



Note from ITCB Secretariat

Dear Readers,

During most of some 50 years that textiles and clothing (T&C) remained subject to the quota system the United States played the key role in pushing for an evermore restrictive regime, the Administration being driven by a powerful industry lobby - the erstwhile 'American Textile Manufacturers Institute' (ATMI). The Europeans followed suit, arguing that unless they did the same they risked trade diversion to Europe to the detriment of European producers and workers.

That is why the imposition last month of additional duties by the United States on imports of tires from China has caused widespread concern and many in the United States textile circles are wary of the precedent being exploited by U.S. textile industry. We briefly report the episode in this issue of "Threads".

In the regular "Did You Know" column, an effort is made to correct a common misconception about what constitutes 'dumping'. The column also provides a few carefully-researched facts that should offer a useful insight into trade flows in the sector.

The main article in this issue presents a report on the development and significance of preferential trade in textiles and clothing. This component of trade presents important challenges to policy makers as it constitutes a large chunk of trade in the sector, is the mainstay of several developing countries' exports and is employed by some major developed economies to sustain market shares for their dwindling textile (yarns, fabrics, etc.) industries by a deft use of origin rules.

Next we briefly report on a recent development in which the European Union has announced the possible suspension of duty-free access to Sri Lanka due to shortcomings in its compliance of the human rights conditions attached to the benefit.

The final article in this issue is designed to inform of the problems in the availability of consistent and reliable data in the sector. It brings out the differences in various

classification systems and the issues that emanate from some inconsistent reporting practices. Finally, it highlights how changes in trade policy have brought out abrupt shifts in trade flows and therefore present a challenge in interpreting the data.

We hope that this issue of "Threads" is also received with the same enthusiasm as the previous ones, and shall again welcome any comments or suggestions from our readers.

It Could be Ominous for Textiles

When on September 11, 2009, President Obama announced the imposition of additional 35% duty on imports of tires from China it sent reverberations far beyond the tire industry. Many have expressed concern that a dangerous precedent has been set which might be exploited by protectionist interests in other sectors including textiles.

The measure has been adopted by the United States pursuant to Section 421 of its Trade Act 1974. The Section was added to give effect to a provision agreed as part of the conditions under which China became a WTO member in late 2001.

Commonly referred to as 'Product-Specific Safeguard', the provision in China's WTO accession protocol provides that in cases where products of Chinese origin are imported in such increased quantities or under such conditions as to cause or threaten to cause 'market disruption' to the producers of those products, the importing country may adopt a safeguard measure to remedy the situation. The measure may take the form of increase in applicable tariffs or limitation on imports to the extent necessary to serve the purpose.

The provision in question defines 'market disruption' as a situation where imports "are increasing rapidly, either absolutely or relatively, so as to be a significant cause of material injury or threat of material injury to the domestic industry" of the importing country.



Did You Know?

Contrary to common perception, dumping does not mean exporting cheap or at throwaway prices.

In international trade, dumping is defined as exporting a product at prices lower than it is sold in the exporter's domestic market. If there are no sales in the domestic market, then the comparison is made with the price at which the product is exported to some other country or with the cost of production of the exporter.

Moreover action against dumping can only be taken if it is demonstrably established that the export of dumped product has caused or threatens to cause material injury to the producers of like products in the importing country.

On a global basis, the share of clothing in total textiles and clothing *exports* is some 55% and the share of textiles 45%.

Looking at the *import* side, clothing occupies even higher percentages in developed countries' sector imports: 76% in United States; 77% in Japan; 75% in European Union (27); 71% in Switzerland; 72% Norway.

On the other hand, in developing countries' sector imports, textile accounts for the preponderant shares: 91% in China; 91% in Bangladesh; 83% in Turkey and Brazil; 89% in Thailand; 77% in Tunisia; 72% in Mexico.

These numbers provide an important insight from a trade policy perspective, i.e., that much of developing countries' sector imports (mainly textiles) are for processing and re-export as clothing.

Liberalising origin rules can be a good way to stimulate trade. Following liberalisation of these rules by Canada for duty-free access to least-developed countries, the import market share of these countries on the Canadian market increased from 4.3% in 2003 to 7.4% in 2008.

It further provides that in determining whether market disruption exists, the affected WTO member shall consider the effect of imports on its domestic industry producing the same product.

Finally, to avoid unfair recourse the safeguard clause of China's WTO accession protocol stipulates that prior to the application of a measure the member taking the action should provide reasonable public notice to all interested parties including importers, exporters, and others to submit their views on the appropriateness of the proposed measure and on whether it would be in the public interest. The internal U.S. procedures also provide likewise.

