Trade in Textiles and Clothing
Some hard facts and the way forward

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Introduction

There is a sense of anticipation, even confusion, in the world of textiles and clothing. Less than five months before the expiry of quota restrictions on 31 December 2004 pursuant to the WTO Agreement on Textiles and Clothing (ATC), lobbyists are active in a last ditch effort to preserve the protection enjoyed by textile industries in developed countries for over forty years, creating uncertainty about whether the process started ten years back might in fact not be held back and investments made in anticipation of quota phase out might not go sour – given, in particular, the election-year campaign rhetoric in the United States. Concerns are being expressed about the impact of quota abolition on smaller economies. And questions are being raised about whether and to what extent the markets can indeed expand; what might likely be in store in the marketplace; who are the likely winners or losers; in what direction might trade policy evolve or, to put it straight, what might be brought in to replace quotas; what strategies should governments and businesses adopt to ensure the continued growth of their textile and clothing exports; and so on.

A variety of often conflicting analyses and opinions is on offer. Based largely on econometric modeling, they often produce eye-catching results. The latest in the series is a recent study produced under the banner of the WTO[2]. Unfortunately, lacking in necessary analytical rigour and employing imprecise (at times misleading) data, it is liable to adding to the confusion. Those uninitiated in the arcane world of trade in this sector are left wondering why it should be so.

Models-based conclusions are hardly reliable

The purpose of this paper is not to critique the WTO study (or any other study for that matter). However, on close scrutiny, it is interesting to find:

- *Firstly*, that this study as well as the GTAP (Global Trade Analysis Project) database, on which it and a number of other studies are based, treat the following items as textiles: T-shirts, singlets and other vests; jerseys, pullovers, cardigans, waistcoats and other similar articles; and panty hose, tights, stockings, socks and other hosiery falling under headings 61.09, 61.10 and 61.15 of HS classification[3]. It is obvious however that all these items are clothing, not textiles.

  Consequently, Honduras for example is shown to have had a share of 4% in US *textile* imports in 2002[4], and Bangladesh 5% in EU *textile* imports[5], whereas the fact is that both these countries' exports are concentrated in *clothing*. Honduras' 2002 exports of *textiles* to the US were a mere $ 4 million (i.e., 0.03% of total US imports). Bangladesh's 2002 *textiles* exports to the EU were likewise $ 136 million or about 0.5 % of extra-EU imports. In the event, the textile shares in the study would seem to be grossly overstated in the case of these (and possibly other) countries. By virtue of this, their shares of clothing would seem to be under-stated.

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[2] World Trade Organization, "The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing", Geneva: WTO, August 2004.
[3] *Ibid.,* footnote 23 and http://www.gtap.agecon.purdue.edu/resources/res
[4] *Ibid.,* Figure 3, page 17
[5] *Ibid.,* Figure 5, page 20

Such being the definition used, the respective shares of all other exporting countries would either be overstated or understated depending on their respective export profiles and would, in the end, throw up confusing results.

- *Secondly*, this inaccuracy in properly defining the textiles and clothing universe would likely have important implications for the calculations of so-called 'export tax equivalents (ETEs)' which are fundamental to measuring the results in this model. In addition, the study assumes "export tax equivalents of quotas [in the] base year" of 1997 on Bangladesh in the EU market (8.4% for clothing and 7.3% for textiles) and cites as source the GTAP database[6]. The factual situation however is that, by virtue of quota-free access provided by the EU to the least-developed countries, Bangladesh has not been under quota restriction in that market since before 1997. Similarly, it also assumes Mexico as facing quotas[7] and Sri Lanka ETEs in the EU[8], whereas the fact is that the former was not under any quotas and the latter did not fully utilize its quotas in the EU. Besides this problem with regard to the ETEs, the incorrect definition of textiles and clothing would also have far-reaching implications for input-output tables used in the Model simulations, as would the comparability of production and employment data that are typically drawn from the UNIDO.
- *Thirdly,* the shares of total demand for textile and clothing in US/EU markets shown as accounted for by imports in the base year[9] vary greatly from those calculated by other researchers, most notably those included in the studies produced by US International Trade Commission.
- *Fourthly,* the study does not explain the precise parameters from the GTAP model (or any modifications thereto) that might have been used in the simulations for the study. Nor is it clarified whether the information used incorporates the all-important fact of differences in tariffs applying to different exporting countries (tariff preferences) that have become an ever important factor in trade in textiles and clothing. It appears from the GTAP database that this is not the case, which again casts a shadow on the reliability of the Model results.

