

**GLOBAL TRADE IN T&C AFTER THE MFA PHASE-OUT:
EMERGING TRENDS AND CHALLENGES FOR LOW INCOME DEVELOPING COUNTRIES**

Occasional Paper: 70A

*Mustafizur Rahman
Asif Anwar
Fida-e-Tashfia
Zebulun Kreiter*

Publisher

Centre for Policy Dialogue (CPD)

House 40C, Road 11 (New), Dhanmondi R/A

Dhaka 1209, Bangladesh

Telephone: (+8802) 8124770, 9141703, 9141734, 9145090

Fax: (+8802) 8130951

E-mail: info@cpd.org.bd

Website: www.cpd.org.bd

First Published October 2008

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ISSN 1818-1570 (Print), ISSN 1818-1597 (Online)

C42008_13OP70A_TRC

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The present paper titled **Global Trade in T&C after the MFA Phase-out: Emerging Trends and Challenges for Low Income Developing Countries** has been prepared under the CPD programme on *Trade Related Research and Policy Development (TRRPD)*. This programme aims at strengthening institutional capacity in Bangladesh in the area of trade policy analysis, negotiations and implementation. The programme, *inter alia*, seeks to project the civil society's perspectives on the emerging issues emanating from the process of globalisation and liberalisation. The outputs of the programme have been made available to all stakeholder groups including the government and policymakers, entrepreneurs and business leaders, and trade and development partners.

The paper has been prepared by *Professor Mustafizur Rahman*, Executive Director, CPD; *Mr Asif Anwar*, Senior Research Associate, CPD; *Ms Fida-e-Tashfia* and *Mr Zebulun Kreiter*, Interns, CPD.

Assistant Editor: *Anisatul Fatema Yousuf*, Director (Dialogue & Communication), CPD

Series Editor: *Mustafizur Rahman*, Executive Director, CPD

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Acronyms

ADB	Asian Development Bank
ADD	Anti-dumping Duty
AGOA	African Growth and Opportunity Act
AMTAC	American Manufacturing Trade Action Coalition
ATC	Agreement on Textiles and Clothing
CAFTA	Central American Free Trade Agreement
CBTPA	Caribbean Basin Trade Partnership Act
CM	Cut and Make
CMT	Cut, Make and Trim
CVD	Counter-veiling Duty
DSB	Dispute Settlement Body
DSM	Dispute Settlement Mechanism
DTA	Domestic Tariff Area
EBA	Everything But Arms
EPCG	Export Promotion Capital Goods
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
GATT UR	General Agreement on Tariffs and Trade, the Uruguay Round
GoI	Government of India
GSP	Generalized System of Preferences
ILO	International Labour Organization
IMF	International Monetary Fund
ITMF	International Textile Manufacturers Federation
LDC	Least Developed Country
MFA	Multi Fibre Arrangement
MFN	Most-Favoured Nation
MoU	Memorandum of Understanding
NAFTA	North American Free Trade Agreement
NAMA	Non-Agricultural Market Access
NCTO	National Council of Textile Organizations
NPDA 2007	New Partnership for Development Act 2007
RMG	Readymade Garments
RoO	Rules of Origin
RTA	Regional Trade Arrangement
SSA	Sub-Saharan Africa
T&C	Textiles and Clothing
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US	United States
USD	US Dollar
USITC	United States International Trade Commission
WTO	World Trade Organization

Executive Summary

1. Since 1974, when the quota regime under the Multi Fibre Arrangement (MFA) was put into action, the phase-out of these quotas under the World Trade Organization (WTO) Agreement on Textiles and Clothing (ATC) has been the single most important development in the global trade of textiles and clothing (T&C). As is well known, the phase-out was completed in four phases over the course of ten years, between 1995 and 2005. Because the phase-out plan was back-loaded (and in volume terms), the overwhelming majority of items of interest to developing countries were integrated into the ATC in the fourth phase that ended on December 31, 2004. It was reasonably expected that the phase-out of MFA quotas would have profound impact on the way global trade in T&C products would take place under a quota-free regime: trade in T&C was to be carried out based mainly on competitive strengths, the thriving 'quota market' would be dismantled and quota premiums on prices of T&C products would be gone. This emerging liberal trading regime would also have an impact on investment, whereby hitherto quota-hopping investors and traders would be able to choose to invest in and export from countries depending on economic and competitiveness grounds, and not on whether they had access to quotas or not. True, even under the MFA regime, a significant share of the T&C market operated under a free-trade regime, however, the removal of MFA quotas was expected to change not only how the quota segment of the market functioned, but also the way the entire trade in T&C, accounting for about 7 per cent of global manufacturing trade, worth over USD 460.0 billion in 2004, had been carried out over the preceding three decades.

2. The majority of ex-ante studies suggested that there would be both winners and losers as a consequence of the MFA phase-out. Traditionally, because of the quotas, the supply base of T&C had been quite extensive, consisting of about 50 countries, both developed and developing. The projections predicted that once competitive factors would emerge as the main determinants and drivers in the global trade in T&C, not only would the volume of trade experience a significant rise as inefficient producers would be priced out, but also the number of major suppliers would be reduced considerably. Prices of T&C products were expected to come down between 10 to 35 per cent according to some projections. Forecasts of significant consumer and welfare gains were made. It was projected that the number of suppliers would come down to 5-10, and that some of the traditional T&C suppliers would incur significant losses in market share, whilst others would register notable gains. Estimates of the size of increased global trade as a result of the MFA phase-out varied between USD 6.5 billion and USD 324 billion, an indication also of the wide variation in projections and forecasts. Most of the projections indicated that the large part of the incremental gains (about two-thirds by some estimates) would go to developing countries, and the rest to the developed ones. China was predicted by almost all analysts to be the major gainer, early indications of which had already started to emerge immediately following China's accession to the WTO in 2001. The International Monetary Fund (IMF) set in motion the 'Trade Integration Mechanism (TIM)' to help the potential losers address their balance of payments difficulties. Along with China, mention was also made about India being another major emerging player. Pakistan, Vietnam, Bangladesh and Turkey were projected to be among the major second-tier beneficiaries. The shares of Mexico, Sub-Saharan African (SSA) and Caribbean Basin suppliers of T&C were to reduce significantly. On the other hand, some of the studies predicted that Bangladesh would be a net loser, indicating the range of variation in opinion. Some of these studies were, however, criticised on the ground that these studies and their simulations focused on static effects, and did not take into account the dynamic or non-price effects of the quota phase-out.

3. As the analysis of the dynamics of T&C trade and market share presented in this paper bears out, exports of T&C items in the post-MFA phase did not rise as sharply as some studies had earlier predicted, and followed, by and large, historical trends. Whilst developing countries as a whole

benefited, intra-developed country exports did not experience significant decline under the liberalised T&C regime as some had thought. Indeed, global trade in T&C registered only modest growth following the quota phase-out, posting 6.7 per cent and 12.0 per cent growth in the next two years; in the case of textiles, the growth was slower at 4.9 per cent and 6.6 per cent over the corresponding period. The European Union (EU) continued to remain the principal importer (41.6 per cent of global apparels imports in 2006) followed by the United States (US) (24.7 per cent in 2006). Whilst the EU's share was the same compared to what it was in 2004, the US's share declined by more than 2 per cent. In the case of textiles, the US import share went up, albeit not significantly (11.1 per cent compared to 10.8 per cent), whilst that of the EU came down (37.0 per cent compared to 39.7 per cent). However, the share of both intra-EU imports, and imports to the EU from the US, of both clothing and textiles, came down between 2004 and 2007. This corroborates the predictions that a large number of developed country producers, particularly those that were involved in the lower end of the market, and were somewhat protected by import quotas, would be unable to compete with developing country suppliers once the quota was gone. One reason underlying the textile trade's sluggish growth relative to that of apparels is that as quotas were derestricted, many countries started to use their own textiles for their domestic apparels industry.

4. One development that became clear from the analysis of trends in global T&C trade is that the global market started to experience changes, in a significant manner, following China's 2001 accession to the WTO, a trend that gained further strength in 2005. Indeed, China had absorbed about 80 per cent of the incremental global trade in apparels in 2004 and 2005. The other gainers were South Asian countries such as Pakistan and Bangladesh, which increased both their exports and share in the global T&C trade. Least developed countries (LDCs) such as Bangladesh, which enjoyed quota-free access in the EU, had their advantage removed; however, duty-free access gave them a head-start compared to non-LDC suppliers. As quotas were derestricted, countries which previously enjoyed quota-free access suffered most. These countries were unable to fully realise the advantages accruing from duty-free access. These included SSA countries which enjoyed quota-free access in the US and EU markets, and Caribbean countries which enjoyed quota-free access in the US. Mexico, which was able to increase her share to around 14 per cent of the US apparels market in the late 1990s (from about 4 per cent a decade earlier), saw her share come down to 9.9 per cent in 2004, and then to 5.9 per cent in 2007, a sharp fall. On the contrary, Bangladesh (2.87 to 4.02 per cent), Vietnam (3.83 to 5.73 per cent), India (3.45 per cent to 4.34 per cent), Cambodia (2.16 per cent to 3.24 per cent) and Indonesia (3.64 per cent to 5.3 per cent) were able to increase their market share in the US. India, which was predicted to be the other major supplier after China, has underperformed. Sectors such as export-oriented information and communication technology have taken precedence, and India's apparels industry, traditionally small scale, could not take full advantage of the quota-free regime, unlike China. Indeed, all competitors in the global T&C trade were dwarfed by China's ascendancy – she was able to increase her share in the US apparels market from 16.14 per cent to 31.9 per cent between 2004 and 2007. In the EU, China was able to increase her share from 12.9 per cent in 2004 to 20.4 per cent in 2007 in spite of sanctions imposed in 2005. As a region, Asia was the largest gainer with apparels exports rising from USD 135.7 billion in 2004 to USD 167.1 billion in 2006. Mexico was the single largest loser in terms of trade in T&C in the US market.