As this safeguard clause was to be available for application only against imports from China and therefore contrary to the fundamental WTO principle of non-discrimination, it was agreed that it will be terminated 12 years after the date of China's accession to the WTO. As China became WTO member from 11 December 2001, it will expire by the end of 2013.

It is apparent from the safeguard provision summarised above that a measure may be adopted only if imports are causing or threaten to cause material injury to "the domestic industry producing" the product.

But it so happens that the safeguard measure on tires from China has been adopted on a complaint not by the domestic industry but by United Steelworkers Union. No domestic producers of tires supported the complaint or the proposed measure, however. In fact two tire producing firms opposed the action.

It is this aspect of the episode that has given rise to widespread concern, including among textile and clothing importers because United States textile industry is known to be keen to exploit every opportunity to push for restrictions on imports in the sector. Indeed it is already sending signals that it is considering filing its own petitions for product-specific safeguard actions.

And apprehensions are being expressed that the tires safeguard decision raises prospects of more union-based petitions. Textile importing community also fears that it could encourage petitions that are so timed that the President's decision on the petition may be due when Congress is likely to face votes on issues of key importance to the Administration, or before the November 2010 congressional elections. In this connection it is recalled that even though the Bush Administration rejected relief in the four China safeguard petitions which it considered during its term, it did play the protectionist card when politics dictated it. For example, in 2008 election year, it imposed a safeguard measure on socks from Honduras under DR-CAFTA even when these were made with U.S. yarn.

More than anything else, the entire episode demonstrates how alive and strong the protectionist pressures are, especially considering that the action on Chinese tires came soon after the passage of the much-criticised 'Buy American' provision in the Economic Stimulus Package including with respect to textile items (see report in "Threads", May 2009 issue). The current difficult economic environment adds to the sense of foreboding.

The State of Preferential Trade in Textiles and Clothing

The purpose of this short report is to lay out the development and significance of preferential trade in textiles and clothing because it (a) constitutes a large chunk of trade in the sector, (b) is the mainstay of several developing countries' exports, (c) is used by some major developed economies to sustain market shares for their dwindling textile (yarns, fabrics, etc.) manufacturers, and (d) for all these reasons presents important challenges to policy makers.

Table-1 is designed to highlight the shares accounted for by T&C in selected countries' exports.

Table-1: Share of Textiles and Clothing in Selected Preferential Suppliers' Merchandise Exports (Based on Mirror Import Data)¹

(Percent of total merchandise exports)

Exporter country	1990	2000	2005	2007
Bangladesh	58.6	81.9	85.4	87.1
Cambodia	1.9	80.6	84.5	86.7
El Salvador	3.9	55.8	54.1	44.7
Guatemala	1.5	33.5	33.1	23.9
Haiti	32.8	81.6	77.2	83.8
Honduras	0.4	61.9	56.8	50.4
Jordan	0.3	7.7	33.9	30.3
Kenya	3.4	4.5	10.7	9.1
Lesotho	--	84.7	84.7	64.5
Madagascar	9.7	41.5	51.8	55.0
Mauritius	68.0	63.0	45.3	47.8
Mexico	1.4	7.0	4.3	2.7
Morocco	20.8	32.4	27.2	25.9
Sri Lanka	28.1	57.5	50.0	50.0
Swaziland	--	14.9	20.0	15.8
Turkey	43.4	38.9	28.4	23.9

¹Shares computed from mirror import data because some countries' export data are found to contain reporting gaps and are therefore not comparable with others.

Source: ITCB compilation from UN Comtrade database.

But what is preferential trade?

Simply stated, preferential trade means exports that enjoy a tariff advantage by virtue of the exporting country's membership of a customs union or free trade area arrangement with the importing country. A similar advantage can also be available by virtue of some autonomous programme of an importing country to support the process of development of developing countries.

In strict legal terms, such advantages do not conform to the Most-Favoured-Nation (MFN) principle of the WTO

which enjoins the extension of equal treatment to all suppliers without discrimination.

WTO rules however permit departure from MFN under carefully defined exceptions. Most significantly, exceptions are allowed for closer integration between countries that eliminate trade barriers among them by forming customs unions or free trade areas. Secondly, the so-called "Enabling Clause" allows developed countries to accord differential and more favourable treatment to developing countries without according such treatment to others. Finally, WTO members can seek what, in WTO parlance, is called a "waiver" which is a specific permission granted to a country to depart from an obligation which it is otherwise legally bound to abide by.

