

Analysing the WTO Study “Global Textile and Clothing Industry Post the ATC”

A. Main points of the study section by section

Section I - Introduction

Objective of the Study

- To assess the likely impact of liberalization, taking into account recent technological and managerial developments including recent changes in supply chain management in the sector.

Two different methodologies used

- GTAP model
- Gravity model

Section II – Industry characteristics

- Textile and clothing are closely related: both technologically and in terms of trade policy
- Sector increasingly integrated in a vertical supply chain via distribution and sales activities
- Integration of production with retailing facilitated by information technology
 - Introduction of bar codes in retailing now allows retailers to track back to production; which in turn has given rise to lean retailing and more power to large retailers – the likes of Wal-Mart, etc.
- Quick response for more frequent but smaller replenishments; shorter lead time between production and delivery at retail outlets
- Therefore distance to markets has become important competitive factor

Section III – ATC

- Section provides a short description of main ATC provisions and their implementation thus far
- Concludes that: “It is important to stress that [restraining] Members have fully complied with their obligations under the ATC ... [although] it leaves the impression that liberalization has been kept to the minimum”.

Section IV – Trade Patterns’ review

Yearly import growth recorded during 1995 – 2002

- US Textiles 9%
 Clothing 5.5%

- EU Textiles 3%
 Clothing 2.5%

Changes in import shares 1995 – 2002

- Figures 3 to 6 show these

Various countries’ imports from US/EU

- Noticeable that countries and territories located close to US/EU source high shares of their imports from US/EU
 - Tables 7 and 8 designed to underline this phenomenon

Section V – Impact of ATC phase-out

Recalls Uruguay Round gains; that were estimated variously as:

- Increase in exports due to quota elimination
 - Textiles Static model 17.5%
 Dynamic model 72.0%
 - Clothing Static model 70%
 Dynamic model 190%

- Increase in income (welfare gains)
 - Static model 42%
 - Dynamic model 65%

- Author remarks that there is considerable scepticism regarding the forecasts of dynamic models, and that therefore the most optimistic forecasts should be taken with a pinch of salt.

- Also that quota rents are already shared with multinationals; therefore loss of quota rents is probably less than the GTAP model estimates.

Section V – Impact of ATC phase-out (contd.)

Projections by the author in WTO study:

1. Step one, simulations using GTAP model and database:

- The author believes model better at projecting relative performances of countries, rather than absolute performance
- The results of **GTAP simulations** undertaken by the author using 1997 dataset
 - Shown in Figures 7 to 10 of the study

Section V – Impact of ATC phase-out (contd.)

2. Step two, using Gravity model:

- Author believes that GTAP simulations do not capture changes in technology (such as developments in retail and inventory management). Nor the significance of time and distance (which have assumed ever-increasing importance as shown in Section II).
- Therefore she also uses the Gravity Model, in which trade patterns are determined by market size of importer/ exporter, distance between them, tariffs and other barriers

Results of Gravity model

In EU market

- Having a common border multiplied trade flows:
 - By a factor of 2.7, when HS chapters 50-63 were taken as one whole
 - By a factor of 9 for clothing, when taken separately from other HS chapters
 - No effect seen in chapters 50 – 57 and 60

Section V – Impact of ATC phase-out (contd.)

Results of Gravity model (contd.)

In EU market (contd.)

- For every 10% increase in distance, trade flow falls off:
 - At the rate of 5%, for sample chapters taken as one whole
 - Even more steeply for, e.g., cordage/twine (Chapter 56) and carpets (Chapter 59)

In US market

- In market segments with highest rates of replenishment, imports from nearby Mexico and the Caribbean grew 70% faster than in sectors with low replenishment rates

Section VI – Conclusion

The study concludes:

- GTAP model results are totally driven by changes in relative prices and cost competitiveness, thus tell only part of the story
- Recent developments in market organisation (called vertical specialization), tariff preferences, time to market, etc., not captured in GTAP. The author makes for this deficiency by using the Gravity model.
- Concludes that distance matters; therefore that countries close to major markets are likely to be less affected by post-ATC competition; and that Mexico, the Caribbean, Eastern Europe and North Africa will likely maintain their market shares.

B. How reliable are the study results?

- Data used in GTAP simulations are based on incorrect assumptions:
 - Question of product definition (Footnote 23, Figures 3 and 5).
 - Question of Export Tax Equivalents (Tables 10, 11)
 - Question of input-output matrixes (Footnote 8)
 - Question of comparability of employment, production data
 - Problem with data in Tables 7 and 8
- Examining the above questions/problems one by one

Product classification

- Both the WTO study (Footnote 23) and GTAP database treat such highly traded, heavily protected products as knit T-shirts, cardigans, pullovers, jerseys, panty hose, etc., as textiles, whereas they in fact are clothing classified under HS Chapter 61.
 - See following concordance between ISIC, SITC, HS, GTAP

