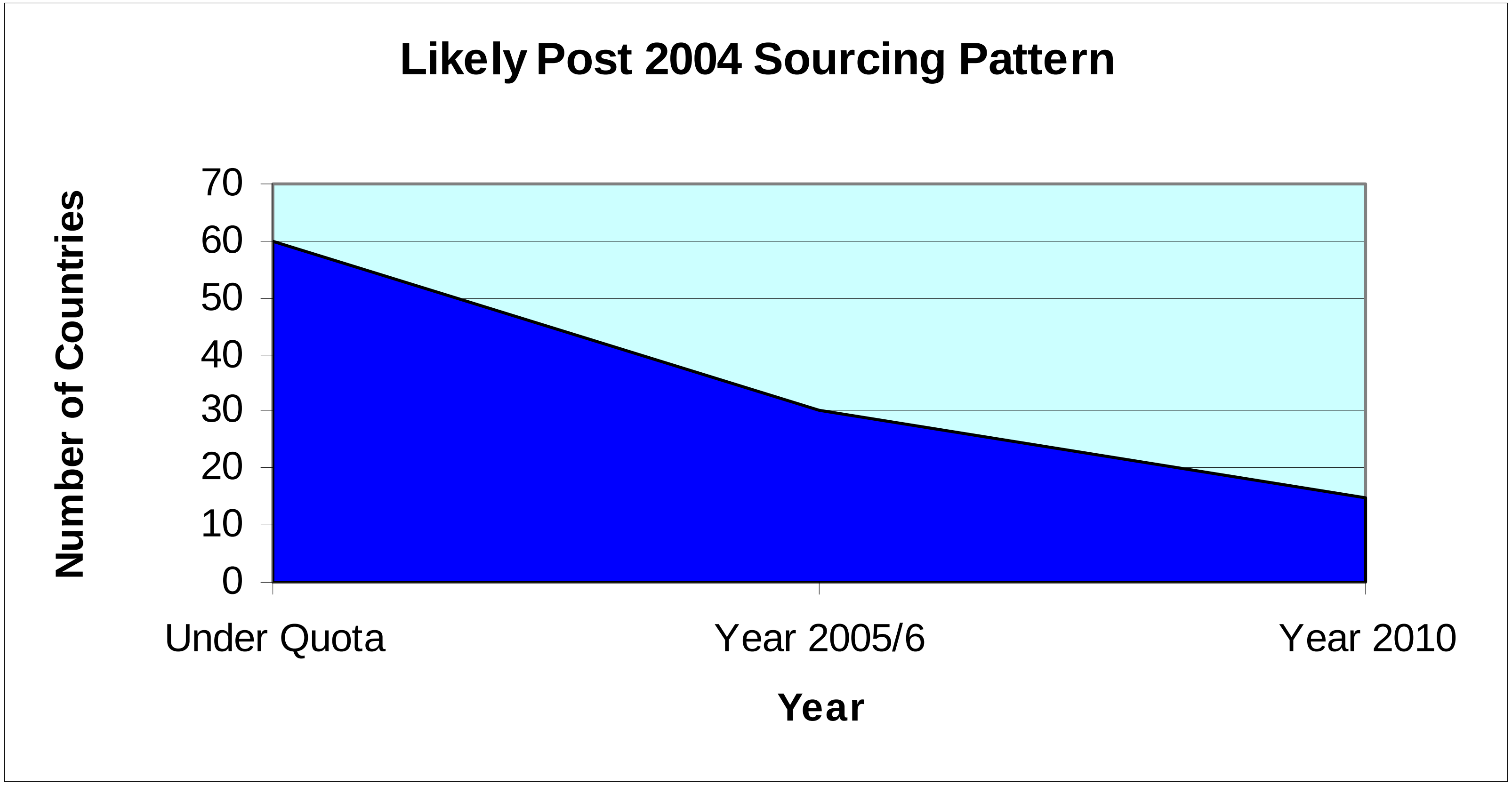
1. Prices will Fall Further: More supply and quota rents disappear



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

2. 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.