Leaving aside the above (in fact many more) methodological problems stemming from the use of imprecise definitions and data, when it comes to depicting the results of simulations (in a rather sparkling light), the study introduces an avoidable confusion. Thus, the shares are shown as "Before" and "After" quota elimination creating the impression as though this might be the situation after the end of the ATC, whereas the fact is that the simulations only show what would have been the situation in 1997 (the base year used for the model) if there were no quotas in that year. In the same way, it makes no effort to explore why, for example, China could capture 50% of imports of clothing in the US, but only 29% in the EU market.

Finally, the study goes on to emphasize that in view of the changes in business practices, the importance that relative distances play in competitively supplying the markets and

[6] *Ibid.,* Table 10, page 25
[7] *Ibid.,* page 28
[8] *Ibid.,* Table 10, page 25
[9] *Ibid.,* Table 11, page 26

differences in tariff treatment of suppliers, the simulation results "tell only part of the story" and to conclude that, for example, "Mexico, the Caribbean, Eastern Europe and North Africa are therefore likely to remain important exporters to the US and EU respectively, and possibly maintain their market shares"[10] -- a result which is significantly different from those shown on the basis of GTAP simulations!

Little wonder then that it is often remarked that the results of models-based studies should be taken with a pinch of salt.

Unlocking the crux from recent trade flows

In the event, and in view of the confusion surrounding the debate due in part to results emanating from GTAP-based analyses, it is necessary to bring out the crux of the issues in textiles and clothing in some straightforward way and on the basis of transparent figures, and to offer a way forward. The following pages are an effort to do precisely that.

And so that the issues become crystal clear, and can be seen in context, it should be instructive to begin by casting a glance on Asian developing economies' performance in textiles and clothing markets over the last decade or so, especially as they are seen as the drivers in this trade. This only for the sake of simplicity; the same results would accrue even if the analysis were based on the performance of some other group of countries.

Trade patterns reviewed

So here is a simple table showing how developing Asian economies fared in world exports in this sector, taking textiles and clothing separately.

Table 1: Asian Economies in World Textiles and Clothing Exports

Values:				**In billion $**
	1990	**1995**	**2000**	**2002**
World				
Textiles	104.35	151.62	154.18	152.15
Clothing	108.13	158.34	197.03	200.85
T & C	212.48	309.96	351.21	353.00
Asia (excl. Japan, Australia, New Zealand)				
Textiles	30.58	57.16	62.16	61.24
Clothing	46.41	69.40	89.74	89.15
T & C	77.00	126.55	151.90	150.40
Shares:				**In Percent**
Asia (excl. Japan, Australia, New Zealand)				
Textiles	29.3%	37.7%	40.3%	40.3%
Clothing	42.9%	43.8%	45.5%	44.4%
T & C	36.2%	40.8%	43.3%	42.6%

Coverage: Textiles SITC Division.65, clothing Division 84.

Source: UN Comtrade and WTO.

[10] *Ibid.,* page 34

It is revealing that developing Asian economies as a group managed to increase their share in world exports of textiles from 29.3% in 1990 to 40.3% in 2002, an increase of eleven percentage points. Not so in exports of clothing products, however! Here they are able to advance from 42.9% to only 44.4% of world exports, a mere one and a half percentage point increase.

It is pertinent to ask why? Is it that Asian economies were any less proficient in clothing?

And by far the same results stand out from the performance of these economies on the two largest markets. Thus, in the United States market, the Asian developing economies' shares evolved as follows:

Table 2: United States Imports of Textiles and Clothing

Values:			**In million $**
	1990	**1994**	**2003**
World			
Textiles	5,999	8,594	16,272
Clothing	21,937	31,386	61,164
T & C	27,936	39,981	77,436
Asia (excl. Japan, Australia, New Zealand)			
Textiles	3,041	4,332	9,333
Clothing	16,128	20,318	33,176
T & C	19,169	24,650	42,510
Preferential suppliers*			
Textiles	637	1,219	2,732
Clothing	3,024	7,516	20,650
T & C	3,660	8,736	23,382
Shares:			**In Percent**
Asia (excl. Japan, Australia, New Zealand)			
Textiles	50.7%	50.4%	57.4%
Clothing	73.5%	64.7%	54.2%
T & C	68.6%	61.7%	54.9%
Preferential suppliers*			
Textiles	10.6%	14.2%	16.8%
Clothing	13.8%	23.9%	33.8%
T & C	13.1%	21.8%	30.2%

*Defined here as NAFTA, CBI, AGOA and ANDEAN.