Policy framework underpinning the development of preferential trade in textiles and clothing

The development of much of preferential trade in textiles and clothing owes to the operation, over time, of three inter-related policy developments. Initially it started as relaxations from the strict application of the quota system. Later, various schemes came to supplement quota concessions by some form of tariff advantage. More recently, the advantage has taken the shape of duty-free access pursuant to different free trade area agreements, or autonomous programmes by major developed countries.

Relaxations under the quota regime

Outward processing had long been an established feature of trade, especially in Europe. Given the labour-intensive nature of sewing and other operations required in the making of clothing products, in textiles and clothing it essentially involved sending fabric and cut- or unfinished-parts of apparel from high-wage developed countries to neighbouring low-wage developing economies for making up into garments and re-importing the finished garments. To take advantage of the opportunities offered by this so-called outward processing trade (OPT) a provision was included in the Multi-Fibre Arrangement that "Consideration shall be given to special and differential treatment to re-imports into a participating [importing] country of textile products which that country has exported to another participating country for processing and subsequent re-importation in the light of the special nature of such trade ...".

Outward processing trade (OPT) quotas

On the back of the OPT provision, the EC provided additional quotas for Outward Processing Trade. Although, with passage of time, the possibility of OPT quotas was offered on a more generalized basis, as a matter of sheer economic logic it was of the greatest significance to some of the E.C. member states themselves in as much as it enabled their yarn and fabric makers to find convenient outlets for these products as also to economize on the cost of labour. Nonetheless it also provided the much-needed export prospects for countries with surplus pools of available labour. These quotas spurred trade between some E.C. member states and former Yugoslavia and, later, countries of the Mediterranean, especially, Tunisia and Morocco.

U.S's CBI initiative

The United States adapted the same concept to its Caribbean Basin Initiative (CBI). Launched in 1984 to assist the development of countries in its neighbouring region, it included grant of duty-free treatment to a group of products, which did not however include textiles and clothing. This exclusion notwithstanding, some enterprises took advantage of a U.S. customs provision which exempted import duties to the extent of the value of US-content contained in imported products (the so-called 807 trade) and shipped garments by assembling them from components made in the United States. As rates of tariff on clothing were substantial, there was economic benefit to be made even if the duty saving was only on the value of US content in the exported product.

In 1986, the US added a "special access programme" for the CBI countries, referred to as 807-A or Super 807. Its emphasis was on providing additional quota access for apparel assembled from fabric produced and cut in the United States. CBI beneficiary countries were invited to enter into bilateral agreements which established guaranteed access levels (GALs) over and above the normal MFA quotas. As they ensured the use of US textile materials, these guaranteed access levels could be increased to almost unlimited amounts on request. The concurrent sweetener of duty concession, *albeit* as duty exemption only on the value of US content contained in the exported product, provided the added incentive.

Special access regime for Mexico

Then in 1988 the United States established a similar "Special Regime" for most apparel and made-up textiles

from Mexico, whereby significant portions of Mexico's quotas were set aside for export of articles assembled from fabrics wholly made and cut in the U.S.

A stage was thus set for U.S. textile makers to make use of the neighbouring Caribbean and Central American countries and Mexico as additional markets for their yarns and fabrics and for U.S. apparel makers to outsource more labour-intensive operations to these low-wage locations. Apparel exports from those countries to the U.S. under these programmes grew swiftly, also making it possible for U.S. producers to make a rich killing and increase their exports of yarns, fabrics and unfinished or semi-finished clothing.

Duty-free schemes

Meantime United States and the European Union negotiated several various free trade agreements and implemented various programmes which provide duty-free access to particular sets of developing countries. And Canada and Australia also substantially liberalized their respective origin rules in the framework of duty-free access to least-developed countries under their GSP programmes.

After the abolition of quotas, duty-free access under these programmes is the main vehicle underpinning preferential trade in T&C sector. A complete listing of countries and territories eligible for duty-free access to the U.S., E.U. and Canada and their respective programmes is provided in Box-1 (see opposite page).

The main developing country programme in the context of preferential trade in T&C is the Common Market of the South (the Mercosur), which binds Argentina, Brazil, Paraguay and Uruguay.

The development of preferential trade in textiles and clothing

For reasons of space, this article provides a snapshot of the development of preferential trade only in the United States, the European Union and Mercosur.

Appendix Tables 1 and 2 show the evolution of T&C imports from main FTA partners and other preferential suppliers into the U.S. and the E.U. The following features stand out (please, see page 6).