5. Development trends in the global textile market were more or less similar. However, growth in the trade in textiles did not match those of apparels, primarily because many developing country exporters of apparels started to use their own fabrics to cater to the increasing demand of the domestic apparels industry in the post-MFA era. Indeed, growth rates of the global textiles trade were significantly lower in 2005 (4.9 per cent) and 2006 (6.6 per cent) relative to the previous two years (12.1 per cent and 11.9 per cent respectively). The share of intra-EU textile trade in total EU imports came down from 68.3 per cent to 65.3 per cent between 2004 and 2007. In all major

developed country markets, exports of textiles from developing country suppliers posted a rise in the post-MFA era. Here also, China was the principal gainer, with India coming behind. Indeed, following the MFA phase-out, together these two countries captured about 95 per cent of the USD 9.6 billion rise in global textile trade. China's textile exports rose by 22.8 per cent in 2005 and by another 18.6 per cent in 2006. Turkey was another country to gain, registering 10 per cent and 7.3 per cent growth in the first two post-MFA years. Some of the developed country producers such as Germany, France and South Korea saw their exports fall in the face of more stiff competition from efficient developing country producers. Developed country market share in the textile products trade fell from 58.5 per cent in 2004 to 52.0 per cent in 2006. As in apparels, Asia as a region gained most from the post-MFA trade in textiles, whilst Latin America, the Caribbean and SSA countries experienced a decline in their respective shares. Mexico fared better in textiles than in apparels.

6. Regional and country-level experiences in global trade in T&C following the MFA phase-out reveal several developments. Firstly, derestriction of quotas resulted in shifts in the market that reflected the comparative advantages of producers of T&C products. Secondly, in view of heightened competition and the demand for shorter lead-time, countries having strong backward linkages and their own inputs (cotton and fabrics) gained most from the changed scenario. Thirdly, countries which had relatively low wages in the T&C sector were able to take advantage of market opening; in the mass-produced, low-end apparels market, wage levels still continued to remain a major determinant of price competitiveness (giving advantages to countries such as Bangladesh). However, low levels of productivity limited their potential for export expansion. Fourthly, countries with better infrastructure, port facilities and access to locally produced accessories were able to increase their market share compared to those that did not, particularly in view of the ascendancy of lean-marketing in the global T&C trade under a post-MFA regime. Fifthly, brands became a force to reckon within the T&C trade. This was at two levels: country branding (e.g. Cambodia as a labour compliant supplier) and product branding, the latter more prominent in niche markets. Sixthly, compliance-related demands (labour, ergonomic and environmental) have been on the rise in the global T&C trade; countries which have been able to address these demands adequately are emerging as suppliers with which major buyers are interested in dealing with. The hypocrisy between ethical buying and ethical sourcing seems to be on the decline. Seventhly, countries which have been able to undertake product and process modification and were able to graduate from Cut and Make and Cut, Make and Trim to Original Brand Manufacturing and Original Design Manufacturing, scaled up their production base, took advantage of clusters and common services, were able to enhance competitive strength faster and increased their share in global T&C trade following the MFA phase-out. Eighthly, countries with strong forward linkages, with connections and networks with major retail chains and with in-house fashion and design capacity have seen considerable gains. Foreign direct investment and direct contact with retailers (who provided support to producers in addressing requirements of middle- and high-end products) have played a crucial role here. Ninthly, as quotas were dismantled, and as most favoured nation (MFN) tariffs started to come down (under autonomous or WTO-induce initiatives) the advantages accrued from preferential treatment under various regional trade arrangements (RTAs) began to lose their importance, leading to shifts in supply bases. These trends are likely to gather strength also in the near future in view of the expected preference erosion. The game is being increasingly carried out on a level playing field. It is clear that, particularly on the bottom-end of the T&C demand curve, where low-income countries tend to compete more, price levels have remained stagnant, with consequent effects on profitability. Enterprises which have been able to undertake intra-RMG diversification, and taken targeted efforts to move into the middle-end market, are enjoying higher domestic value addition and higher profits. Sri Lanka is an example in South Asia. In absence of this, many low-income countries are having to depend only on their ability to mass-produce and compensate the lower profit margin with higher volumes of exports. For example, in the 15.0 per cent growth in apparels exports achieved by Bangladesh in FY2007-08, the contribution of a rise in

the price index was 1 per cent as against a 14 per cent rise in the volume index. At a time of rising prices of most of the other products in the global market, terms of trade of these apparels exporting countries are in secular decline.

7. Only about four years have passed since the phase-out of the MFA. Global trade in T&C has no doubt become freer, and more attuned to competitiveness factors. However, as analysis shows, for many years to come, global T&C trade will be impacted upon by several other factors which will influence how T&C trade takes place, which countries will be advantageously placed and which suppliers will be able to strengthen their foothold in particular markets. Firstly, for years to come, members of RTAs, which have strong preferential clauses for stimulating intra-RTA trade in T&C, will stand to gain. This is particularly so in view of tariff peaks on T&C products in some of the developed countries (averaging 12 per cent in the EU and 10-20 per cent in the US) which continue to provide substantial preferential margins to their developing country RTA members. Several such RTAs have been in place; several are being negotiated. Here, of crucial importance will be how the country rules of origin (RoO) and regional cumulation in the RoO are designed. This will have important implications for regional trade in both apparels and textiles. Secondly, much will depend on how the WTO negotiations move forward. The pace of reduction of tariffs on T&C articles as part of the Non-Agricultural Market Access (NAMA) negotiations and the consequent speed of tariff erosion will have important impacts on comparative advantages. Negotiations as regards duty-free quota-free (DF-QF) treatment for LDCs for T&C products (T&C items in the Annex B, C and D of the NAMA text, the nature of phase-in of the 3 per cent exclusion list, the decision with regard to sectorals and whether these will include T&C items) will need to be followed carefully. Thirdly, global trade in T&C will be importantly influenced by how sanctions on China play out. Although the US quotas imposed on certain Chinese T&C exports will be gone by January 2009, developed countries could still take resort to textiles specific safeguard measures (until 2013, though this time China could take her case to the Dispute Settlement Body (DSB)). It could also so happen that developed countries could, on an agreed basis, sign memorandums of understanding (MOUs) with China to restrict the export of certain T&C items, even after 2009 (which was the case when sanctions were imposed in 2005 and 2006). Such restrictions, however negotiated, are likely to impact future global trade in T&C. Fourthly, global trade in T&C will also be impacted by how countries are able to take advantage of the increasingly important WTO Dispute Settlement Mechanism to settle anti-dumping and countervailing disputes with regard to T&C trade. As analyses have shown, disputes regarding trade in T&C have been on the rise in recent times, and the ability to fight such disputes will be a critically important factor in competing and surviving in the post-MFA world. Fifthly, how global T&C trade evolves will depend, to a significant extent, also on how China, by far the most dominant player, situates herself in the global T&C market. China is consolidating her position in the T&C market and is set for further consolidation once sanctions are removed. On the other hand, Yuan appreciation, rising wages and costs, environment-labour considerations, compulsion to move the T&C base to the hinterlands, conscious policies to guide production of T&C items including incentive regimes and tax policies to move upmarket, are indicative of structural changes that can be expected in China's T&C sector in the near future. China's competitors will need to keep a watchful eye on these developments.

8. The global pie of T&C trade is set to become significantly larger in future. Tariffs on T&C items are set to come down, intra-developed country T&C trade is on the decrease and will come down further in the near future as many developed country T&C producers become uncompetitive in view of increasing competitive pressure from developing countries. On the other hand, with rising standards of living, demand for upmarket T&C items is going up. Developing countries which are better equipped in terms of a skilled workforce, ability to move upscale, raise productivity and ensure better compliance are the ones which are being able to raise their market share in the global T&C trade. Policymakers will need to be attuned to the demands emanating from the emerging drivers in the global T&C market, and will need to act accordingly. The analysis in this paper has

identified a number of measures which could help suppliers of T&C products from low-income countries to maintain and increase their market share. These measures would need to be taken at two levels: global and domestic. Global measures that were identified were: (a) Speedy implementation of the DF-QF initiative in the WTO; (b) Preferential access in advanced developing country markets; (c) Passing of the NPDA 2007 in a speedy manner; (d) Mitigating strategies in view of preference erosion; (e) Support for addressing legal issues in the WTO-DSB; and (f) More effective capacity building support in the T&C sector through initiatives such as 'Aid for Trade'. Domestic measures which were found to be of critical importance based on global and country experiences of winners and losers in post-MFA T&C trade included the following: (a) Renewed effort for productivity enhancement in T&C enterprises and skill upgradation of T&C workers; (b) New sources of financing for the T&C sector; (c) Scaling up of production; (d) Strengthening moves to shift upmarket from the current low-end; (e) Providing support to build up better compliance capacity at the enterprise level; (f) Initiatives to bring down lead-time to cater to the demands of lean marketing; and (g) Promoting synergies through cluster developments and by realising locational advantages in the T&C producing sectors.

1. INTRODUCTION: THE PHASE-OUT OF THE MFA QUOTAS UNDER THE ATC

The end of the quota regime under the Multi Fibre Arrangement (MFA) on January 1, 2005, was the single most important event that changed the way global trade in textiles and clothing (T&C) would take place in years and decades to come. Since 1974, under the MFA, trade in T&C had been restricted by a fixed volume of quotas on T&C product categories set to increase annually, imposed by major importers such as the United States (US), Canada and the European Union (EU) on certain suppliers. The quotas were fixed on T&C products, identified on a three-digit level of quota categories. The objectives were three-fold: (a) to protect domestic T&C products, (b) to limit dependence on particular suppliers, and (c) to broad base sourcing of T&C products. The quota regime was opposed by many groups, both within the quota imposing countries, and also T&C exporting countries. To the first group belonged the importers' lobbies and also consumers' groups whose main argument was that quotas led to premiums on prices of T&C products (quota-premiums) which undermined consumers' interests. The second group understandably included the exporting countries, which saw quotas as constraining the realisation of comparative advantages. These countries, mostly developing and least developed countries, felt that they were penalised unduly to protect inefficient producers in developed countries. Others raised the fundamental point that developed countries did not have the moral authority to ask developing countries to accept the policy of trade liberalisation when these same countries were not ready to open up the market for products that constituted about 7 per cent of global trade in goods and commodities.

In 1995, as a result of prolonged negotiations that culminated in the final agreement of the Uruguay Round, all quota-imposing members of the World Trade Organization (WTO) committed to phasing out the quota regime over a ten year period, beginning on January 1, 1995. As per the Agreement on Textiles and Clothing (ATC) of the WTO, the quota was to be derestricted in four phases, and to be finally completed on December 31, 2004. That developed countries agreed to phase-out the quotas only over a protracted period of ten years speaks to the measure of sensitivity surrounding the issue.