Source: US Department of Commerce, Office of Textiles and Apparel (OTEXA), MFA imports

Notice that whereas developing Asian economies increased their share in textiles by some seven percentage points from 50.7% in 1990 to 57.4% in 2003, in clothing they saw their share decline by a massive nineteen percentage points (from 73.5% to 54.2%) during the same period.

And here is what happened on the EU market (Table 3, next page).

Table 3: EU Imports of Textiles and Clothing

Values			**In million $**
	1990	**1994**	**2002**
World (Extra-EU)			
Textiles	19,187	21,864	25,396
Clothing	23,706	32,451	47,494
T & C	42,893	54,316	72,890
Asia (excl. Japan, Australia, New Zealand)			
Textiles	6,611	8,541	11,785
Clothing	11,513	15,692	22,366
T & C	18,124	24,233	34,151
Preferential – 10*			
Textiles	2,116	3,129	6,652
Clothing	6,735	11,115	19,496
T&C	8,852	14,244	26,148
Shares			**In percent**
Asia (excl. Japan, Australia, New Zealand)			
Textiles	34.50%	39.10%	46.40%
Clothing	48.60%	48.40%	47.10%
Preferential – 10*			
Textiles	11.00%	14.30%	26.20%
Clothing	28.40%	34.30%	41.00%

Source: Eurostat; Product coverage ATC

*Defined here as Bulgaria, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Malta, Morocco, Tunisia and Turkey as they enjoy quota-free, duty free entry of their exports to the Union.

Notice here, too, that the Asians expanded their share of extra-EU imports of textiles from 34.5% in 1990 to 46.4% in 2002; but in clothing they actually declined from 48.6% to 47.1%.

The reason behind this phenomenon: developed countries' trade policy!

Whatever detailed explanations the pundits might come up with for these results, the core reason need not be far to seek. The facts speak for themselves. It is plain that the main reason behind this large difference in Asian countries' export performance in clothing relative to textiles has lain in the trade policy framework adopted by major developed countries who, as is well known, account for the bulk of imports in the sector. (In 2002, the US and EU-15 together accounted for 72% of world imports in clothing and 40% in textiles).

But what is this trade policy and why?

Understanding the main tenets of their policy

Here are the main tenets of US/EU policy framework and its evolution over time. Its understanding is critical to unlocking the issues at the heart of the questions summarised at the start.

- Now, starting as far back as 1950s, the accent is on quota restrictions, only on cotton textiles.
- Tariffs are of course there, too, and in fact at rates higher than at present. But the difference is that the same rates apply to imports from most sources, and they are not used to advantage some suppliers over the others. Therefore, although they constrain the expansion of trade, they do not matter much to the exporters because the burden is passed on to the consumers in the restraining countries and, in any case, actual exports cannot be more than those permitted under the quota arrangements.
- The blanket protection afforded by the quota system obviates the need for taking recourse to alternate methods of protection (safeguards, anti-dumping, etc.).
- Over the course of the quota regime, actual evolution of trade gives rise to a need for methods to plug any loopholes in the system and ensure that suppliers are not able to evade the intended limitations. Extension in the coverage of restrained products beyond cotton textiles (to include products of man-made fibres, wool and virtually all other fibres in existence), changes to rules of origin, and a myriad of administrative procedures are therefore pressed home.
- In course of time, ever-new players keep entering the import scene. There is world-wide clamour against the unfairness of quota system. The Uruguay Round comes with an ambitious agenda to liberalize trade. And realization sets in that, in the long run, the quota system is neither defensible nor practicable.
- All this gives rise to the search for new avenues to retain a slice of textile production (and trade) for US/EU domestic producers as far and for as long as possible. The search produces a great result: the possibility of putting rules of origin to innovative use. The existence of relatively high tariffs makes for a perfect fit. The new paradigm initially takes the form of the following message: ‘Never mind the quota restrictions, you are allowed to export as much clothing as our market would bear, provided the finished product you export is made with our yarns and fabrics’. The innovation is labelled ‘outward processing trade’ (OPT) in the EU, ‘guaranteed access levels’ (GALs) in the US. Later, the same basic concept is transplanted to free trade area agreements and other preferential arrangements.
- The Uruguay Round concludes with an Agreement on Textile and Clothing (ATC) to finally bring an end to all quotas within a time certain. In the meantime, however, regional free trade agreements come into vogue. Their mechanism comes handy to secure a share of the market for domestic producers both at home and abroad through the instrumentality of origin rules. The ‘yarn forward’ novelty provides the needed wherewithal. In a simple sense, it is made compulsory that to be eligible for duty-free