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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

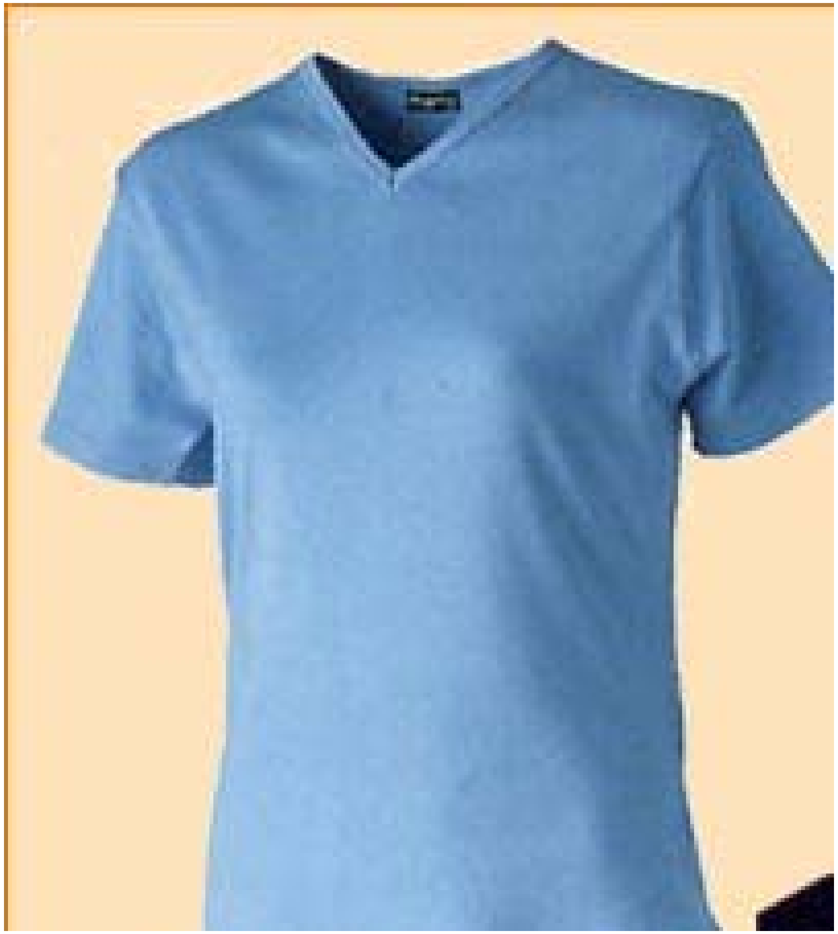
- From a sellers to a buyers market
- Prices will fall
- Buyers will reduce the number of sources
- SMEs have to fight against economies of scale
- Companies face new possible trade hurdles