The years of protectionism under the MFA quota regime mainly benefited the producers of T&C in developed countries. It shielded producers in industrialised nations from the competitive threat posed by low cost products from developing countries and least developed countries (LDCs), which constituted the bulk of the restricted suppliers list.¹ It also ensured that no single exporting country or group of countries would dominate the textile market, thus providing windows of opportunity to new entrants. The quotas did not provide a guaranteed market, but by restricting imports from suppliers, they induced traditional products to search for new production bases from where they could export by using new quotas. These quota-hopping producers helped bring newcomers such as Bangladesh into the global apparels market (in Bangladesh's case it was Koreans). The MFA gave Bangladesh and other developing countries a certain degree of predictability and security in accessing the T&C markets of developed countries. Gradually, a number of countries, including Bangladesh, Macau, Mauritius, Nicaragua, Honduras and others, were able to gain a strong foothold in the quota-driven global apparel market.

¹In the EU market, for example, imports from other industrialised countries were not restricted by quotas.

Besides providing time for producers of T&C products to adjust, the other argument that was put forward in favour of the protracted phase-out period was that many of the quota-beneficiary countries could be adversely affected when the 'protection' enjoyed under the quota regime would not be there. Hence, a protracted regime would also be beneficial to help these countries adjust to the new, quota-derestricted, regime. Thus, the quota was to be withdrawn in four phases. In the *first* phase the removal of restrictions would be on only a limited number of products (no less than 16 per cent of the volume of 1990 imports of textiles and clothing by quota imposing countries). At the same time, the quota on the various remaining restricted categories of items would be increased by 16 per cent. In the *second* and *third* phases, the quota would be derestricted on 17 per cent and 18 per cent of items respectively (with quota expansions of 25 per cent and 27 per cent on the remaining products). The bulk of the restriction would be withdrawn in the last phase on January 1, 2005, when the transition period would end, and trade in T&C would be fully liberalised (Table 1).

Table 1: Schedule of Phase-out and Expansion of Quota during MFA Phase-out

Stage	Date of Implementation	Percentage of 1990 Imports of T&C Products to be Integrated into GATT	Quota Expansion
Phase 1	January 1, 1995	16%	16%
Phase 2	January 1, 1998	17%	25%
Phase 3	January 1, 2002	18%	27%
Phase 4	January 1, 2005	49%	

Source: ATC, WTO (2005).

A closer examination of the phase-out plan indicates that the schedule was cleverly crafted to allow the developed countries maximum leeway in selecting particular items for derestriction. Since the phase-out would be measured in volume rather than value terms, this allowed the developed countries to *backload* the phase-out, with most items to be derestricted only at the end of the phase-out period, on December 31, 2004, allowing all of 10 years for the adjustment of sensitive items. Although this issue became a bone of contention as the phase-out began to be implemented, technically the developed countries were right in picking and choosing T&C items to be phased out in each of the phases because most favoured nation (MFN) tariffs in the developed country markets on a large number of T&C items would continue to remain in place (subject to some reduction as per the Uruguay Round negotiations on industrial goods).

The ramifications of the phasing out of the quotas were expected to be manifold. Consumers in developed countries would enjoy lower prices, as increased supply brought down their domestic prices and more low-cost imported goods became available. The quota-premium on T&C goods would be gone. Thus, developed countries' producers would face intense competition from low-cost producers worldwide, putting downward pressure on the wages of textile industry workers in those countries. Countries enjoying comparative advantage in labour-intensive T&C items (China and India were mentioned by many) would enjoy a competitive edge, driving down global apparel prices and forcing the closure of a large number of lower-end clothing and textiles units in developed countries. It was also predicted that countries such as Bangladesh, which had low competitive advantage, but were able to have a foothold in the global T&C market thanks to the

predictability and security of the quotas under the MFA regime, would suffer. Countries with preferential trade agreements were also expected to suffer, since they would lose competitive advantage previously enjoyed through conferred quota-free export facility granted by MFA-imposing countries, since these countries would be treated on par with non-preferential countries once the quotas were gone. Distortions in the global apparels market in the form of entry restrictions and quota premiums were to be replaced by competition and competitive prices. Only exporters with high productivity and comparative advantage, and an ability to translate their comparative advantage into competitive advantage would survive and thrive. There was no consensus though, and there was wide variance in the projections.

Almost four years have passed since the phase-out of the quotas was completed on December 31, 2004. Some of the projections and scenarios were proven wrong, some proved to be nearer to reality. New developments also took place in the course of the implementation of the phase-out. China acceded to the WTO in 2001, with restrictions on T&C exports to developed countries allowed in the accession treaty that extended beyond the MFA phase-out period. The Doha Round, which began in 2001, and envisaged drastic reductions of MFN tariffs, including the high MFN tariffs on T&C products, got delayed, and the industrial tariffs remained the same. A plethora of regional trading arrangements (RTAs) started to be negotiated during the period following the conclusion of the GATT Uruguay Round (GATT UR), which allowed preferential tariff treatment to T&C products to some (Member) countries, whilst other (non-Member) countries were excluded from such treatment. All these factors brought important changes to the scenarios that were built in the mid-1990s when the ATC was negotiated, and also later when the ATC began implementation. It is thus interesting to examine and investigate how global trade in T&C products has actually developed and evolved. Have these changes followed the scenarios that attempted to capture the future, what have been the dynamics of changes in the post-MFA period and what are the emerging challenges that need to be addressed by developing countries and LDCs if they are to participate and survive in the increasingly competitive global market for T&C products are the primary questions of concern.

Following this introduction, the present paper provides, in Section 2, an overview of the potential impact of the transition to a quota-free world as predicted in various academic studies. Section 3 attempts to capture the impact of quota derestriction by reviewing the performance of global trade in T&C products, based on trade during pre- and post- MFA periods, both for major regions and by major exporters of T&C items. Sections 4 and 5 examine the changes in market share in trade in T&C products in greater depth, looking at the dynamics of changes in market share in the post-MFA period, respectively for different regions and major T&C supplying developing countries. Section 6 identifies a number of emerging issues that are likely to have important implications for future global trade in T&C. Section 7 focuses on relative changes in the major markets of the EU, US and Canada as a result of quota derestrictions. This discussion leads to issues for policy consideration at the national and international levels, which are presented in the concluding section 8.

2. PROJECTION ON MARKET DYNAMICS ORIGINATING FROM QUOTA REMOVAL UNDER THE WTO-ATC

Between the time when the ATC was negotiated as part of the GATT UR deal in 1994 and the phase-out of the MFN quotas under the ATC on January 1, 2005, many academics, scholars and researchers ventured to discuss the possible consequences of this on the global trade in T&C, changes in competitiveness scenarios, prices and profitability, consumer gains, winners and losers and on how to strategise in view of the evolving scenario. This was only to be expected. Global trade in T&C had been defined and dominated by the MFA, in place since 1974, for over two decades. The phase-out of MFA would change the way countries participate in the T&C market with consequent impacts on price levels, welfare gains production systems, marketing competitiveness environment and market share. Some studies attempted to quantify the impacts, others tried to capture the change through qualitative observations based on trends and likely outcomes.

Many experts predicted that quota elimination would be beneficial for the consumers in importing nations since prices would come down under competitive pressure, and in view of the elimination of the quota premium. The immediate losers would be the workers in the T&C producing countries, where competitive pressure would force a race to the bottom. Some studies predicted that the gains would be concentrated in a few key suppliers, with China and India forecasted to be the major winners.

Razzaque and Raihan (2008) provide a succinct summary of some of the major works that have attempted to estimate the impact of the MFA quota phase-out for the global T&C trade. The results, as the authors point out, varied from as low as USD 6.5 billion (Chadha *et al.*, 2000) to as high as USD 324 billion (Francois *et al.*, 1994). About two-thirds of the gains were to accrue to developing countries, whilst the final one-third would go to developed countries (Lankes, 2002 and Elbehri, 2004 reported in the Francois *et al.*, 1994).

Lifting quotas was expected to lower costs, increase efficiency, and reduce risks (Tyagi, 2003). Price reductions at the retail level of anywhere from USD 0.50 to USD 2.00 per unit were predicted (Speer, 2002). Most general equilibrium models forecasted that the elimination of quotas would boost global trade in T&C products while lowering prices, thereby benefiting consumers in the importing (developed) nations. For example, Chadha *et al.* (2001, p. 11), employing a global computable general equilibrium model², concluded that quota elimination would result in increased apparel exports and declining prices, with the result that “most of the developed countries...gain from MFA elimination, although neither their gains, nor the losses of the few losers – Australia/New Zealand and Japan – are particularly large.” One general equilibrium simulation estimated that over the ten years following the phase-out, the discounted present value of welfare gains³ for North America would be only six-tenths of one per cent, smaller than Europe’s (0.14 per cent), Australia and New Zealand’s (0.16 per cent), or Japan’s (0.20 per cent) (Diao and Somwaru, 2001).

²The authors used a “special version of the NCAER-University of Michigan computable general equilibrium (CGE) patterned after the Michigan Model of World Production and Trade” (NCAER – the National Council of Applied Economic Research – is based in New Delhi, India; see <http://www.ncaer.org/>).

³“Welfare gains” are an estimate of the income increase that would be equivalent to the changes resulting from phase-out.

The same study noted that “MFA phase-out would enlarge world trade of textile and apparel (T&A) and developing countries will further gain market share in total global exports. However, without evaluating the possible and differential impact of the MFA phase-out on the economic growth pattern and growth rate among countries, the model fails to capture a significant change in world T&A market structure” (Diao and Somwaru, 2001, p. 26).

Scott and Lee (1991), however, challenged the assumption that the termination of the MFA would bring significant benefits to consumers. They argued that most of these predictions were based on overstated retail market competitiveness, investment in textile technology due to quota elimination and cost adjustments for workers displaced by protection. The study’s model predicted a price reduction of 10 per cent in US apparel imports and only (2.5 per cent in domestically-made apparel) if protections were removed, in comparison to the 35 per cent reduction in import prices (and 22 per cent in domestic apparel) estimated in most other models. The study also claimed that eliminating protections would be associated with labour adjustment costs of USD 600 million – a cost not taken into account by others.