ISIC Section 17 Vs SITC/HS

ISIC	SITC	HS88	HS88-Description
1730	84621	611511	"Panty hose&tights,of synthetic fibre yarns <67 dtex/single yarn knittd"
1730	84621	611512	"Panty hose&tights,of synthetic fib yarns >/=67 dtex/single yarn knittd"
1730	84621	611519	"Panty hose and tights, of other textile materials, knitted"
1730	84622	611520	"Women full-l/knee-l hosiery,of textile yarn<67 dtex/single yarn knittd"
1730	84629	611591	"Hosiery nes, of wool or fine animal hair, knitted"
1730	84629	611592	"Hosiery nes, of cotton, knitted"
1730	84629	611593	"Hosiery nes, of synthetic fibres, knitted"
1730	84629	611599	"Hosiery nes, of other textile materials, knitted"
1730	8454	610910	"T-shirts, singlets and other vests, of cotton, knitted"
1730	8454	610990	"T-shirts,singlets and other vests,of other textile materials,knitted"
1730	8453	611010	"Pullovers,cardigans&similar article of wool or fine animal hair,knittd"
1730	8453	611020	"Pullovers, cardigans and similar articles of cotton, knitted"
1730	8453	611030	"Pullovers, cardigans and similar articles of man-made fibres, knitted"
1730	8453	611090	"Pullovers,cardigans&similar articles of oth textile materials,knittd"

Product classification (Cont'd)

- No wonder that:
 - Honduras is assumed to have had 4% of US textile imports (Figure 3), whereas it is primarily a clothing exporter (almost 99%)
 - Bangladesh is assumed as holding 5% of EU textile imports (Figure 5), more than Pakistan and Korea. It also is a garment exporter, first and foremost
 - Shares of others are likewise overstated / understated
- US imports of these products were almost as much as all textiles put together. Over 30% of EU textile imports.
- Honduras' 2002 export of these products to US was \$ 1.3 billion. Over 40% of all Bangladesh exports. Over half of Cambodia's.
- Consequently, treating these products as textiles, not clothing, should likely have a big impact on simulation results because Export Tax Equivalents of textiles are typically lower than clothing
- There are other examples, too, relevant to product classification. Thus apparel of leather included in TC Sector whereas policy regime applying to them different.

Question of Export Tax Equivalents' calculations

- Centrality of ETEs in GTAP-based work
- Looking at Table 10 of study, in-explicable that Bangladesh and Sri Lanka are assumed as facing ETEs in EU; the first has not faced any quotas and second did not fully utilise its quotas
- Other ETE estimations also liable to conceptual inaccuracies

Question of input-output matrixes

- Inaccuracies regarding product classification and ETEs also likely to have important implications for design of input-output tables and related pass-through exercises in model simulations.
- Table 11 data on import penetration ratios also appears doubtful

Comparability of production, employment, trade data

- Same as in above cases, stemming from imprecise classification

General data inaccuracy

- Comparing Tables 7 and 8. Dominican Republic and Honduras assumed as importing 32 – 38% of their textiles from US. Should have been obvious that their exports to US (over 90% in each case) could not benefit from duty free treatment unless they incorporated US inputs
- Morocco, Tunisia examples clear (Table 8)
- Problem likely stemming from different reporting practices
- Extent of implication for simulations not clear

Other questions/imprecisions

- GTAP-based simulations, benchmarked to 1997, only show what would have been the result in that year if there were no quotas. Titles of Figures 6 to 10 as showing results “Before” and “After” quota elimination (even “Before ATC” and “After ATC” as in Figure 10) cause avoidable confusion, as though these were to be the results after 2004.
- Many developments have taken place since 1997: Higher quota growth rates; implementation of tariff reductions agreed in Uruguay Round; AGOA and CBI-parity implemented in 2000; new FTAs between EU and others; WTO accession of China/Chinese Taipei; and so forth.
- Nor do the simulations seem to have captured differences in tariffs (especially when tariff preferences are a fact of life in the sector), or differences in distances to markets, or growth in trade
- No effort made to explain/explore the wide gap in relative performances of countries in US and EU markets (as thrown up by GTAP-based simulations) despite the fact that tariffs facing the larger exporting countries in EU are much lower.
- Gravity model does not show changes in trade flows to US market in a manner similar to that postulated for the EU, i.e., result of closeness to market; nor of changes in relative shares, in either market.

Other questions/imprecisions (Cont'd)

- How is it that, e.g., Bangladesh increased its share of clothing in US (from 3% to 4% - Figure 4), not in EU despite shorter distance and absence of tariffs (remained static at 3% - Figure 6); likewise, how is it that Jordan's exports to US have been booming, but are stagnating to the EU despite much shorter distance. Main reason actually origin rules
- Finally, in addition to relative export performances, absolute increases in exports can also be as important for overall export performance – recall Korea and Hong Kong – China experience; their shares declined, not overall exports
- Relative tariff treatment and the applicable origin rules have assumed greater significance

Closing Remarks

- Study's analysis not rigorous. Results based on inaccurate data raise questions about their reliability.
- Doubtful if models-based simulations could adequately capture the influence on trade flows of ever-complex origin rules according to which tariff preferences are generally made conditional on the use of US/EU inputs – by far the central issue for longer term sustainability of apparel export industries in smaller developing countries, as US/EU makers of these inputs are themselves losing competitiveness in these products.
- This phenomenon is typified in export performance of several smaller economies:
 - Jordan exported only \$ 49 million worth of clothing to US in 1999; in the 12-month period ending June 2004 \$ 770 million, an increase of 1471%. The reason: duty concession under US/Jordan free trade agreement under less onerous rules of origin. This, despite long distance from the market and insecure Middle East environment.
 - Many AGOA countries have logged similarly impressive expansion – Lesotho, Kenya, Swaziland. Mauritius however has stagnated, despite duty free access on paper. The main reason: rules of origin!
 - On the EU side, Bangladesh unable to increase share of woven clothing exports despite duty free access. Romania, by contrast, managed to increase its share of EU imports from 3% in 1995 to 7% in 2002 (according to WTO study definition of clothing – Figure 6)