Structure

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



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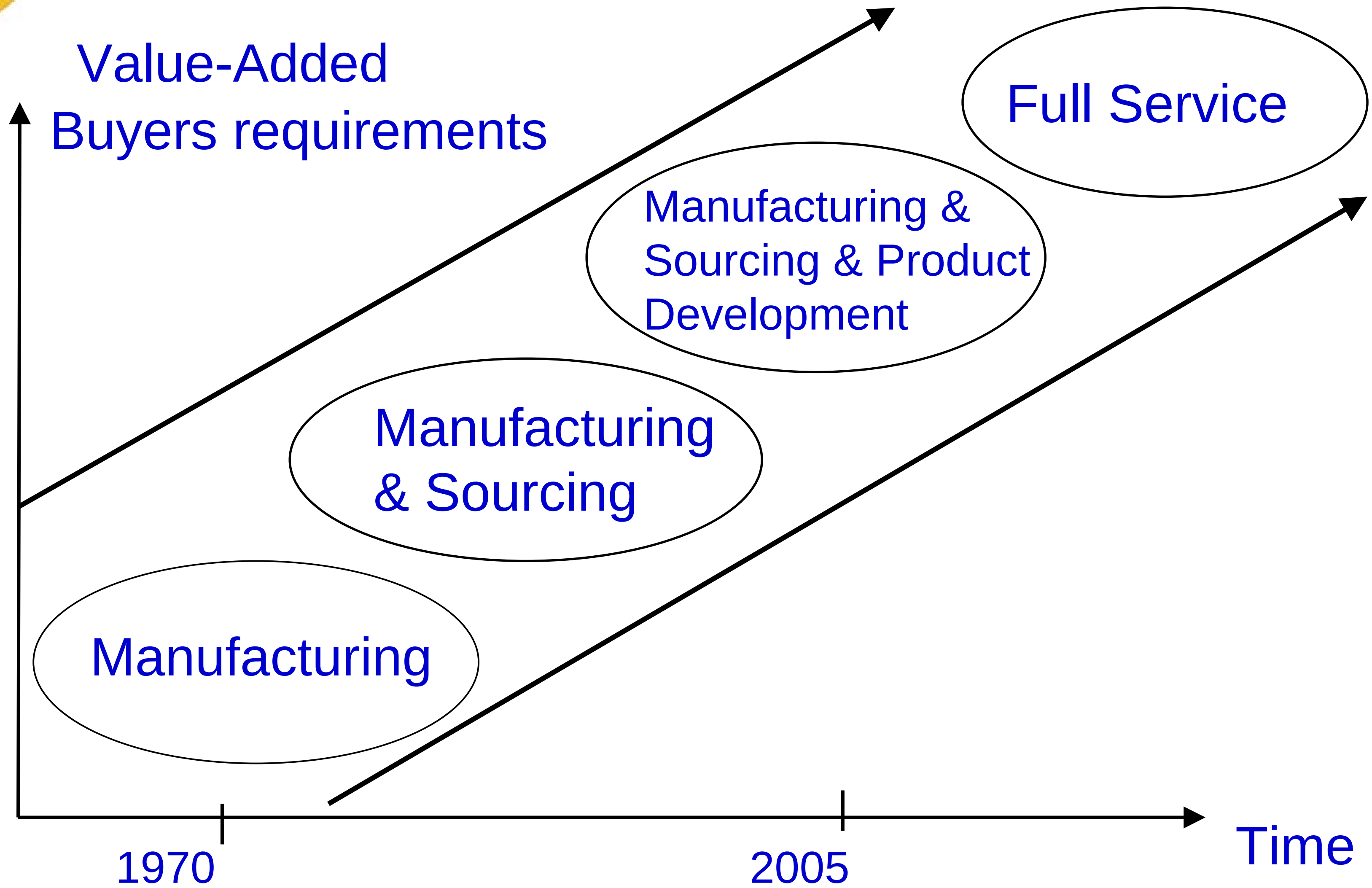
Changing Trade Competitiveness



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

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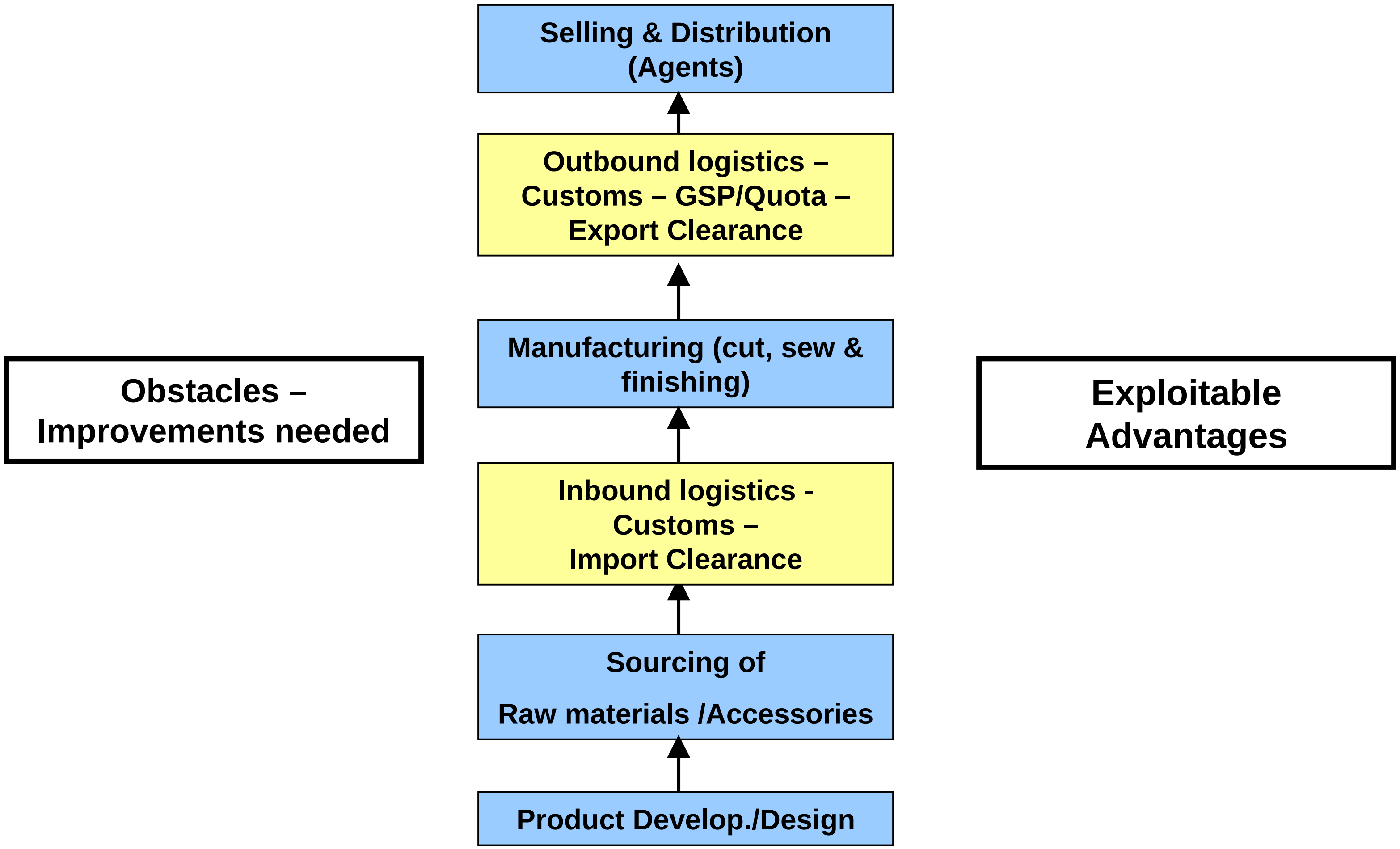
1st Response:The Value Chain Analysis