treatment, the imported clothing must be made from yarn and fabric that is produced within the boundaries of the free trade area. And as production of these products is capital intensive, it need not be difficult to figure out where they will originate.

- Although commitment under the ATC is to wind down the quota regime *gradually*, it is profitable to the domestic industry to push actual implementation as far back as possible. After all, the ten-year long transitional period to accomplish the quota phase out holds such great promise for the domestic industry. It can take advantage of billions of dollars worth of business opportunities in the meantime.
- By then, of course, campaigns by labour unions and NGOs for protection of labour standards and environment would also have created the conditions that do ultimately advantage local producing companies.
- And, on top of everything else, a wide array of trade remedy instruments remains available, should the need arise.

This in essence sums up the story of trade policy in major importing countries relating to textiles and clothing.

The implications

The practical effect of the implementation of this policy change (involving a pronounced shift away from quota restrictions to the use of tariff preferences, combined with restrictive rules of origin) came out succinct in the three tables presented earlier in this paper. The story does not end there, however. As noted, an important objective behind the shift in US/EU policy since about the Uruguay Round has been to retain as much of the home market for domestic producers of textiles as possible, and to ensure a slice for them in offshore markets too. To a review of the extent to which this paradigm may have produced the intended result – and more –, we now turn.

Here again, it is best to illustrate with the help of data. A table is therefore in order.

Table 4: The Working of US Textile Trade Policy

	In million US $
US textile and clothing exports to world, 2002	15,390
Of which to NAFTA, CBI, AGOA	12,192
% of total	79.20%
US apparel imports from NAFTA, CBI, AGOA	19,826
Average US MFN tariff rate	16.04%
Tariff revenue due on above imports	3,179
Tariff actually collected	599
Revenue foregone/implicit subsidy to US textile producers	2,580

It is telling, *first*, that over 79% of all US textile and clothing exports are now destined to countries with whom it has free trade area arrangements or to whose exports to its own market it extends duty free treatment *on condition* that these exports incorporate US components (yarn, fabric, etc.,), whereas in 1980 the share of US textile and clothing exports going to these same countries was only 35%.[11] *Second*, it is apparent that on imports from these countries, the US foregoes tariff revenue of over $ 2.5 billion per year that would otherwise be due if the MFN rates were applied. It thereby confers an implicit subsidy on US textile industry in that amount. *Third*, the exporting developing countries concerned have come to have a heavy reliance on US market for their exports of apparel. Thus NAFTA and CBI partners rely on this market for over 90% of their textile and clothing exports and, equally importantly, on imports of inputs from the US to feed these exports. And owing largely to the working of this policy, few of these countries have succeeded in establishing any viable textile production base of their own to sustain their apparel export operations on a continuing basis. *Finally*, their businesses are straddled with costs associated with the paper work and other related formalities required to be able to benefit from these arrangements, adding to the drag on their competitiveness[12].

From US industry's perspective, though, the results of this policy could not have been better.

- It provides for a secure, captive market for its textile products, worth over $ 15 billion a year.
- Reserving duty-free access on its home turf for processors in these countries diverts others, especially the Asians away.
- It has been conferring a yearly benefit of over $ 2.5 billion as revenue foregone by the US Treasury for several years, and the bounty is guaranteed for many more to come.
- It makes those countries that are eligible for preferential access at the back of this policy, dependent on inputs from the US and on changes in its trade policy.