There was also a widely-held conviction that the abolition of quotas on T&C would immediately benefit a handful of developing economies that possessed a strong and diversified mix of composite backward and forward linkage industries, with high-quality, high value added and highly differentiated products in diverse markets.

One recent review of existing research offered a straight forward summary: “The lion’s share of these benefits will accrue to India and China” (WWD, 2003; Truong, 2003)⁴ Pakistan, Vietnam, South Korea, Hong Kong, Taiwan and some countries with preferential access to US and EU markets were perceived to be secondary winners (Moore, 2003; Jones, 2003)⁵. Some studies felt that major suppliers that had developed strong commercial ties with the US would continue to remain advantaged even after quotas were eliminated (Jones, 2003).

It was widely acknowledged that big multinational corporations and global retail chains would enjoy substantial gains from more flexible supply chains since there would be no constraints governing the movement of both textiles (the major input) and apparels (the final output). Some studies were apprehensive that it would be the workers who would be the losers, as the post-MFA regime would make sourcing flexible, and hence jobs in the T&C sectors insecure. Most of the developing world, other than India, China and the like, would suffer, at least in the short run⁶. The countries in which more than three-quarters of all

⁴The paper titled *The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing* (WTO, 2002), using a GTAP simulation model with pre-ATC quotas in place as an initial scenario and the elimination of the quotas as the second scenario, warned that the surge in market share may be less than anticipated, as proximity to major markets assumes increasing economic significance and products, crossing borders several times, thus becoming subject to tariff constraints.

⁵See also *Promoting fair globalization in textiles and clothing in a post-MFA environment* (ILO, 2005), which estimates varying magnitudes of gain and loss for preferential suppliers, and also losses for local producers in the US and EU.

⁶One exception, whose general equilibrium model sees the less developed countries generally benefiting in the long run through improved terms of trade and improved allocation efficiency, is Bora, Cernat, and Turrini, 2002.

apparel exports were in highly constrained quota categories (and which therefore stood to lose the most when such constraints were eliminated) were said to be Lesotho and Haiti among the LDCs, and Jamaica, Honduras, El Salvador, Kenya, and Nicaragua within the developing world (Hillman, 2003). This list included countries that sold a limited range of products, and that competed on the basis of price rather than quality (Manjur, 2002).

Quota elimination was expected to particularly hurt countries which were beneficiaries of preferential trading agreements during the MFA era. It was argued by some that once highly-constrained exporters such as China were free from quota constraints, preference-receiving countries would lose the competitive advantage previously conferred on quota-free exporting countries. Whilst these countries would continue to enjoy preferential tariff treatment, tariffs were generally far less costly to exporting countries than the quota restrictions were. One study estimated that the export tax equivalent of quotas in 1999 averaged 40 per cent in the US and 20 per cent in the EU (Kathuria *et al.* 2001). Another study concluded that tariff benefits “are likely to be far less significant than quota benefits have been,” since US textile and apparel benefits are “not prohibitive.”

The average US duty on apparel items was 17 per cent. This provides only a thin margin of preference over producers’ not receiving preferential access – a margin that in some cases may be less than the production cost advantages that large Asian suppliers may enjoy vis-à-vis preferential suppliers in the Caribbean, Africa, and Mexico (Nathan Associates, 2002, p. 2).

Accordingly, quota-derestrictions would have a more powerful impact than whether a country enjoyed MFN duty-free access or not. A number of studies forecasted that the quota phase-out would lead to a significant change in the geography of sourcing of T&C items. With respect to exports to the US market, Mexico, Africa and the Caribbean region were considered likely to lose market share to China, while in Asia, only large, low-cost producers such as India, Pakistan, and most notably China, were expected to gain. China – whose share of US apparel imports declined from just under 15 per cent in 1993 to about 7 per cent in 2001, due to quota restrictions – was expected to be the prime beneficiary (Nathan Associates, 2002: 1, 7, Figure 3). One study forecasted that by the end of 2007 China’s apparels market share in the US would be a whopping 31.91 per cent, compared to 16.14 per cent in 2004 and 10.55 per cent in 2000 (CPD, 2006). One general equilibrium analysis, conducted for the United Nations Conference on Trade and Development (UNCTAD), summarised its results with respect to apparel and quota elimination as follows (Bora *et al.* 2002):

In apparel, only Bangladesh, Cambodia, Haiti, Nepal, Myanmar, and Maldives [among all the LDCs] appear among the top 50 exporters [to the US, in 1999]. Assuming no increase in demand and no reduction in domestic production, data presented...suggests that, for instance, a fifty per cent increase in apparel exports from Bangladesh would translate into an overall 2 per cent reduction in current apparel exports from third countries⁷. Big market-share losses will accrue to big exporters. However, small exporters may see their market share reduced significantly, and may even be driven outright out of the market. African LDCs, for instance, with the exception of Madagascar, are small exporters. The only other

⁷At present, Bangladesh’s apparels export share to the US market is 4.02% (2007).

exporters above the USD 100,000 threshold [for large exporters] are Malawi, Mali, Sierra Leone and United Republic of Tanzania. Even though African countries may already qualify for duty-free and quota-free (DF-QF) market access to the United States under the African Growth and Opportunity Act (AGOA), granting duty-free, quota-free market access to all LDCs, including competitive Asian producers such as Bangladesh and Cambodia, may result in a decrease in exports from African LDCs (p. 95).

Table 2: US Apparel Imports by Source and Risk Level: 2002-2005

(Data in Percentage)

Risk Level	NAFTA	AGOA	CBI	Asia	China
Low	9.3	2.2	11.2	16.4	44.0
Medium	0.5	13.6	14.0	52.3	51.1
High	90.2	84.2	74.8	31.4	4.9
Total	100.0	100.0	100.0	100.0	100.0

Source: Nathan Associates, 2002, Figure 5.

Estimates of aggregated risks resulting from quota elimination in terms of performance in US apparel markets are shown in Table 2 (Nathan Associates, 2002). The highest risk was ascribed to North American Free Trade Agreement (NAFTA) countries (in this case, Mexico), whose preferential advantage was expected to be significantly eroded when quotas would be eliminated. An estimated 90 per cent of Mexico's apparel exports to the US were to be at high risk, as was 75 per cent of CBI exports to the US. The Sub-Saharan LDC beneficiaries under the AGOA were likely to find 84 per cent of their apparel exports to the US at high risk. The impact on Asian countries was forecasted to be much lower and only 5 per cent of China's exports were said to be at high risk.

Table 3: Bangladesh: A Summary of Findings on the Effects of Quota Expiry

Study	Estimated Impact	Methodology	Observations
Cookson (2003a)	35 per cent decline in export values; 50/20 per cent of US/EU market could be lost	Interviews with major exporters and author's conjecture	Perception analysis
Gherzi Textile and Others (2002)	Forecasted negative impact but no estimates were given	Based on conjectures; no quantification of impact	Focused on recommendations for policymakers
Spinanger and Verma (2003)	GDP: - 0.14 per cent Overall exports: (-) 0.1 per cent Textile exports: 15.5 per cent Clothing Exports: (-) 7.9 per cent	Simulations of combined effects of quota elimination and China's WTO accession using GTAP model	Numbers benchmarked to a 1997 baseline
Spinanger and Wogart (2000)	Bangladesh's share of Swedish market declined from 0.16 per cent to 0.03 within one year after the 1990 elimination of quotas	Ex post estimation. Effect of quota removal not isolated	Suggestive results for effects of quota removal in 2005

Source: IMF Paper on *The End of Textile Quotas: A Case Study of the Impact on Bangladesh* (2004).

Some studies predicted that Bangladesh would be a big loser in terms of export values and employment in the T&C sector. The forecasts from several studies which made an assessment of the impact of quota removal on Bangladesh are summarised in Table 3.

A study conducted by the International Monetary Fund (IMF) (Mlachila and Yang, 2002) on the implications of the MFA phase-out for Bangladesh attempted to estimate the potential impact of the quota phase-out by using the GTAP global general equilibrium model. The simulations focused on the static, medium-term effects of quota removal; the database of the model was updated to 2007 through a projection exercise, which involved augmenting GDP, population and factor (land, labour, capital and natural resources) endowments with productivity, accounting for any slack in GDP growth. The simulation did not take into account dynamic or non-price effects of the quota phase-out, such as improvements in product quality and transport facilities. The results were reported as deviations from the 2007 baseline. Simulation results derived from the study indicated that Bangladesh was likely to be adversely affected by the phase-out of the ATC (Table 4).⁸

Table 4: Bangladesh: Effects of Textile and Clothing Quota Removal in 2007 (Percentage Deviation from the Baseline, Unless Otherwise Indicated)

Indicator	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7
	Central Elasticities	Lower Elasticities	Higher Elasticities	Constant Real Wages	Constant Employment	Lower Investment	China Restriction
GDP	-2.3	-1.3	-4.1	-1.3	-0.3	-3.7	-1.7
Employment	-4.5	-2.5	-7.7	-2.1	0.0	-7.6	-3.2
Trade balance							
In billion 1997 USD	-1.0	-0.5	-2.0	-0.3	0.3	-0.2	-0.7
In per cent of GDP	-1.2	-0.7	-2.1	-0.4	0.3	-0.3	-0.9
Total exports	-14.2	-6.8	-29.5	-8.4	-3.0	-10.2	-10.1
Clothing	-17.7	-8.3	-38.1	-11.8	-6.2	-13.6	-12.7
Textiles	-4.7	-2.6	-7.4	0.1	4.5	-1.8	-3.2
Total imports	-6.8	-3.0	-15.6	-6.8	-6.7	-8.5	-5.0
Clothing	-6.2	-2.3	-15.9	-9.0	-11.4	-8.2	-4.9
Textiles	-12.8	-5.8	-28.0	-10.6	-8.4	-11.1	-9.5
Clothing output	-17.0	-7.9	-36.5	-11.3	-5.9	-13.1	-12.2
Textile output	-8.9	-4.5	-17.8	-3.7	1.2	-5.7	-6.3

Source: Simulations with the GTAP model, as described in the IMF Paper on *The End of Textile Quotas: A Case Study of the Impact on Bangladesh* (2004).