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2nd Need: Know your competitors

- Quotas stifle competition
- Now competitors are everywhere

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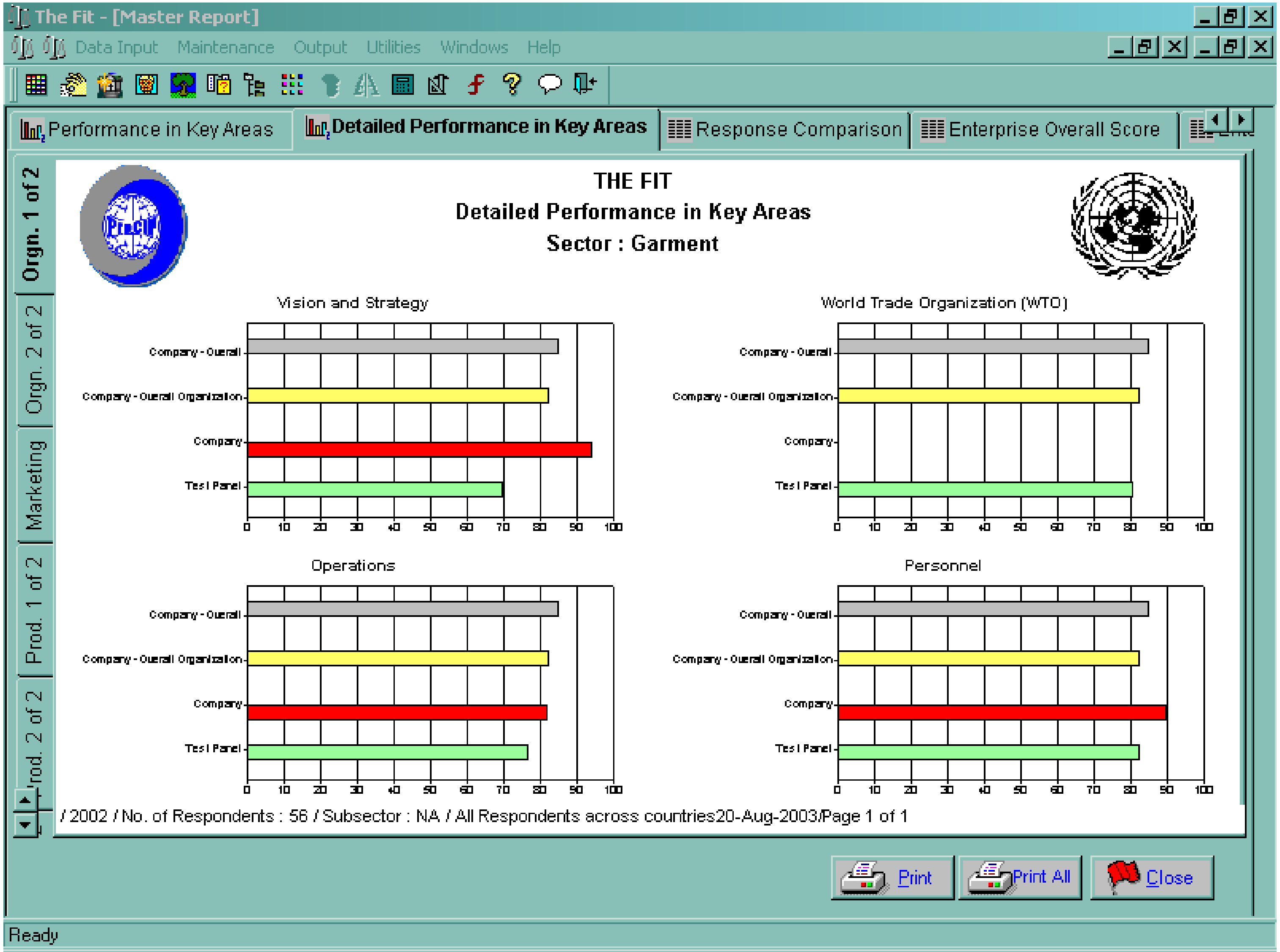
2nd Response: The « FiT »