At this point, a word in passing appears to be in order about a common refrain by US textile industry that it is frustrated due to closed markets elsewhere. To assess the merit of this claim, it may perhaps be interesting to peer into its competitive prowess. Here are a couple of data in this regard.

Table 5: US Textile and Clothing Trade with Italy

Million $

	1990	**2000**	**2003**
US imports from Italy	1,038.3	2,128.6	2,182.4
US exports to Italy	170.9	95.2	89.6

Derived from US Department of Commerce, Office of Textiles and Apparel data

[11] Source: Comtrade database; Product coverage SITC Division 65 for textiles, 84 for clothing

[12] According to some estimates, this can add 3 percent to 5 percent of the cost of goods. See United States International Trade Commission, January 2004, "Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market", Chapter 3, page 6.

These statistics tell it all about US industry's prowess and its claim as to the availability of market access for its *competitive* exports. And mind you, US exports have never been subject to any quota restraints in Italy (i.e., the EU) and the applicable tariffs are also relatively low. Little wonder then that the US industry should have directed its attention to preserving for itself the opportunities afforded by captive markets to which it extends preferential access.

On the EU side, too, the strategy and the results are similar to those in the US. Thus Bulgaria, Morocco, Tunisia, Romania, Turkey, etc., have likewise been rendered dependent on the EU market for export of apparel and on import of inputs from the EU for processing into garments (with the exception of Turkey which has a sizable textile capacity of its own). In the interest of brevity, it appears unnecessary to cite data to demonstrate this phenomenon at the EU end at any length.

In order to bring out the extent of dependence of several countries on US/EU markets for their exports, and on imports from those markets to feed these exports due essentially to the requirement of applicable rules of origin (a phenomenon that the WTO study prefers euphemistically to call "vertical specialization in which inputs embodied in the final product cross borders several times", borrowing from experience in some other sectors), here again is a straightforward table (Table 6, next page).

Table 6: Dependence of certain countries on US/EU for their exports/imports

US/EU Textiles and Clothing Trade with Selected Countries

In million US$

Exporting Country	US Imports from Country	US Exports to Country	EU Imports from Country	EU Exports to Country
Mexico	**9,345**	**5,023**	105	531
Dominican Rep	**2,253**	**1,270**	13	48
CBI countries	**9,878**	**4,647**	141	149
Morocco	80	8	**2,903**	**1,882**
Tunisia	38	1	**3,314**	**2,157**
Romania	124	5	**4,439**	**3,049**

Notes:
- Data used here for USA are for 2002, for the EU for 2003.
- EU data cover HS Section XI, excluding agricultural products.
- US data cover SITC Divisions 65 and 84 excl. sub-Div.848 (leather apparel).

The way forward

It should be obvious that the situation created by such bending of trade policy is untenable over the long run -- whether for further liberalization of trade, for sustaining the continued growth of trade for participants in preferential arrangements, or for development of exports from non-participants in these arrangements. It merely serves to postpone adjustment that is bound to take place, most importantly in the industrialized countries.

Consequently, for better or for worse, it is trade policy that remains the driver and the centre of it all in trade in textile and clothing. The challenge to avoid any further pitfalls therefore also lies in introducing corrections in trade policy. And these corrections require a brand-new approach, with action on four inter-related issues.

Issue one: Avoiding rush to alternate protection, post the quota regime

For the immediate term, top on the list of challenges, is the spectre posed by an imminent decline in export prices following the abolition of quotas. It does not need reminding that under the quota system, trade transactions have not been driven by normal commercial considerations alone. Quota considerations (quota prices, to put it in straightforward terms) have been an important component in pricing decisions and arrangements. The issue is how to spare the exporters being caught up in allegations about dumping following price declines induced by the disappearance of costs associated with the quota system. Likewise, how to avoid a rush to other trade defence measures (safeguards, countervailing duties, etc).

Issue two: The tariffs

The second issue, especially for the long-term, is that of tariffs. As shown by data on the performance of Asian developing economies in world exports, as well as in US and EU imports, earlier in this paper, the fundamental difference in relative trade performance in this sector for several years has been on account of tariffs.

On fixing the tariff issue would depend the fixing of a couple of others as well. Addressing the tariff issue is essential not only for further expansion of trade in this sector of such great promise for developing economies, but also for addressing the problem of least-developed and other countries that have come to rely for their exports on the two largest markets.

