

## **Trade in Textiles and Clothing Reflections from an Asian Perspective**

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When the organizers of Atextcon asked me to speak on “Asia in textile and clothing trade”, I thought that the worst I could do would be to confuse the audience through a maze of figures. I therefore decided that I shall present only a few facts, mainly to provide the background for examining the challenges facing the Asian economies in trade in this sector.

In presenting even a few facts, it would be rather abstract if I were to say that the Asian countries account for dominant shares of trade in the sector - over 47% of world exports in both textiles and clothing -- because this general portrayal might be of little interest to those in the business world. I have therefore added to my presentation two separate tables showing figures with respect to textiles and clothing exports of top 30 exporting countries to the two main markets of the United States and the 25-member European Union. These tables are designed to show the evolution of these countries' exports over different time periods, including the latest periods in 2006 for which data are available. A careful look through these data can also provide an insight into the factors that have been instrumental in propelling several countries on to the exporting scene.

That said it is noticeable that of the top 10 exporting economies to the US market, seven are from Asia (namely China, India, Hong Kong, Indonesia, Pakistan, Vietnam and Bangladesh). Likewise, among the top 10 to the EU, six are Asian (namely China, India, Bangladesh, Pakistan, Hong Kong and Indonesia).

What is even more significant is the fact that included among the top exporters to both these markets are some Asian countries that were otherwise predicted to be the major casualties of the expiry of the quota regime. In this connection, you might recall the flurry of studies on the eve of the abolition of the quota regime, making predictions of gloom and dire consequences for these countries. You may also recall that some of these studies were even under the banners of such reputable organizations as the World Bank, the IMF, the WTO and others. Thus Bangladesh, Cambodia and Sri Lanka were particularly mentioned as the likely casualties. The experience of the last two years has however proven these dire predictions to be wide off the mark. Figures in the tables that I have attached show that

Bangladesh is on course to register an increase of over a billion dollars worth of exports just on the US market. Similarly Cambodia has also logged impressive rates of growth since the expiry of the quota regime and Sri Lanka has largely held its own.

Of course, these are not the only countries that have achieved impressive rates of growth in their exports since the end of quotas. China, India, Indonesia, Pakistan, Vietnam and some others have also flourished.

On the contrary, there are countries which the pundits had predicted to do well but have either seen their exports stagnate or decline. Curiously many of these countries enjoy duty-free access to these markets.

Consider, for example, the case of Mexico. In 1990 its exports of textiles and clothing to the US amounted to \$ 678 million. In the same year, India exported \$ 793 million worth of textiles and clothing to the US. By the year 2000, Mexico had leapt to \$ 9.7 billion leaving India far behind at \$ 2.7 billion. Ordinary observers of the scene would be tempted to conclude as if Mexico's performance was due to the duty free access that became available to it by virtue of NAFTA. However, if that were the real reason, the question arises as to why Mexico is now on the decline despite its continued duty-free access to the United States. And it is not just Mexico that has been finding the going to be hard. Several other exporting countries that are otherwise beneficiaries of duty-free access to these main markets also find themselves in a similar bind.

The situation therefore calls for a deeper analysis, which brings me to the factors that lay behind the new debate in textiles and clothing. Therein also lay the challenges especially from the perspective of future prospects for Asian exporting economies.

After years of debate, it is now widely recognized that the US and EU trade policy has long been the predominant influence on trade flows and investments in textiles and clothing. First it was the quota restrictions. The Uruguay Round Agreement on Textiles and Clothing finally brought an end to this system. In the meantime, however, regional preferential schemes and free trade agreements were coming into vogue. These arrangements and agreements came in handy for US/EU textile industries in their attempt to retain a share of the market both at home and abroad through the mechanism of rules of origin typified in the so-called 'yarn forward'. In simple terms, these rules make it compulsory that, in order to be eligible for duty-free treatment to US/EU markets, the developing country clothing exporters use yarn and fabric made in the US or the EU (or within the boundaries of the free trade area -- which in practice means

yarns and fabrics made in the US and EU, together with of course a host of related services). This same overall model has been used by the US and the EU as the main template for duty concessions whether it is under autonomous preferential schemes or the free trade area arrangements.

A vivid illustration of this paradigm to preserve a corner of production for US/EU domestic producers is manifested in the European Commission policy that makes it plain that the Southern and East-Mediterranean countries are “part of the natural zone of competitiveness of the EU textile and clothing industry and are important destinations of both exports and investments of EU industry”. Likewise, the US textile industry also does not make it any secret when it says that ‘the preferential programmes and preferential trading partners serve as valuable outlets for US exports of yarns and fabrics and a host of related services’.