Box-1: Countries and Territories Eligible for Duty-Free Access to the US, EU and Canada under Various Programmes

Programme	Eligible for duty-free access
United States	
Free Trade Area agreements (FTAs)	Canada, Mexico, Israel, Costa Rica, Dominican Rep., El Salvador, Guatemala, Honduras, Nicaragua, Australia, Bahrain, Chile, Jordan, Morocco, Oman, Peru and Singapore
Andean Trade Preferences Act (ATPDEA)	Colombia, Ecuador, Bolivia (suspended)
Caribbean Basin Trade Partnership Act (CBTPA)	Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, British Virgin Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Netherlands Antilles, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago
African Growth and Opportunity Act (AGOA)	Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Chad, Comoros, Congo, Djibouti, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Uganda and Zambia
Qualifying Industrial Zones (QIZ)	Egypt, Jordan, West Bank and Gaza
European Union	
Customs Unions	Andorra, San Marino and Turkey
European Economic Area	Iceland, Liechtenstein, Norway and Switzerland
Free Trade Area agreements (FTAs)	Chile, Faroe Island, Mexico, South Africa
Stabilization and Association Agreements	Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro
Mediterranean Association Agreements	Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria and Tunisia
African, Caribbean and Pacific group of countries (ACPs) (Now under Economic Partnership Agreements)	Angola*, Antigua and Barbuda, Bahamas, Barbados, Belize, Benin*, Botswana, Burkina Faso*, Burundi*, Cameroon, Cape Verde, Central African Republic*, Chad*, Comoros*, Congo, Congo Democratic Republic*, Cook Islands, Cote d'Ivoire, Cuba, Djibouti*, Dominica, Dominican Republic, Equatorial Guinea*, Eritrea*, Ethiopia*, Fiji, Gabon, Gambia*, Ghana, Grenada, Guinea*, Guinea-Bissau*, Guyana, Haiti*, Jamaica, Kenya, Kiribati*, Lesotho*, Liberia*, Madagascar*, Malawi*, Mali*, Marshall Islands, Mauritania*, Mauritius, Micronesias, Mozambique*, Namibia, Nauru, Niger*, Nigeria, Niue, Palau, Papua New Guinea, Rwanda*, Samoa*, Sao Tome and Principe*, Senegal*, Seychelles, Sierra Leone*, Solomon Islands*, Somalia*, South Africa, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Sudan*, Suriname, Swaziland, Tanzania*, Timor Leste*, Togo*, Tonga, Trinidad and Tobago, Tuvalu*, Uganda*, Vanuatu*, Zambia* and Zimbabwe
Least-Developed Countries (Everything-But-Arms/GSP)	Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Congo Democratic Republic, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Laos, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Tanzania, Timor-Leste, Togo, Tuvalu, Uganda, Vanuatu, Yemen and Zambia
GSP+ (Special Incentive Arrangement for Sustainable Development and Good Governance)	Armenia, Azerbaijan, Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Georgia, Guatemala, Honduras, Mongolia, Nicaragua, Paraguay, Peru, Sri Lanka and Venezuela
Canada	
Free Trade Areas (FTAs)	United States, Mexico, Israel, Jordan, Colombia, Peru, Chile and Costa Rica
European Free Trade Association (EFTA)	Iceland, Liechtenstein, Norway and Switzerland
Least-Developed Countries	Same as under the EU list above
Commonwealth Caribbean Country Tariff (CCCT)	Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, Turks and Caicos Islands

Note: Countries with an asterisk (*) under the ACP list are also covered by the Everything-but-Arms programme of the EU.

Bulk of preferential trade accounted for by a few suppliers

Although a large number of countries enjoy duty-free access rights to the U.S. and the E.U. markets (see list in Box-1, previous page), in 2008 only fifteen accounted for over 93% of the total in the U.S. and over 95% in the E.U.

Of 39 beneficiaries of AGOA, only 10 shipped \$2 million or more to the U.S.

A quick glance down the appendix tables also shows that the majority of beneficiaries are developing countries; all but one of the top 15 in either market.

Significant differences across U.S./E.U. markets

The mix of suppliers to the two markets also reveals significant differences. Only Egypt and Israel appear among the top 15 in both markets. And although many more have duty-free access rights to both, their exports are concentrated in either one or the other. Jordan and Haiti stand out in this regard.

Share of preferential trade on the decline

As proportion of total imports, the share of preferential trade has been on the decline in both markets; down from

44.1% of total T&C imports in 2004 to 37.2% in 2008 in the E.U.; from 32.5% to 21.3% in the U.S.

It must however be emphasised that percentage shares alone are not necessarily dispositive. Although Turkey's share of E.U imports declined from 17.4% in 2004 to 14.3% in 2008, the value of imports increased from \$13.5 billion to \$16.6 billion - a gain of \$3 billion.