The Fit - [Master Report]
Data Input Maintenance Output Utilities Windows Help
Performance in Key Areas
Detailed Performance in Key Areas
Response Comparison
Enterprise Overall Score
Orgn. 1 of 2
Orgn. 2 of 2
Marketing
Prod. 1 of 2
Prod. 2 of 2
THE FIT
Detailed Performance in Key Areas
Sector : Garment
Vision and Strategy
World Trade Organization (WTO)
Operations
Personnel
Company - Overall
Company - Overall Organization
Company
Test Panel
0 10 20 30 40 50 60 70 80 90 100
/ 2002 / No. of Respondents : 56 / Subsector : NA / All Respondents across countries20-Aug-2003/Page 1 of 1
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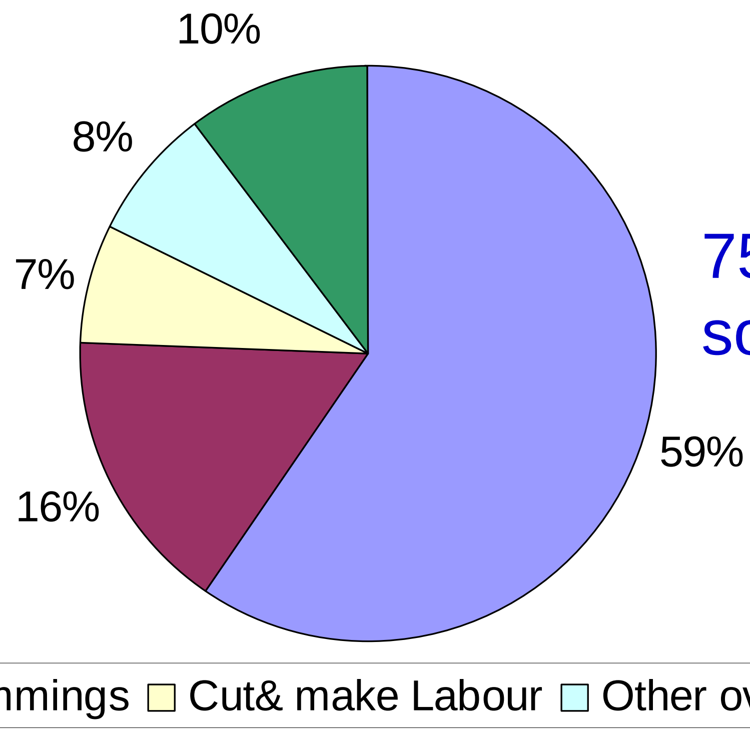
3rd Need: a) Information on Sourcing b) Supply Chain Management Skills

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



75% of cost = sourcing

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

4^{th} 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.

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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

Trade after 2004 - T&C Market Changes → 5 Needs of DCs and 5 TA responses → 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