Some of the other studies (Lips *et al.*, 2003, Fontana *et al.*, 2002) also predicted adverse impacts for Bangladesh. The former study predicted USD 340.0 million in negative terms of trade effects and the latter projected that a decline of global prices by 9 per cent could lead to a reduction in the volume and value of Bangladesh's exports by 29 and 35 per cent respectively and a GDP decline of 1.6 per cent. On the other hand, based on comparative price figures at the disaggregated level, another study (Rahman, 2004) sounded cautiously optimistic, suggesting that Bangladesh would be able to protect her market share in the US.

Another study titled *Impact of the MFA Phase-Out on the World Economy an Intertemporal, Global General Equilibrium Analysis*, conducted by the International Food Policy Research Institute (2001), focused on the possible impacts of the MFA phase-out on the world T&C trade using an intertemporal, global general equilibrium model. The study found that the

⁸ Indeed, the IMF put in place a Trade Integration Mechanism (TIM) to provide support to countries such as Bangladesh in view of the likely adverse impact of the MFA phase-out on exports and GDP of apparel exporting developing countries.

MFA phase-out would enlarge world trade of T&C and developing countries would gain further market share in world total exports. Almost all countries, including both the developing countries restrained by the MFA quotas and those free from the MFA quotas, and the industrialised countries, gained in terms of social welfare post-MFA, according to the model. The study identified nine major T&C exporting countries/regions and four importing countries/regions, and tried to simulate the possible effects of the MFA phase-out by improving the efficiency of textile and apparel exports. The simulation results showed that the world market shares for some countries would change in the post-MFA period. Table 5 presents the findings of this study:

Table 5: Market Shares for Selected Countries/Regions in World's Total T&C Exports

Countries/Regions	Base	Year 5	Year 10	Year 15	Year 20
Developing Countries	59.57	60.20	61.32	62.41	63.49
China	19.69	20.50	21.24	21.91	22.52
India	4.40	4.43	4.57	4.72	4.88
Other Asia	13.00	13.68	14.18	14.70	15.22
Middle East	5.03	5.22	5.39	5.57	5.76
East Europe	6.50	6.02	5.80	5.59	5.38
Mexico and Caribbean	6.09	5.51	5.32	5.14	4.96
Industrial Countries	40.43	39.80	38.68	37.59	36.51
North America	6.61	6.31	6.13	5.95	5.77
EU	14.39	13.91	13.48	13.06	12.65

Source: IFPRI, *Impact of the MFA Phase-Out on the World Economy an Intertemporal, Global General Equilibrium Analysis* (2001).

A study implemented for the BSR Conference 2004, on *Managing the Transition to a Responsible Post-MFA Global Garment Industry*, presented some country specific survey findings, which in general conformed to the widely held view that India and China were positioned to reap the highest growth and greatest benefits in the post-quota era. The study also noted that a number of other countries, which if able to diversify their T&C product base and enhance their competitive advantage, could also gain from the elimination of MFA quotas (Box 1 and Box 2).

Box 1: Possible Impacts on Countries due to the Phase-out of the ATC

Anticipated Impact of Phase-out	Country	Explanation/Comments
Some Decrease	El Salvador	Needs to improve responsiveness and flexibility; does better with consistent runs that do not require change; not as nimble to service specialty retailers.
	Honduras	Needs to improve responsiveness and flexibility.
	Cambodia	Status quo to slightly decrease; low wages will keep the industry alive, however concern about long term viability; existing government and industry efforts to improve labour conditions may help attract investment; International Labour Organization (ILO) project involvement may also draw attention to buyers increasingly concerned with labour conditions.
	Thailand	Slight decrease – its workforce is not as efficient or productive (bra example with demonstrated lost business with the expiration of a quota); too complacent and has not invested for the future through development of new technologies or processes; engineering improvements have helped it manage its labour force; however, still troubled with delivery and execution; expect medium-term to be ok, but long-term reduction. Has not capitalised on supply chain linkages with neighboring countries.

(Box 1 contd.)

(Box 1 contd.)

Anticipated Impact of Phase-out	Country	Explanation/Comments
Substantial Decrease	Philippines	Difficult country to work in due to unrest; union problems; non-competitive; few key suppliers will remain, but industry at large will decline. Country also has other industries such that the garment sector is not vital to its long-term economic viability.
	Mexico	Trade arrangements uncertain; will benefit if the US extends special safeguards or benefits; inflexible; non-competitive; maintains strong mill capabilities; other non-apparel industries are emerging. Has not maintained innovative and competitive advantage in fabric development. Proximity to the US provides an advantage.
	Lesotho	Lead time and proximity difficult; may survive with niche and differentiated products, but not likely; needs infrastructure development.
Mixed Response	Indonesia	Mixed response; good skills in suits and handicrafts; competitive labour rates; downside is corruption and political instability.
	Sri Lanka	Mixed response; however, infrastructure (road to port) must be improved, and mill capacity and innovation must be improved; politically stable; not always price competitive; possesses skills and hard working attitude; mostly work as subcontractors; need more government intervention to promote industry and abilities.
	Bangladesh	Anticipated status quo to growth although some mixed response; low costs will keep the industry alive as will industry efforts, however, using price as the only means to add value may not be enough if vertical integration and other sourcing criteria are not developed; strong with basic volume driven items; need for infrastructure improvements; slow production; lack of raw materials; antiquated banking system and terrible social compliance record: the BGMEA/LO program not as favorable as hoped, and quality inconsistent; India's anticipated growth may also cannibalise Bangladesh's future.

Source: *Managing the Transition to a Responsible Post-MFA Global Garment Industry*, BSR Conference 2004.

Box 2: Selected Country Studies: Headline Findings

Prospects for the Garment Industry	Prospects for Garment Workers and Communities	National Dependence on Garment Industry ⁹		Key Competitiveness Issues	Local Response
Bangladesh	Severely challenged – Export decline and job losses expected, although should remain a significant garment exporter	Extremely Vulnerable – Few other job opportunities for women workers	1,800,000 workers dependent on the sector 40 per cent jobs 90 per cent exports	Infrastructure Corruption	High awareness, some action. International organisations involved
Thailand	Poor – Industry already in decline, most of which is unlikely to survive. Some future for niche fashion producers	Poor – Job losses expected, but other industrial job opportunities exist. Migrant and home workers especially vulnerable	Declining but still significant 800,000 workers 20 per cent jobs 8 per cent exports	Industry un-modernised and has not attracted international investment and technology	Some awareness and action to reposition Thai industry as a niche fashion producer

(Box 2 contd.)

⁹% jobs in this column indicates % of industrial employment, % exports indicates % of manufactured exports – most recently quoted figures.

(Box 2 contd.)

Prospects for the Garment Industry	Prospects for Garment Workers and Communities	National Dependence on Garment Industry		Key Competitiveness Issues	Local Response
Mexico	Severely challenged in the immediate future –NAFTA and proximity to the US remain big advantages	Poor – Some other industrial job opportunities exist, however	Declining but still significant 750,000 workers 18 per cent of jobs 6 per cent exports	Industry reliance on uncompetitive maquila production. Poor quality, service and reliability	High awareness, but industry and government been slow to develop speed and quality
Indonesia	Unclear – considered competitive by buyers, but security an issue	Vulnerable – Unemployment is high	Declining but still significant 400,000 workers 10 per cent of jobs 16 per cent of exports	Security and stability Corruption Labour standards compliance	Low awareness, some action by all sectors focusing on raising awareness and beginning to consider possible actions
Philippines	Very poor – industry stagnant, steep decline expected	Poor – Some other industrial job opportunities exist, however	Declining but still significant 320,000 workers 11 per cent of jobs 7 per cent of exports	Current exports uncompetitive and highly dependent on quota	Some awareness and action to restructure and consolidate industry but little to support retrenched workers
Sri Lanka	Poor – most of current industry unlikely to survive. Some future for niche fashion producers	Poor – Job losses in SME sector, standard garment production and rural factories	Very significant 300,000 workers 33 per cent jobs 50 per cent exports	Uncompetitive in current core products Lack of fabric supplies, poor road network	High level of awareness and mobilisation by government, industry and civil society
Cambodia	Unclear – differences of opinion over future competitiveness	Extremely Vulnerable – Few other job opportunities for women workers	200,000 dependent workers 62 per cent of jobs 82 per cent of exports	Infrastructure Corruption	Moderate awareness, some action. International organisations involved
Honduras & El Salvador	Very poor – industry in decline, 2005 expected to hasten demise	Vulnerable – other opportunities	Very significant 107,000/80,000 workers 26 per cent of jobs 40 per cent of exports	Industry reliance on uncompetitive maquila production. Poor quality, service and reliability	Low awareness, little action – Salvadoran government has recently retained international garment industry expert and is developing a strategy for the industry

(Box 2 contd.)

(Box 2 contd.)

Prospects for the Garment Industry	Prospects for Garment Workers and Communities	National Dependence on Garment Industry		Key Competitiveness Issues	Local Response
Lesotho	Unclear – Lesotho has been an AGOA success story, but vulnerable to competition after 2005	Extremely vulnerable – Very poor country with no other industrial employers	Dependent – 45,000 workers 90+ per cent of jobs 90+ per cent of exports	Infrastructure (water), AGOA rules of origin, HIV, Industrial relations and public distrust	High levels of awareness and some action government pursuing multi-stakeholder action plan (with DFID funding)

Source: *Managing the Transition to a Responsible Post-MFA Global Garment Industry, BSR Conference 2004.*

Note: ■ Shaded boxes indicate those countries with most cause for concern in each area.

According to a US State Department report, which surveyed industry executives and diplomats abroad, firms sourcing fabric and garments from 40-60 countries intended to focus on 20-30 by late 2005 or early 2006. By 2010, the number of foreign suppliers could drop to one-quarter to one-third of the present number. J.C. Penney estimated that the 53 countries it sourced from would drop to half that number in the coming years. Liz Claiborne’s senior vice president Bob Zane estimated that Chinese imports could eventually represent 50 to 85 per cent of the US’ apparel supply. Those estimates were supported by China’s more than 90 per cent share of the shoe and toy markets. However, many retailers admitted that they would not put all their eggs in one basket, referring to China.