Likewise, Bangladesh's share barely moved from 6.2% to 6.3%; yet its exports also made a gain of \$2.5 billion.

Mercosur

There are a number of free trade agreements among developing countries. Few however are any significant in the context of T&C trade.

Of those that are, Mercosur is one. Fairly large proportion of its members' combined T&C exports go to fellow members (38.7% in 2008). However, only 16.7% of their sector imports came from within the region (see Tables 2 and 3 below).

Table 2:
Mercosur Countries' Exports of Textiles and Clothing in 2008, Million US dollars

Exporters	Exports to World	Of which to Mercosur partners				Mercosur	% to Mercosur
		Argentina	Brazil	Paraguay	Uruguay		
Argentina	520.2	----	192.5	15.7	46.0	254.2	48.9%
Brazil	1'710.7	483.8	----	64.7	47.0	595.5	34.8%
Paraguay	55.2	27.7	19.8	----	1.9	49.4	89.4%
Uruguay	276.8	45.0	46.2	2.6	----	93.8	33.9%
Total	2'563.0	556.5	258.4	83.0	95.0	992.9	38.7%

Table 3:
Mercosur Countries' Imports of Textiles and Clothing in 2008, Million US dollars

Importers	Imports from World	Of which from Mercosur partners				Mercosur	% from Mercosur
		Argentina	Brazil	Paraguay	Uruguay		
Argentina	1'558.9	----	504.9	33.6	38.8	577.3	37.0%
Brazil	3'762.1	194.4	----	30.4	26.4	251.1	6.7%
Paraguay	222.2	14.3	55.7	----	1.1	71.1	32.0%
Uruguay	237.9	37.1	25.8	0.9	----	63.7	26.8%
Total	5'781.2	245.7	586.4	64.9	66.3	963.2	16.7%

Source: ITCB compilation from WITS; totals may not tally due to rounding.

Sri Lanka May Lose Duty-Free Access to E.U.

On 19 October, 2009, an E.U. spokesman announced the completion of a European Commission investigation launched into Sri Lanka's human rights practices to see whether the country was satisfying the standards set for qualifying for trade benefits under the E.U.'s GSP-plus incentives scheme.

He said the investigation had come to the conclusion that there were significant shortcomings in compliance and that Sri Lanka was therefore in breach of its commitments under the scheme. He added that the Commission would now consult with E.U. member states to see whether to suspend the duty-free trade benefit.

When in 2005 the European Union revamped its GSP programme and included the Special Incentive Arrangement for Sustainable Development and Good Governance, Sri Lanka became the only major exporter of textiles and clothing to the E.U. to apply for and receive the duty-free treatment under this so-called GSP+ programme.

The move gave Sri Lanka's apparel exports to the E.U. a cost advantage of 12% because that is the general E.U. tariff on most apparel imports.

Considering that a duty concession of 20% of applicable tariff - i.e., 2.4% on apparel tariff of 12% -- is available to all beneficiary countries under the normal GSP scheme, the additional advantage of 9.6% was not inconsequential either.

On the back of this duty-free concession, extra-E.U. imports of textiles and clothing from Sri Lanka grew by 22.6% in 2006, a further 17.4% in 2007, and a still further 15% in 2008 in US dollar terms.

Compared to these numbers, extra-E.U. imports¹ from all sources registered increases of 12.7% in 2006, 14.3% in 2007 and 7.7% in 2008.

As the value of E.U.'s 2008 clothing imports from the country was \$1654 million, the duty advantage amounted to about \$159 million which explains Sri Lanka's above-average gains for successive years.

The loss of duty-free status could be a significant setback to Sri Lankan apparel exports. To compensate, the Sri Lankan government is reported to have announced a \$150 million relief package for the sector and other industries that may be affected. However, the modalities of the government aid package are said to be still in the

works. Reportedly, the package is unlikely to contain a straight grant or subsidy, but rather a credit line or some advances to cushion the costs to industries.

Currently, besides Sri Lanka, the following fifteen countries are beneficiaries of duty-free treatment under the E.U.'s GSP-plus scheme: Armenia, Azerbaijan, Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Georgia, Guatemala, Honduras, Mongolia, Nicaragua, Paraguay, Peru and Venezuela.

However, in 2008, E.U. sector imports from all the above 15 were \$440 million compared to \$ 1719 million from Sri Lanka alone. (Lest there were any confusion, \$1719 million mentioned here pertains to textiles and clothing combined, whereas \$1654 million cited in an earlier paragraph related to clothing alone).