This policy by these majors has consequently resulted in the creation of large captive markets for their textile industries. Thus, for example, between 1989 and 2004, US yarn exports to the countries of the Caribbean increased by a massive 1718%, and to NAFTA countries by 274%. By contrast, during the same period, US exports of yarn to the rest of the world decreased by 31%. Similarly, its fabric exports to the CBI countries jumped by 814% and to NAFTA by 539%. But to the rest of the world, they advanced by just 45%. To put it differently, of \$ 16 billion or so of all U.S. textile exports, \$ 12 billion worth goes to these markets. It is a similar story when it comes to EU exports to Romania, Bulgaria, etc.

I do not wish to dwell at any further length on the objectives behind this policy approach. I merely wish to emphasize that it places the concerned developing economies in a great competitive bind. It has also created a ground reality that is now responsible for influencing the attitude of many towards further liberalization of textile and clothing trade. Those dependent on US/EU raw materials, especially yarns and fabrics, for their duty-free export access to those markets find themselves obliged to importing these materials from sources that are not the most competitive suppliers of these products. This requirement also increases the cost of doing business for their enterprises, not the least due to the necessity of a plethora of paper work which they are required to prepare and keep for years on end to benefit from the duty advantage. And it is on top of the increased costs of transportation and other financial charges entailed in bringing the inputs from the US and the EU.

Going through the data in the tables that I have attached, it can be seen that among the significant exporters on the US market under this policy compulsion are Mexico, the Central American countries, the Sub-Saharan

African countries, the Andean countries and Jordan (although Jordan is not similarly locked into using US yarns and fabrics and the Sub-Saharan African countries have been provided a temporary waiver from this requirement). Between them, such preferential suppliers accounted for some 30% of total US clothing imports in 2005.

On the EU scene, too, the more significant exporting countries that are likewise hamstrung by EU materials are Romania, Tunisia, Morocco, Bulgaria, etc. They also occupy some 30% of total EU imports.

This brings me to my basic point which is that this ground reality represents the main challenge to further development of trade in the sector. It is effectively responsible for creating a virtual divide among exporting economies: into preference-receiving countries, and the rest most of whom happen to be in Asia. And if I can be excused the candour of my remark, it has also come to test the consensus that previously existed in favour of freer trade in the sector.

Quite naturally this disparity among exporting countries has been manifesting itself in their approaches to tariff negotiations in the on-going Doha Round. A large number of them worry about the prospect of erosion in their tariff preferences. Others are concerned about the carving out of a large chunk of the market away from them and, thereby, an effective reduction in the size of the market for their competitive exports.

Worse still, this same ground reality is producing calls for a fresh work programme at the WTO under a Turkish initiative. These calls aim to review such issues as “trade and market circumstances” since the termination of the quota regime. Quite naturally, given the long experience of managed trade in this sector, some view this as a rearguard action to resurrect, in some form or the other, the much-maligned quota system.

In the context of Doha Round negotiations, too, the ground reality which I have sought to unfold before you is of late being exploited by some industry groups to push for a so-called “Special Textile Sectoral” -- again through the good offices of Turkey. The stated purpose of this proposal is to look at the problems of the sector ‘comprehensively’, including with the objective of removing disparities and harmonizing tariffs in different countries, considering the impact of erosion of tariff preferences currently available to a number of developing countries, and, more ominously, considering measures to achieve ‘orderly and fair’ long-term development of trade in the post-quota environment. However the real purpose of this initiative appears to be to allow lower reductions in textile and clothing

tariffs than would be the case if the same formula is used for tariff reductions in this sector as in other sectors.

This brings me to my crunch point. If these efforts were to succeed, they would complicate the negotiations and even scupper the possibility of securing handsome reductions in high tariffs and tariff peaks that are only all so common in textiles and clothing. This would indeed be a pity because tariff reductions in the sector hold the promise of unleashing immense potential for growth of trade to the benefit of all: developed countries, the consumers and, above all, the developing economies for which textile and clothing represent the single most important sector of comparative advantage. And this is the sector that has historically been the engine for industrial development in many economies.