The abovementioned projections of various studies, that were made on the basis of informed perceptions, rigorous analysis, modelling exercises and qualitative examination of issues, tend to point to a number of general conclusions. Firstly, the way global trade in T&C would take place in a quota-derestricted world would be significantly different from the one under the MFA quota regime because of sourcing flexibilities, market performance based on comparative advantages, elimination of quota-premiums and the more intensive competitive environment. Secondly, there would be a general tendency for the lowering of prices. Thirdly, competitive pressure a race to the bottom and the resultant pressure for cost reduction would lead to downward pressure on wages. Fourthly, there would be both gainers and losers as a consequence of the MFA phase-out. Countries that are able to strengthen backward and forward linkages, diversify their T&C product mix and reposition productive assets in view of changes in market opportunities would be the gainers. Those countries which had traditionally depended on quota-premiums that fail to diversify products and markets and raise productivity would be at risk of losing market share. Fifthly, a number of sourcing countries would come down significantly in view of quota-derestrictions. Whilst major retailers would not like to be dependent on 2-3 countries, they would narrow down the number of sourcing countries and focus on enhancing the efficiency of supply chains. Sixthly, countries such as China and India with strong backward and forward linkages, skilled workforces, and higher competitive strength would be the gainers. Mexico and some of the other preference beneficiary countries would be vulnerable and at high risk of losing market share as would countries such as Indonesia and Cambodia. Bangladesh, Mauritius and some of the other traditionally strong suppliers

could be at risk if they fail to raise productivity, strengthen backward linkages and diversify their products.

Whilst various studies differed with regard to the degree and magnitude of the changes in view of the post-MFA regime, a number of studies also pointed out greater emphasis on ethical production, compliance issues, issues of fair trade, stress on environmental issues and implementation of core labour rights as new areas which were expected to play a far greater role in the global trade in T&C products in the post-MFA era. Indeed, as subsequent sections will testify, market presence and market share have critically hinged on whether countries have been able to successfully address these emerging issues.

3. IMPACT OF QUOTA ELIMINATION ON GLOBAL TRADE IN TEXTILES AND CLOTHING

This section, as does the following, takes a look at the performance of various regions and countries during the post-MFA period. Admittedly, the elapsed period is short – for some indicators, information is available for three years, for others, only two. However, available data do enable the examination and verification of some of the projections made in the aforesaid studies, and provide an early indication with regard to how the market dynamics is emerging and evolving as far as global trade in T&C is concerned.

Table 6: Changes in Global T&C Exports

Year	Textiles (Million USD)	% Change*	Clothing (Million USD)	% Change*
1994	131673	16.06	140757	9.29
1995	152319	15.68	158353	12.50
1996	152744	0.28	166077	4.88
1997	155739	1.96	177616	6.95
1998	149831	-3.79	185963	4.70
1999	146255	-2.39	184587	-0.74
2000	158579	8.43	198094	7.32
2001	149328	-5.83	193799	-2.17
2002	155843	4.36	206168	6.38
2003	174599	12.04	234100	13.55
2004	195541	11.99	260569	11.31
2005	205135	4.91	277971	6.68
2006	218594	6.56	311410	12.03

Source: Based on WTO Trade Statistics Database.

Note: *Refers to percentage change from previous year.

Table 7: Global Imports by Major Regions

7A: Imports of Apparels

Region	1999		2004		2006	
	Million USD	% Share	Million USD	% Share	Million USD	% Share
EU (27)	75987.65	41.17	111423.02	42.76	129405.96	41.55
US	54517.80	29.54	69843.50	26.80	76798.73	24.66
Canada	2952.43	1.60	4674.67	1.79	6144.22	1.97
Others	51129.13	27.70	74627.82	28.64	99061.09	31.81
Global Import	184587.00	100.00	260569.00	100.00	311410.00	100.00

Source: WTO Trade Statistics, United States International Trade Commission (USITC) Trade Database, Eurostat, Canada Online.

7B: Imports of Textiles

Region	1999		2004		2006	
	Million USD	% Share	Million USD	% Share	Million USD	% Share
EU (27)	63366.30	43.33	78050.62	39.92	80872.88	37.00
US	14779.02	10.10	21043.67	10.76	24213.99	11.08
Canada	4213.99	2.88	4373.52	2.24	4586.32	2.10
Others	63895.69	43.69	92073.20	47.09	108920.82	49.83
Global Import	146255.00	100.00	195541.00	100.00	218594.00	100.00

Source: WTO Trade Statistics, USITC Trade Database, Eurostat, Canada Online.

The EU continues to remain the top importer of both clothing and textiles items. There has not been any change in its predominance following the phase-out of the MFA. However, the US's share has come down somewhat – from 29.5 per cent to 24.6 per cent between 2004 and 2006, a fall of 5 per cent in two years. As is indicated by Table 7 and Table 8, there has been some increase in the share of countries other than the EU, US and Canada in terms of imports. Thus, it is seen that imports by 'other countries' has increased from 28.6 per cent to 31.8 per cent between 2004 and 2006, in the case of clothing, and 47.1 per cent to 49.8 per cent, in the case of textiles. This is a pattern that is consistent even when the pre-MFA phase-out period is considered. This corroborates a global trading pattern in T&C products observed in the recent past, which is that many developing countries are also importing T&C items in an increasing manner, pushing their share up.

Global Clothing Market

Trade figures for the post-MFA period bear out many of the projections made earlier, whilst also disproving some of the other ones. Studies that predicted increases in the total world trade in T&C proved to be correct. However, available data (Table 6) do not indicate that the rate of increases were significantly higher than those experienced under the MFA regime, although for all three years, the export of T&C posted positive growth. In 2004, the last year of the quota regime, total global clothing exports were to the tune of USD 260.57 billion. By the end of 2005, this had climbed to USD 277.97 billion, a rise of 6.68 per cent in global clothing export in the first year of the quota-free regime. This rise was rather modest compared to earlier years, when the growth figure of clothing in the global market was around 13.55 per cent (2003) and 11.31 per cent (2004). However, in 2006 the demand for clothing registered a 12.04 per cent increase, and crossed the USD 300 billion mark.

If one looks at the structure of imports of apparels by major destinations, one can observe some changes (Table 7). For example, as Table 8A indicates, in the EU, import from non-EU, non-US sources (i.e. imports overwhelmingly from developing countries) had increased from 46.7 per cent in 1999 and 49.9 per cent in 2004 to 53.6 per cent in 2007. It is to be noted that a large part of imports in the EU are from member states. In 2004, this was 46.7 per cent of total EU imports. By 2007, this share had come down to 46.0 per cent. EU imports from the US were negligible.

Table 8: Pattern of Import by Major Apparels Importers**8A: EU Import of Apparels**

Exporter	1999		2004		2007	
	Million USD	% Share	Million USD	% Share	Million USD	% Share
EU (27)	40051.96	52.71	55446.46	49.76	67701.52	46.00
United States	427.15	0.56	349.01	0.31	496.56	0.34
Others	35508.54	46.73	55627.54	49.92	78973.23	53.66
Total Clothing Imports (EU 27)	75987.65	100.00	111423.02	100.00	147171.31	100.00

Source: USITC Trade Database.

8B: US Import of Apparels

Exporter	1999		2004		2007	
	Million USD	% Share	Million USD	% Share	Million USD	% Share
EU (27)	2526.10	4.63	2742.55	3.93	2603.78	3.30
United States						
Others	51991.70	95.37	67100.95	96.07	76235.94	96.70
Total Clothing Imports (US)	54517.80	100.00	69843.50	100.00	78839.72	100.00

Source: Eurostat.

8C: Canada Import of Apparels

Exporter	1999		2004		2007	
	Million USD	% Share	Million USD	% Share	Million USD	% Share
EU (27)	219.18	7.42	333.35	7.13	402.07	5.85
United States	496.45	16.82	423.74	9.06	396.01	5.76
Others	2236.80	75.76	3917.58	83.80	6071.98	88.38
Total Clothing Imports (Canada)	2952.43	100.00	4674.67	100.00	6870.07	100.00

Source: Canada Online.

In the case of the US, the pattern is similar. The EU accounted for only 3.3 per cent of US imports in 2007, somewhat decreasing from 3.9 per cent in 2004. 96.7 per cent of apparels imports to the US came from mainly developing countries. In the Canadian market, the EU and US combinedly accounted for about 16.2 per cent of total Canadian import in 2004. This share came down to 11.6 per cent in 2007.

The above information shows that the global market for apparels is dominated mainly by developing countries, although there is substantial intra-EU trade as well. Following the MFA phase-out, exports of EU members to other EU members have shown some decline in market share, but these exporters still control about half the EU clothing market.

Not all economic groups, however, benefited equally from the enlargement of the market size. As was predicted, manufacturers in developed countries, protected thus far thanks to the MFA regime, took a hit, whilst developing countries as a group made significant gains. Table 9 shows that the global market share of both developing countries and LDCs increased in 2005 and 2006, while developed countries' share of the market came down significantly from 41.01 per cent to 35.58 per cent of global trade over the same period in spite of overall export value growth.

Table 9: Global Clothing Exports of Different Economic Groups

	Million USD						% Share					
	2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
LDCs	6135	6733	8647	10239	11685	13451	3.17	3.27	3.69	3.93	4.20	4.32
Developing	90466	95836	112471	127695	142281	165636	46.68	46.48	48.04	49.01	51.19	53.19
OECD	82462	86018	97432	106856	108251	110814	42.55	41.72	41.62	41.01	38.94	35.58
Others	14736	17581	15550	15779	15754	21509	7.60	8.53	6.64	6.06	5.67	6.91
Total Global Clothing Export	193799	206168	234100	260569	277971	311410	100	100	100	100	100	100

Source: WTO Trade Statistics Database.

Note: Non-WTO Member countries are not reported individually in the database.

LDCs claimed 4.32 per cent of the world clothing market in 2006, compared to 4.20 per cent in 2005, and 3.93 per cent in 2004. With the continued growth of the market, this translated into an increase of USD 3.21 billion in LDC exports. However, this was largely due to the success of a few countries, including Bangladesh and Cambodia. Despite fears of huge job losses in the wake of quota removal, Bangladesh's readymade garments (RMG) industry in fact has thrived, increasing exports from USD 6.3 billion in 2004, to nearly USD 7.75 billion in 2005, over USD 8.9 billion in 2006, and about USD 10.5 billion in 2007. Cambodia also increased her exports significantly, by 10.7 per cent in 2005 and by another 21 per cent in 2006. These countries were able to capitalise on low exchange rates, cheap labour, and reluctance among buyers to rely only on China as a source of imports.