¹Extra-E.U. imports refer to imports from outside the E.U., i.e., excluding trade among the E.U. member states themselves.

Why Interpreting Textile and Clothing Trade Data can be Tricky

Trade data are critical for informed decisions by businesses, policy makers and other stakeholders. Yet timely and reliable data are hard to come by, more so in textiles and clothing.

Quite often, data produced by different sources do not tally. There are wide divergences between export figures reported by a country and corresponding imports from the same country by a partner country. Forecasts and econometric estimates failed to come close to reality on the ground. In the run up to the expiry of the quota system, many a prediction of doom proved unfounded. And countries that were forecast to do well have been unable to come up to expectations.

Much of this is the consequence of data deficiencies. This short report is intended to inform of the problems. It is important that users are aware and use the numbers with due deliberation.

Three problem areas

With respect to data on textiles and clothing, there are three main problem areas: (i) Differences in product coverage under various classification systems; (ii) Deficien-

cies in reporting of data; and (iii) an ever-changing policy environment that causes abrupt movements in trade performance.

Definitional and methodological issues

Quite often data under different classification systems are mixed up leading to considerable distortions. Here is a brief exposition of the various classifications and the inherent problems.

The Standard International Trade Classification (SITC)

According to the Standard International Trade Classification (SITC) system developed by the United Nations Statistical Office, textiles and clothing are grouped mainly under two Divisions: Division 65 for textiles and Division 84 for articles of apparel and clothing accessories.

Trade data on textiles and clothing compiled and published by WTO are based on SITC. But SITC Division 84 includes articles of apparel and clothing accessories of leather and composition leather, of fur skin, and of plastics and vulcanized rubber; and Division 65 also includes yarns and fabrics of glass fibre and hat-shapes, hat-forms, hat bodies and hoods. These items are not commonly understood to be textiles and clothing. SITC numbers are therefore overstated to the extent of the inclusion of these products.

The Harmonized System (HS)

Harmonized Commodity Description and Coding System of the World Customs Organization (commonly called the HS) classifies textiles and clothing as Section XI. For purposes of this Section, HS does not treat the above items (i.e., apparel of leather, etc., yarns and fabrics of fibre glass, and hat-shapes, etc.) as textiles and clothing. On the other hand, however, it classifies certain agricultural products, namely, raw cotton, silk, wool and animal hair, and other vegetable fibres including jute, flax, ramie, etc., as textiles under Section XI. Thus HS Section XI also overstates the data to the extent of these agricultural raw materials.

The Agreement on Textiles and Clothing (ATC)

The product coverage of the defunct Agreement on Textiles and Clothing (ATC) was largely based on HS Section XI. However while it excluded the above mentioned agricultural raw materials, it added many other items from outside Section XI to the list of textiles and clothing. The most significant of these inclusions were luggage,

handbags and footwear uppers of textile materials; fabrics coated, covered or laminated with plastics; head-gear; yarns and fabrics of glass fibre; safety seat belts; pillows and cushions.

These products do not normally belong to the textile and clothing universe. They were included in the product coverage of the ATC at the insistence of major developed countries, their purpose being to inflate the base volume of imports (even if such items had never been under any MFA quotas) ostensibly to secure what came to be dubbed as “back loading” of quota phase out.

The International Standard Industrial Classification (ISIC)

Finally, under the United Nations Industrial Development Organization classification system, ISIC, textiles and clothing are grouped under sectors 17 and 18 respectively. However, for reasons unknown, sector 17 of this classification system treats the following items as textiles, not clothing: T-shirts, singlets and other vests; jerseys, pullovers, cardigans, waistcoats and other similar articles; and panty hose, tights, stockings, socks and other hosiery. These highly traded items are otherwise classified in the HS as clothing under headings 61.09, 61.10 and 61.15.

Most economists use ISIC numbers especially because UNIDO is the main source for figures on production.

These differences in classifications can lead the uninitiated into a veritable maze.

Deficiencies and differences in reporting practices

Like differences in classification methods, there is also many a problem due to reporting deficiencies. The most obvious is the lag in time with which various countries report their trade statistics. It is not uncommon to come across situations where data for particular countries are just not reported. A browse through UN Comtrade database (the main data source on trade) would reveal this. To make up for the gaps, estimates are sometimes made - generally using mirror data from partner countries or some other methodology. But estimates are estimates, no substitute for accuracy.

Often, too, errors creep in due to mistakes in entering the data. We at the ITCB have come across such errors on a number of occasions and make every effort to point these out to the quarters concerned.