Let me therefore say in conclusion that the main challenge in the sector remains the distortions created at the hands of US and EU policy intervention. As brought out above, first it was the quota restrictions. Now it is the new consequence of that intervention, i.e., the ground reality that pulls a number of countries towards pursuing avenues that can preserve their market shares even if these avenues might be contrary to the common wisdom that liberalisation of trade is ultimately in the best interest of all. By virtue of their position in trade in the sector, the Asian economies are most likely to be affected – positively or otherwise -- by whatever is the ultimate outcome of discussions and negotiations on these issues. Their business people would therefore do well if they remain abreast of developments in these discussions and negotiations. The stakes involved for them are high, indeed!

In the end, it remains for me to extend my deep gratitude to the organizers for inviting me to this, the 2<sup>nd</sup> Atexcon and letting me share some perspectives. I am delighted to be here and to learn from your experience.

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### US Textiles and Clothing Imports, Top 30 Exporters

Rank	Exporter	Import value in million US\$					January - November			
		1990	1995	2000	2004	2005	2005/04	2005	2006	2006/05
	World	27'936	43'953	71'692	83'310	89'205	7.1%	82'723	86'275	4.3%
1	China	3'556	4'800	6'527	14'558	22'405	53.9%	21'015	24'801	18.0%
2	Mexico	678	3'036	9'693	7'793	7'246	-7.0%	6'754	5'965	-11.7%
3	India	793	1'614	2'741	3'633	4'617	27.1%	4'263	4'653	9.1%
4	Hong Kong, China	3'799	4'391	4'707	3'959	3'607	-8.9%	3'312	2'760	-16.7%
5	Indonesia	696	1'336	2'380	2'620	3'081	17.6%	2'866	3'615	26.1%
6	Pakistan	428	965	1'835	2'546	2'904	14.1%	2'690	3'022	12.3%
7	Vietnam	-	18	50	2'720	2'881	5.9%	2'651	3'199	20.7%
8	Canada	483	1'651	3'350	3'086	2'844	-7.8%	2'647	2'427	-8.3%
9	Honduras	118	921	2'328	2'678	2'629	-1.8%	2'412	2'252	-6.6%
10	Bangladesh	438	1'115	2'205	2'066	2'457	18.9%	2'261	2'784	23.1%
11	Italy	1'038	1'464	2'129	2'261	2'143	-5.2%	1'975	1'889	-4.4%
12	Thailand	594	1'417	2'447	2'198	2'124	-3.4%	1'958	1'965	0.3%
13	Philippines	1'097	1'702	2'289	1'938	1'921	-0.9%	1'756	1'924	9.5%
14	Korea Rep	2'719	2'267	3'072	2'580	1'909	-26.0%	1'769	1'555	-12.1%
15	Dominican Rep.	723	1'787	2'451	2'066	1'855	-10.2%	1'704	1'426	-16.3%
16	Guatemala	206	698	1'498	1'959	1'831	-6.6%	1'700	1'564	-8.0%
17	Cambodia	0	0	816	1'442	1'727	19.8%	1'564	1'975	26.3%
18	Sri Lanka	438	1'025	1'677	1'585	1'677	5.8%	1'538	1'564	1.7%
19	El Salvador	70	607	1'616	1'757	1'646	-6.3%	1'516	1'312	-13.4%
20	Chinese Taipei	2'979	2'756	2'756	2'104	1'639	-22.1%	1'518	1'394	-8.2%
21	Turkey	351	805	1'463	1'764	1'609	-8.8%	1'517	1'225	-19.2%
22	Macao, China	393	764	1'166	1'437	1'199	-16.6%	1'075	1'096	2.0%
23	Jordan	6	16	52	956	1'083	13.2%	997	1'157	16.0%
24	Peru	78	152	406	692	821	18.7%	753	785	4.3%
25	Malaysia	514	745	852	764	726	-5.1%	670	688	2.6%
26	Nicaragua	0	74	336	595	716	20.3%	662	802	21.2%
27	Colombia	185	390	444	636	618	-2.8%	574	507	-11.7%
28	Egypt	92	319	518	564	614	8.9%	563	738	30.9%
29	Israel	185	418	651	590	544	-7.8%	508	445	-12.4%
30	Costa Rica	388	766	829	524	492	-6.2%	448	443	-1.2%
	All Above 30	23'046	38'020	63'283	74'071	81'565	10.1%	75'638	79'933	5.7%
	Above Share	82.5%	86.5%	88.3%	88.9%	91.4%		91.4%	92.6%	
	Preferential									
	NAFTA	1'162	4'687	13'043	10'879	10'091	-7.2%	9'401	8'393	-10.7%
	CBI	2'025	5'544	9'629	10'023	9'661	-3.6%	8'896	8'284	-6.9%
	Andean	292	576	898	1'389	1'496	7.7%	1'378	1'335	-3.2%
	Agoa	182	413	776	1'786	1'490	-16.6%	1'371	1'211	-11.7%
	Above Preferential	3'660	11'220	24'347	24'077	22'738		21'047	19'222	-8.7%
	Above Pref.Share	13.1%	25.5%	34.0%	28.9%	25.5%		25.4%	22.3%	