Surges in Chinese and Indian exports pushed developing countries' exports from USD 127.70 billion in 2004 to USD 165.69 billion in 2006, and their share of the world market grew accordingly. Between 2004 and 2005, total clothing exports increased by USD 17.4 billion. China's clothing exports rose by USD 12.31 billion – an increase of 19.9 per cent. India's clothing exports in 2005 also rose substantially, up USD 2.58 billion, or 39 per cent over the year before. No other major clothing exporter experienced growth of over USD 1 billion between 2004 and 2005.¹⁰ Together, China and India captured nearly 85 per cent of the increase in clothing trade between 2004 and 2005, and about 66 per cent of the increase between 2005 and 2006.

The increased competition from low cost producers of some of the developing countries took a toll on developed country exports, which expanded by an insignificant 1.31 per cent

¹⁰US Clothing and Textile Trade with China and the World: Trends Since the End of Quotas, CRS Report for Congress, July 2007.

in 2005 and 2.37 per cent in 2006, compared to 9.67 per cent (2004) and 13.27 per cent (2003) in the preceding years. Total exports increased however, from USD 106.9 billion in 2004 to USD 110.8 billion in 2006. The US took a bigger hit than the EU, which remained the world's second largest clothing supplier, following China. According to WTO trade statistics estimates, US apparel exports in 2006 were about USD 4.886 billion, down from USD 5.06 billion in 2004. EU exports increased modestly, as countries like Germany and Italy repositioned themselves to cater to high-value-added niche markets like technical clothing and high quality designer wear (Economist, 2007). While exports from leading exporters like Belgium, Germany, Italy and France edged up by 2-7 per cent, lower income EU countries like Greece, Hungary and Portugal experienced declines of 11-12 per cent in 2005.

The distributional impact of the MFA phase-out on global apparels market becomes even more marked when we look at the changes across different geographic regions (Table 10). Among the developing countries and LDCs, those from Sub-Saharan Africa, Latin America, and the Pacific were the biggest losers. While the Caribbean's share of the world clothing market rose (to 0.15 per cent of total global apparels export) in the first year of the quota de-restricted regime and then dipped slightly in 2006, the 12.03 per cent expansion in global clothing trade resulted in the region experiencing an overall increase in exports. Asia, as expected, enjoyed a boost in trade and increased its global market share from 52.06 per cent in 2004 to 55.21 per cent in 2006.

Table 10: Clothing Exports from Different Geographic Regions

	Million USD						% Share					
	2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
Sub-Saharan Africa	1781	1882	2162	2378	1998	1944	0.92	0.91	0.92	0.91	0.72	0.62
Asia	100604	105001	120439	135656	154160	167131	51.91	50.93	51.45	52.06	55.46	53.67
South Asia	14291	14699	17141	18730	23441	26078	7.37	7.13	7.32	7.19	8.43	8.37
East Asia	69110	72102	83422	94998	107851	129538	35.66	34.97	35.64	36.46	38.80	41.60
Latin America	16818	14375	14553	15433	15394	14320	8.68	6.97	6.22	5.92	5.54	4.60
Pacific	451	412	523	559	485	428	0.23	0.20	0.22	0.21	0.17	0.14
Caribbean	2635	252	299	323	413	437	1.36	0.12	0.13	0.12	0.15	0.14
Others	71510	84246	96124	106220	105521	127150	36.90	40.86	41.06	40.76	37.96	40.83
Total Global Clothing Export	193799	206168	234100	260569	277971	311410	100.00	100.00	100.00	100.00	100.00	100.00

Source: CPD estimation based on WTO Trade Statistics Database.

Sub-Saharan Africa's share of world clothing exports plunged from 0.91 per cent in 2004 to 0.72 per cent in 2005, an effective decline to the tune of USD 380 million. The removal of quotas had eliminated the competitive advantage the region had enjoyed under preferential trade agreements that provided it DF-QF market access in the EU and US markets. It continued to fall in 2006 (with a market share of 0.62 per cent), and although the 0.1 per cent decrease in global share could appear of little significance, it needs to be considered in the context of the significant rise in global apparels trade in this period, and also in view of their small base to start with.

The partial data that is available for the small Pacific island countries indicates significant losses for these countries as well, driven by the 47.95 per cent (between 2004 and 2005) drop in the exports of Fiji, the region's third biggest exporter after Australia and New Zealand. Australia's modest 2.8 per cent decline in 2005 was followed by a significant 10.2 per cent reduction in 2006, while New Zealand barely maintained a positive growth rate in 2005, only to suffer an 8.4 per cent blow in 2006. Indeed, yearly exports figure of the Pacific region points towards the direction as a sore loser. Up from a 0.21 per cent global market share in 2004, the Pacific countries saw their exports dipping – capturing only 0.14 per cent of the global clothing market in 2006.¹¹

Latin American exports of clothing comprised only 4.60 per cent of the world total in 2006, compared to 5.92 per cent in 2004. However, a glance at their trade figures would show that their market share began dropping in 2001, (well before the elimination of quotas) after years of an upward trend. From 1993 to 2000, the region's export industry had registered double digit growth figures every year, a situation that altered dramatically after China's accession to the WTO in 2001, and became further accentuated following the lifting of quota barriers. Latin American exporters, who had expanded largely thanks to preferential trade agreements, struggled to compete with the low wage rates and inexpensive fabric from local textile makers that gave China significant cost advantages. The completion of the ATC eroded the quota premiums, and major apparel exporters in the region saw their exports go down. This was most telling for Mexico in particular. Mexico, for example, saw its export figures drop from USD 8.63 billion to USD 6.33 billion between 2000 and 2006. Mexico had managed to increase the value of its clothing exports to the US – aided by its membership in NAFTA – by 62 per cent between 1998 and 2000 (Deutsche Bank, 2005). Chinese exports to the US, by contrast, rose by just under 15 per cent during this period. However, China's ascendance since 2001, thanks largely to her accession to the WTO in that year, brought significant changes in the global dynamics of the apparels trade. Between 2001 and 2003, Mexico suffered an 8.69 per cent decline in exports, whereas China's clothing exports to the US increased by more than one-third, enabling the latter to displace Mexico as the leading supplier of apparels to the US by 2003.

The countries of the Caribbean Basin fared comparatively better. Though their quota-free access lost its significance, their exports had increased from USD 323 million in 2004 to USD 413 million in 2005. However, their share slipped from 0.15 per cent in 2005 to 0.14 per cent in 2006. Given the increase in total world exports in 2006, this decline reflects negatively on the competitiveness of the Caribbean nations, which had previously received some shelter under preferential trade agreements, particularly the AGOA, in place since 2001.

As would be expected, Asia posted the biggest gains, with exports growing from USD 135.66 billion in 2004, to crossing the USD 150 billion mark in 2005, and rising to USD 167.13 billion in 2006. However, a larger share of these gains were concentrated in East Asia, and most of the gains were concentrated in China, which alone accounted for USD 95.39 billion worth of clothing exports. This ascendancy is marked also by its relative growth compared to South Asia. Whereas South Asia's share grew from 7.19 per cent (2004) to 8.37 per cent (2006),

¹¹ However, it is difficult to make any conclusion without full trade statistics for all Asia-Pacific countries.

East Asia's had jumped from 36.46 per cent to 41.6 per cent over the same period. Temporary restrictions imposed on China by the EU and the US won South Asian countries a temporary reprieve in 2006, with all of them enjoying rapid growth in exports. India, as mentioned earlier, expanded clothing exports by 39 per cent in 2005, and a further 10.6 per cent in 2006. Bangladeshi exports grew by 23 per cent and 15 per cent in 2005 and 2006 respectively, with further comparable growth in 2007. Pakistan and Sri Lanka also experienced rises in exports, although to lesser extents. In contrast, their East Asian neighbours struggled, with China gobbling up almost all of the region's trade gains; Hong Kong was the only other exporter which posted gains following the MFA phase-out. All of the other East Asian clothing manufacturers—Taiwan, the Republic of Korea, Japan, Macao and Mongolia—saw export figures dip by 15-26 per cent in 2005, and a further 2-15 per cent in 2006 (WTO Trade Statistics Database).

Global Textiles Market

As would be expected, the growth in the global apparels trade in the post-MFA era had direct implications for the trade in textiles. The results in the textiles sector reflect two different and sometimes contradictory impacts of trade liberalisation under the ATC on textile suppliers. First, the impact on the demand for textiles in previously restricted markets was a mix of both positive and negative trends. Some markets saw increased demand due to lower prices as quotas disappeared, while local textile manufacturers in other countries suffered from increased price competition in the domestic and global markets. Secondly, there was indirect impact on global trade in textiles because of increased demand for fabrics by the clothing industries of those countries which benefited from the liberalisation of the apparels sector (Curran, 2008).

Table 11: Pattern of Import by Major Textile Importers

Table 11A: EU Import of Textiles

Exporter	1999		2004		2007	
	Million USD	% Share	Million USD	% Share	Million USD	% Share
EU (27)	43858.65	69.21	53273.91	68.26	58712.13	65.31
United States	427.15	0.67	349.01	0.45	496.56	0.55
Others	19080.20	30.11	24428.07	31.30	30689.30	34.14
Total Clothing Imports (EU 27)	63366.00	100.00	78051.00	100.00	89898.00	100.00

Source: USITC Trade Database.

Table 11B: US Import of Textiles

Exporter	1999		2004		2007	
	Million USD	% Share	Million USD	% Share	Million USD	% Share
EU (27)	2750.57	18.61	3239.37	15.39	3412.05	13.64
United States						
Others	12028.43	81.39	17803.63	84.61	21611.95	86.36
Total Clothing Imports (US)	14779.00	100.00	21043.00	100.00	25024.00	100.00

Source: Eurostat.