Most significant, however, are the differences among exporting countries with respect to the treatment and reporting of exports from export processing zones. In many a case, trade from these zones is not included in respective countries' import or export figures, even though these are bona fide trade flows and, in any case, are reflected in major importing countries' data as imports from the countries where they originate.

Further still, insofar as the major *importing entities* are concerned, the Commission of the European Communities, the executive arm of the European Union, treats entire Section XI of HS as textiles and clothing, i.e., including figures with regard to agricultural raw materials such as raw cotton, silk, wool and animal hair, and other vegetable fibres, namely, jute, flax, ramie, etc. Furthermore, it treats made-up articles of HS Chapter 63 (blankets, bed linen, kitchen linen, toilet linen, sacks and bags, and the like) as clothing, whereas these are generally treated as textiles.

Finally, there is the problem of exchange rates. EU data are in Euros, although it is not universal even among the 27 member states of the European Union. Due to exchange rate changes, there have been large variations in terms of percentage increases when measured in Euro or dollar terms.

The ever-changing policy environment

Over time the policy dispensation with respect to conditions of access for various countries has changed, producing abrupt effects on trade.

To quote just a few examples, NAFTA came into effect from 1994; the U.S. granted NAFTA-parity to CBI countries in 2000; AGOA was enacted in 2000; Vietnam received non-discriminatory MFN tariff status in the U.S. from 2002; Jordan and Egypt became eligible to U.S.'s Qualifying Industrial Zones programme from different dates.

On the E.U. market, before their formal accession to the Union, Bulgaria and Romania emerged as relatively new players among the preference league. Sri Lanka received duty-free status under E.U.'s Special Incentives Arrangement for Sustainable Development and Good Governance (the so-called GSP+) from 2005.

Canada liberalised its origin rules in the context of duty-free access to least-developed countries.

Most significantly, the expiry of quota regime lifted all quantitative limitations from 2005.

Closing thought

All in all it is important that users of textiles and clothing data be aware of these complexities and exercise necessary caution when interpreting these data. At the very least, the product coverage used in the data should be clearly stated and understood. Equally, questions should be raised if there were any unusual variations in figures from one period to the other.

threads

Newsletter from ITCB

Published by International Textiles and Clothing Bureau (ITCB)

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ITCB's mission is to promote collaboration among developing countries and positive actions aimed at increasing their exports of textiles and clothing. In pursuit of this objective, it serves as a common platform to articulate their concerns and aspirations for improved access to markets and full regard for the principles and rules of the multilateral trading system.

This newsletter aims to provide reliable news, views and analysis for informed decision-making by businesses, policy makers and other stakeholders.

The opinions expressed and arguments employed in Threads do not necessarily reflect the views of the ITCB or of its members.

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Manuscripts offered for publication should be compatible with ITCB's mission.

ITCB reserves the right to decline publication of any particular contribution.

Material from Threads can be used in other publications with full citation.

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Appendix Table 1
United States Textiles and Clothing Imports
From top FTA and preferential partners

Exporter	Import value in million US dollars					Share in 2008 preferential imports
	2004	2005	2006	2007	2008	
World	83'310	89'205	93'279	96'410	93'187	
Of which, imports from FTA and preferential partners	27'105	25'587	23'768	21'767	19'846	100.0%
Share in World	32.5%	28.7%	25.5%	22.6%	21.3%	
Mexico	7'793	7'246	6'376	5'625	4'957	25.0%
Honduras	2'678	2'629	2'445	2'518	2'612	13.2%
Canada	3'086	2'844	2'587	2'202	1'652	8.3%
El Salvador	1'757	1'646	1'433	1'507	1'571	7.9%
Guatemala	1'959	1'831	1'678	1'463	1'399	7.1%
Jordan	956	1'083	1'254	1'146	974	4.9%
Nicaragua	595	716	879	968	934	4.7%
Egypt	564	614	806	870	914	4.6%
Dominican Republic	2'066	1'855	1'550	1'061	850	4.3%
Peru	692	821	865	833	817	4.1%
Israel	590	544	483	411	418	2.1%
Haiti	324	406	450	452	412	2.1%
Colombia	636	618	551	428	378	1.9%
Lesotho	456	391	387	384	340	1.7%
Costa Rica	524	492	479	432	307	1.5%
15 above	24'676	23'737	22'225	20'300	18'535	93.4%
Madagascar	323	277	238	290	279	1.4%
Kenya	277	271	264	249	247	1.2%
Bahrain	204	160	114	122	149	0.8%
Swaziland	179	161	135	135	125	0.6%
Singapore	244	159	148	154	122	0.6%
Mauritius	227	167	119	115	102	0.5%
Morocco	76	60	102	91	90	0.5%
Australia	243	148	69	39	46	0.2%
South Africa	164	86	67	43	41	0.2%
Jamaica	86	56	49	37	17	0.1%
Botswana	20	30	29	31	16	0.1%
Bolivia	40	37	32	20	15	0.1%
Malawi	27	23	18	20	13	0.1%
Chile	29	32	34	26	13	0.1%
Ecuador	20	19	15	17	12	0.1%
Ethiopia	3	4	6	5	10	0.0%
Guyana	7	6	5	5	4	0.0%
Panama	4	4	3	3	3	0.0%
Tanzania	3	4	4	3	2	0.0%
Oman	126	54	22	10	1	0.0%
Cameroon	0	0	0	1	1	0.0%
Ghana	7	5	10	8	1	0.0%
Dominica	0	0	0	0	1	0.0%