As to the promise for further expansion of trade by reductions in tariffs, it is unnecessary to dwell at any length. The world Bank/IMF reckon the export revenue loss due to present levels of textile and clothing tariffs to be $ 104 billion, of which $ 59 billion to developing countries[13]. Such estimates can of course not be taken at their face value, and a bit of caution is in order. It is obvious however that in the absence of tariffs, or even if they were significantly reduced from what they are at present, there would be tremendous room for expansion of trade.

Aside from that, however, as we saw in our summarization of trade policy of major importing countries, it is obvious that a fundamental tenet of this policy has been to extend the advantage of duty free imports to various groups of countries, whether under free trade

[13] IMF/World Bank, "Market Access for Developing Country Exports – Selected Issues", September 2002.

area agreements or under autonomous preferential schemes, on condition that these imports incorporate US/EU yarns and fabrics: in the case of US arrangements formally so, in the case of the EU arrangements effectively so.

But it is also obvious that with passage of time this paradigm is bound to lose its significance because in the textile segment of the sector, Asian countries have been making significant strides the results of which are already evident in the fact that they have been capturing increasing shares of the market in that segment. As shown by the performance of Asian economies in tables 1, 2 and 3 of this paper, the US and EU textile industries are not as cost efficient as their Asian counterparts even in textile segment of the sector. Anecdotal evidence has it that, for example, the US fabric is up to 20 to 40 percent[14] more expensive than the Asian fabric (although the true extent of the difference appears to be exaggerated). In the event, it places a long-term drag on countries whose preferential access is made conditional on their use. The policy also inhibits the concerned developing countries' efforts to diversify their export markets.

Therefore, to assist such developing economies as have come to depend on this policy framework (created by US and the EU primarily to advantage their own textile makers), it ought to be necessary to allow sufficient time to adjust, before their current tariff preferences get reduced. It is possible to do so by calibrating the agreements currently under negotiation in the Doha round of trade talks.

Issue three: The Rules of origin

Affording further time for them to benefit from tariff preferences alone is unlikely to solve their fundamental predicament, however. For a longer term solution, besides extended time periods for phasing in the Doha Round tariff reductions, the central issue of rules of origin must also be addressed. For this to realize, a grand compact is important. Through this compact, many developing countries' dependence fostered by rigid origin rules, whether in free trade area agreements and preferential arrangements, would need to be dealt with in a manner that bottlenecks in the way of expansion of their exports are cleared.

As an example, let us recall that although, for appearances sake, all Bangladeshi exports to the EU are eligible for duty-free treatment under EU's GSP or 'everything-but-arms' programme, its exports actually receiving this concession are a lot less because of lack of indigenous textile production capacity in the country. Thus only half of Bangladesh clothing exports to the European Union have been able to benefit from duty concession even as this concession has been theoretically available (see table 7 at the following page). Such is the constraining effect of rules of origin!

[14] United States International Trade Commission, January 2004, "Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market", Chapter 3, page 6

Table 7: Bangladesh Exports to EU Benefiting from GSP Duty Concession

In 1000 $

Year	**HS Chapter***	**Normal Duty Rate**	**Imports From Bangladesh**	**GSP-Received**	**GSP Use Rate**
2000	61	12.4	1,212,769	752,337	62.0%
2000	62	12.3	1,127,958	148,949	13.2%
2000	63	10.5	63,357	50,420	79.6%
2000	**61-63**		**2,404,084**	**951,706**	**39.6%**
2001	61	12.3	1,315,393	922,041	70.1%
2001	62	12.2	1,186,825	212,214	17.9%
2001	63	10.7	71,880	60,799	84.6%
2001	**61-63**		**2,574,098**	**1,195,054**	**46.4%**
2002	61	12.2	1,418,620	1,154,974	81.4%
2002	62	12.1	1,122,550	270,688	24.1%
2002	63	10.7	78,916	74,051	93.8%
2002	**61-63**		**2,620,086**	**1,499,713**	**57.2%**

*HS Chapter 61 denotes knit clothing, 62 woven clothing, and 63 made-up articles.
Source: European Commission

It is especially noteworthy from the above data that Bangladesh exports of apparel made of woven fabrics (HS chapter 62) constituting about 45% of its total exports of clothing to the EU are unable to fulfill the origin requirement and therefore profit from tariff exemption, based as they are on processing carried out on fabric imported from third countries. This despite the fact that, compared with many other developing economies, Bangladesh has made significant advances in establishing backward linkages (i.e., creating domestic supply capacity for production of requisite inputs), particularly in so far as the production of apparel of knitted fabric (HS chapter 61) is concerned.