Source: Compiled from US Department of Commerce data.

**EU25 Textiles and Clothing Imports, Top 30 Exporters**  
**Excluding Intra-EU Imports**

Rank	Exporter	Import value in million US\$					January - September		
		1995	2000	2004	2005	2005/04	2005	2006	2006/05
	Intra EU25	73'745	72'223	94'166	91'021	-3.3%	69'517	69'766	0.4%
	Extra EU25	48'036	56'873	83'588	88'913	6.4%	67'702	73'986	9.3%
1	China	5'959	9'093	18'201	25'857	42.1%	20'566	21'338	3.8%
2	Turkey*	5'530	7'019	12'957	13'491	4.1%	10'300	10'527	2.2%
3	India	3'831	3'791	5'506	6'523	18.5%	5'057	5'797	14.6%
4	Romania*	1'359	2'595	5'244	4'984	-5.0%	3'794	3'690	-2.7%
5	Bangladesh	1'380	2'516	4'843	4'614	-4.7%	3'476	4'603	32.5%
6	Tunisia*	2'404	2'553	3'527	3'331	-5.6%	2'584	2'497	-3.4%
7	Morocco*	2'264	2'290	3'169	2'943	-7.1%	2'244	2'263	0.8%
8	Pakistan	1'553	1'570	2'885	2'506	-13.1%	1'907	2'115	10.9%
9	Hong Kong, China	3'399	2'975	2'512	2'175	-13.4%	1'095	2'643	141.5%
10	Indonesia	1'969	2'290	2'175	1'949	-10.4%	1'403	1'710	21.9%
11	Switzerland	2'354	1'608	1'925	1'785	-7.3%	1'377	1'348	-2.1%
12	Bulgaria*	413	795	1'565	1'600	2.2%	1'216	1'341	10.3%
13	United States	2'212	1'958	1'410	1'513	7.3%	1'145	1'238	8.1%
14	Korea Rep	1'078	1'930	1'788	1'363	-23.7%	997	1'016	1.9%
15	Thailand	1'127	1'230	1'453	1'318	-9.3%	971	1'092	12.5%
16	Sri Lanka	622	831	1'046	1'034	-1.1%	755	923	22.3%
17	Viet Nam	373	769	905	965	6.6%	699	1'054	50.7%
18	Chinese Taipei	766	1'163	939	841	-10.5%	596	672	12.7%
19	Egypt	576	563	758	752	-0.9%	577	643	11.3%
20	Japan	906	881	718	684	-4.7%	527	508	-3.6%
21	Cambodia	57	263	646	594	-8.0%	418	504	20.4%
22	Ukraine	218	382	622	576	-7.4%	440	432	-1.7%
23	Croatia	629	501	645	574	-11.0%	444	412	-7.3%
24	Mauritius	612	638	651	559	-14.0%	436	455	4.4%
25	Malaysia	604	539	496	495	-0.2%	354	429	20.9%
26	Macao, China	542	600	533	399	-25.2%	220	371	68.3%
27	Israel	564	458	404	389	-3.7%	295	292	-1.1%
28	Macedonia	274	249	346	371	7.3%	267	324	21.3%
29	Philippines	399	362	456	306	-32.9%	220	289	31.3%
30	Myanmar	23	280	466	242	-48.1%	180	208	15.9%
	All Above	43'995	52'692	78'791	84'737	7.5%	64'562	70'733	9.6%
	Above Share	91.6%	92.6%	94.3%	95.3%		95.4%	95.6%	
	Preferential Five*	11'970	15'253	26'462	26'350	-0.4%	20'139	20'317	0.9%
	Pref. Five Share*	24.9%	26.8%	31.7%	29.6%		29.7%	27.5%	

Source: Compiled from Eurostat data.