Product coverage: MFA products.

In both appendix tables 1 and 2, all imports from eligible countries are included irrespective of whether some amounts may not have entered duty-free due to non-fulfilment of origin requirements.

Egypt has been included as 95% of total clothing imports in 2008 entered under QIZ.

Source: ITCB compilation from US Department of Commerce data. Due to rounding, percentage figures may not tally.

Appendix Table 2
European Union (27) Textiles and Clothing Imports
From top FTA and preferential partners

Exporter	Import value in million US dollars					Share in 2008 preferential imports
	2004	2005	2006	2007	2008	
World (Extra-EU27)	77'941	83'937	94'617	108'172	116'462	
Of which, imports from FTA and preferential partners	34'376	33'708	36'942	42'156	43'306	100.0%
Share in World	44.1%	40.2%	39.0%	39.0%	37.2%	
Turkey	13'548	14'222	14'948	17'430	16'597	38.3%
Bangladesh	4'847	4'631	6'077	6'391	7'353	17.0%
Tunisia	3'528	3'342	3'398	3'909	4'189	9.7%
Morocco	3'171	2'958	3'112	3'651	3'708	8.6%
Switzerland	1'944	1'811	1'851	2'180	2'237	5.2%
Sri Lanka	1'046	1'039	1'273	1'495	1'719	4.0%
Egypt	760	754	859	1'010	1'130	2.6%
Cambodia	646	595	696	725	814	1.9%
Macedonia	347	373	460	650	720	1.7%
Croatia	646	577	554	608	637	1.5%
Mauritius	651	560	622	675	637	1.5%
Serbia	n.a.	144	307	416	466	1.1%
Israel	416	399	406	431	454	1.0%
Madagascar	210	237	301	355	337	0.8%
Albania	138	136	159	226	284	0.7%
15 above	31'899	31'776	35'024	40'152	41'281	95.3%
Bosnia	152	152	162	183	222	0.5%
Myanmar	466	242	268	221	217	0.5%
Peru	119	138	153	183	199	0.5%
Norway	162	163	173	187	180	0.4%
South Africa	257	215	197	196	171	0.4%
Laos	147	149	155	149	164	0.4%
Syria	224	172	171	170	154	0.4%
Mexico	119	118	122	131	130	0.3%
Nepal	97	91	86	90	95	0.2%
Honduras	36	29	37	40	58	0.1%
Colombia	54	49	56	49	58	0.1%
El Salvador	12	13	41	40	40	0.1%
San Marino	6	5	4	40	34	0.1%
Lebanon	15	17	17	19	21	0.0%
Haiti	2	6	12	22	19	0.0%
Jordan	13	12	12	14	17	0.0%
Armenia	16	15	16	17	16	0.0%
Dominican Republic	15	13	17	19	15	0.0%
Guatemala	7	7	8	7	15	0.0%
Chile	14	9	5	11	15	0.0%
Mongolia	20	25	24	28	14	0.0%
Ecuador	14	13	9	12	13	0.0%
Nigeria	40	34	15	16	13	0.0%
Botswana	13	6	7	11	10	0.0%
Kenya	13	12	12	11	10	0.0%
Andorra	7	8	8	7	10	0.0%
Ethiopia	9	10	10	11	10	0.0%
Bolivia	8	9	11	9	9	0.0%
Nicaragua	2	2	3	3	9	0.0%
Liechtenstein	11	10	10	11	9	0.0%
Tanzania	16	10	10	10	8	0.0%

Product coverage: HS Section XI excl. agricultural raw materials like cotton, wool, silk, etc.

Source: ITCB compilation from Eurostat data. Due to rounding, percentage figures may not tally.