Similarly, since the granting of duty free access by the United States under its AGOA legislation, exports from a number of beneficiary countries have expanded significantly. Not from Mauritius however, because it is not considered a ‘lesser-developed country’ under AGOA and is therefore ineligible for duty exemption if its exports contained third country fabric.

The point to emphasise from all this is that for many developing countries that are similarly placed, the current dispensation does provide a short term edge. For the long haul however, given the constraints placed by restrictive rules of origin, they are unable to attract or induce significant investments in upstream textile production and, consequently, develop excessive reliance on their major partners (the US and the EU) for import of inputs necessary for production of clothing for export. A repetition of this story can be witnessed in a host of developing economies. And it is not far to imagine that such reliance is difficult to sustain for long. The expiry of quota regime and consequent decline of textile industries in major developed countries (US/EU) is certain to generate pressures on the availability of textile inputs from those sources on cost effective basis, leaving the concerned developing countries straddled with having to use expensive textile inputs if they were to have the benefit of tariff preferences. The upshot: action is needed to make rules of origin more trade-friendly, whether these are under preferential programmes or free trade area arrangements.

Issue four: Performance requirements

Adding to the problems highlighted in this paper thus far is the array of requirements under the guise of extracting respect for labour standards and protection of the environment. Whether by coincidence or design, the campaigns surrounding these otherwise worthy causes have been gathering momentum just as expiry of the quota regime has been drawing closer. They are creating avoidable difficulties and confusion, without any visible consequences for realization of the goals they are intended for. The grand compact recommended above must also ensure that the proliferation of these requirements and the tendency to turn them into new methods of protection is contained.

Closing remarks

Trade policy intervention has continued to exert the most influence on trade flows in textiles and clothing than in any other sector of international trade. In years gone by, the instrument was the quota regime. More recently, the emphasis shifted to the use of rules of origin aided by the convenience offered by the existence of higher tariffs applying to the import of clothing products in major developed country markets relative to other sectors of industrial goods. Although the new paradigm might have provided short term gains for some developing countries, it has led to a host of anomalies for the longer term. For one thing, it continues to impede the process of adjustment in the industrialized countries. For another, it has led to excessive reliance of a number of developing economies on these countries not only for export markets but also for import of uncompetitive inputs, thereby hindering the normal process of development of their own textile industries. Unfortunately, country after country finds itself in a new dilemma: having to rely for their apparel export industries on import of upstream textile inputs from markets that are fast becoming uncompetitive in those products.

Just as the quota regime, this new paradigm is unlikely to sustain for long. There is therefore an urgent need for sober counsels to intercede, and for a new compact that addresses the underlying causes of the problems facing some developing economies. The solution lies not in arresting the process of liberalization, but in diagnosing the problems correctly and addressing them at their core.

The analysis in this paper has attempted to shed light on some fundamental problems affecting international trade in textile and clothing. There is tremendous scope for trade in the sector to grow, a fact that the WTO study seeks surprisingly to downplay. Between 1990 and 2002[15], trade in textiles expanded at a yearly rate of 3.2% and in clothing 5.3%. Within these numbers, developing economies logged much faster rates of growth: 5.3% in textiles, 6.0% in clothing. Projecting the expansion of trade over a similar span in the future and at

[15] Projections in this paragraph are based on Comtrade/WTO data; Product coverage SITC (Divisions 65 textiles, 84 clothing).

the same rates of growth (not an unreasonable assumption to make) increases overall sector trade from the present $ 353 billion to $ 596 billion, with textiles accounting for $ 222 billion and clothing $ 374 billion. And if developing countries are also assumed to maintain the same rates of growth as during 1990 – 2002 (again not an unreasonable assumption to make), their share in overall sector trade increases to $ 368 billion ($ 127 billion in textiles and $ 241 billion in clothing), representing a gain of $ 179 billion over 2002 which many developing economies, big and small, can benefit from.

Reason enough, then, for a fresh, brand-new approach!