Table 11C: Canada Import of Textiles

Exporter	1999		2004		2007	
	Million USD	% Share	Million USD	% Share	Million USD	% Share
EU (27)	382.00	9.07	453.46	10.37	457.60	9.87
United States	2767.71	65.68	2516.18	57.53	2419.76	52.21
Others	1064.28	25.26	1403.87	32.10	1757.16	37.91
Total Clothing Imports (Canada)	4213.99	100.00	4373.52	100.00	4634.51	100.00

Source: Canada Online.

As data for import of textiles by the EU indicate (Table 11), the share of intra-EU trade in textiles was higher (65.3 per cent in 2007) compared to intra-EU trade in clothing (46 per cent in 2007). However, there has been some decline in intra-EU imports, and some increase in imports from developing and other countries (increasing from 31.3 per cent in 2004 to 34.1 per cent in 2007). With regard to the US, between 2004 and 2007, there was some decline in the share of imports from the EU, with the share coming down from 15.4 per cent to 13.6 per cent total US imports. On the other hand, in the case of imports of textiles to Canada, the US continues to remain the dominant supplier. However, its share in the Canadian market came down from 65.6 per cent in 1999 to 57.5 per cent in 2004, and came down further to 52.2 per cent in 2007. The EU's share was 9.8 per cent, whilst developing and other countries accounted for 37.9 per cent in 2007, increasing somewhat from 32.1 per cent in 2004. Here also, as in the case of clothing, the share of developing countries in the major developed country market was on the rise. However, the trend in sourcing is not significantly different from what it had been between 1999 and 2004.

Growth in the global textiles sector did not match those of apparels. This is partly explained by the efforts in many countries to strengthen their backward linkages in textiles for their respective captive market in the readymade garments sector.¹² Besides, countries which exported a large part of their fabrics (because of quotas on apparels export), were now using those fabrics for their own apparels sector upon becoming unshackled by the removal of quota restraint (Table 11). Textile exports in 2004 were worth USD 195.541 billion, which increased by 4.91 per cent after the removal of quotas in 2005, crossing the USD 200 billion mark. In 2006, textile trade posted a rise of another 6.56 per cent, as USD 218.59 billion worth of textiles were traded. Post-MFA expansion rates of textiles were indeed modest compared to earlier years when the growth figure of textiles in the global market was around 12.04 per cent (2003) and 11.99 per cent (2004).

Similar to the clothing market, the gains were unevenly distributed. LDCs experienced an overall increase in exports in 2005, although their global market share remained constant at 0.38 per cent (Table 12). Developed countries suffered as low cost textile exports from developing countries flooded the market, registering reductions in both value of exports and market share. Major developing country suppliers such as China and India, and Pakistan to a lesser extent, expanded exports rapidly after the liberalisation of the sector, enabling the developing country group as a whole to capture nearly 80 per cent of the incremental global trade in textiles between 2004 and 2006.

¹²This hypothesis can be tested by tracing the dynamics of imports of cotton and yarn and comparing this with global trade in textiles.

Table 12: Textile Exports of LDCs, Developing and Developed Countries

Country	Million USD						% Share					
	2001	2002	2003	2004	2005	2006**	2001	2002	2003	2004	2005	2006
LDCs	781	649	642	738	785	59	0.52	0.42	0.37	0.38	0.38	0.03
Developing	52048	58873	68593	78505	88053	97122	34.85	37.78	39.29	40.15	42.92	44.43
OECD	92427	94491	103769	114317	111826	113730	61.90	60.63	59.43	58.46	54.51	52.03
Others	4072	1830	1595	1981	4471	7683	2.73	1.17	0.91	1.01	2.18	3.51
Total Global Textiles Export	149328	155843	174599	195541	205135	218594	100.00	100.00	100.00	100.00	100.00	100.00

Source: CPD Estimation Based on WTO Trade Statistics Database.

Note: Non-WTO Member countries are not reported individually in the database.

** Export figures for some countries are unavailable

Textiles trade data indicates some gain in exports for LDCs, rising from USD 738 million in 2004 to USD 785 million in 2005. Bangladesh, the biggest textiles exporter among the LDCs, was the only one to register significant improvement; its exports grew by 16.58 per cent. Indeed, in the subsequent two years of 2006 and 2007, Bangladesh's textile export expanded further. For example, its export of home fabrics rose from USD 163.91 million in 2004 to USD 153.54 million, USD 213.64 million and USD 272.74 million respectively in 2005, 2006 and 2007.

As mentioned earlier, among the developing countries, China and India showed the most impressive year-on-year increases in textiles exports. Following the phase-out the MFA in December 2004, these two countries together captured 94.6 per cent of the USD 9.6 billion rise in global demand. Chinese exports grew by 22.8 per cent in 2005 and 18.59 per cent in 2006, totalling a USD 15.26 billion jump in exports compared to 2004. India increased its exports from USD 7.01 billion in 2004 to over USD 9.3 billion in 2006, posting growth rates of 20.73 per cent in 2005 and 10.26 per cent in 2006. Pakistan also enjoyed double-digit growth in its textile exports during 2005 (Kamal, 2007).

Among the OECD members, Mexico and the United States experienced modest gains that kept in pace with global textile trade growth. Turkey took advantage of its proximity to the EU market and its reputation for higher quality products to expand exports by 10 per cent in 2005, and a further 7.3 per cent in 2006. However, their gains were offset by declines in the export of several traditional textile exporting nations. Germany and Italy, the largest OECD exporters, saw their exports decline by about 3 per cent in 2005. Belgium, France, Japan and South Korea also had their exports fall by 3-5 per cent. As a result, total developed country exports fell by 2.18 per cent in 2005; growth was positive in 2006, but the 1.7 per cent improvement was not enough to reclaim pre-MFA export levels of USD 114.32 billion (2004). Market share over the period fell from 58.46 per cent (2004) to 52.03 per cent (2006), as low cost textiles products from developing countries edged out developed country exports in the global market.

In terms of the geographical distribution of trade, a first glance indicates the same group of losers as in the clothing sector – Latin America, Sub-Saharan Africa, and the Pacific – with

the addition of the Caribbean Basin countries (Table 13). Asia, as a region, gained a further foothold and as in the global trade in clothing, enjoyed crossing the USD 100 billion barrier in 2005, and increased its global market share from 50.36 per cent (2004) to 52.26 per cent (2005), and subsequently, to 52.91 per cent in 2006.

Table 13: Global Textiles Exports of Different Regions

Region	Million USD						% Share					
	2001	2002	2003	2004	2005	2006**	2001	2002	2003	2004	2005	2006
Sub-Saharan Africa	529	693	566	572	543	436	0.35	0.44	0.32	0.29	0.26	0.20
Asia	74628	78607	87973	98480	107199	115667	49.98	50.44	50.39	50.36	52.26	52.91
South Asia	10733	11485	13338	13880	16381	16953	7.19	7.37	7.64	7.10	7.99	7.76
East Asia	56353	59818	66806	76055	82160	89646	37.74	38.38	38.26	38.89	40.05	41.01
Latin America	3889	6075	6224	6505	6517	6343	2.60	3.90	3.56	3.33	3.18	2.90
Pacific	434	458	537	586	596	583	0.29	0.29	0.31	0.30	0.29	0.27
Caribbean	13	2252	2209	2132	1918	1645	0.01	1.45	1.27	1.09	0.93	0.75
Others	69835	67758	77090	87266	88362	93920	46.77	43.48	44.15	44.63	43.08	42.97
Total Global Textiles Export	149328	155843	174599	195541	205135	218594	100	100	100	100	100	100

Source: CPD Estimation Based on WTO Trade Statistics Database.

Note: **Export figures for some countries are unavailable.

However, within most of the regions themselves, the group of winners and losers that emerged was somewhat different than in clothing. Sub-Saharan Africa's biggest textiles exporter, South Africa, managed to increase its exports from USD 301 million in 2004 to USD 312 million in 2005; and in spite of some decline in 2006, it posted a higher total, USD 306 million, than in the pre-MFA period (2004). Smaller suppliers suffered from the erosion of preferences after quota-elimination in textiles, with countries such as Mauritius, Kenya, Zambia and Zimbabwe all experiencing declines in exports.

Mexico made some gains, of 2-3 per cent, edging out the Dominican Republic to become the region's biggest supplier of textile products. Exports from Brazil, Peru and Colombia also expanded insignificantly.

The Dominican Republic was responsible for the dismal performance of the Caribbean, as it is the only country from that region which exported more than USD 1.0 billion worth of textiles. The region's exports dropped from USD 2.12 billion in 2004 to 1.91 billion in 2005, pushing its global market share below the 1 per cent mark. It fared no better in 2006, as exports tumbled to USD 1.64 billion with the regional share coming down to 0.75 per cent.

Data for the Pacific region is again incomplete, but according to available trade figures, its tiny market share shows little sign of improvement. Fiji increased exports by 42.86 per cent in 2005, and then slipped by 10 per cent in 2006; however, textiles are of marginal importance compared to clothing exports in the country. Australia, which accounted for over 50 per cent of the region's textiles exports in 2006, maintained a positive growth rate

in 2005, albeit a very low one of 0.61 per cent. New Zealand's textiles exports also grew at nominally positive rates in 2005 and 2006.

As noted earlier, China and India's rapid expansion powered the 8 per cent growth of Asian textiles exports in 2005 and 2006, although this figure could be higher once 2006 export data for all Asian countries are available. Once again, most of the gains were concentrated in China, which absorbed 80 per cent of the incremental global trade of Asian countries between 2004 and 2005. With the exception of Macao, all other East Asian countries suffered 3-4 per cent fall-offs in 2005, though Hong Kong, Japan, and Taiwan managed to recover in 2006, albeit by only 0.5 per cent each. Macao was hit the hardest, experiencing 12 per cent declines in both years. South Asian countries performed much better, with exports from Bangladesh and Pakistan growing at 16 per cent and 15 per cent respectively in 2005. As a result, South Asia was able to increase its total market share in global textiles from 7.10 per cent to 7.99 per cent in 2005, an effective increase of USD 2.5 billion.

Three conclusions could be drawn here. Firstly, as the MFA was phased out, advantages enjoyed by countries and regions under preferential market access, particularly in the form of duty-free access, suffered in terms of either market share, or export of both. Caribbean countries and Mexico are examples of this. Secondly, on the whole, Asian countries, particularly China and India, but also some of the low income countries such as Bangladesh, gained from quota derestriction. Thirdly, trade in textiles underwent interesting changes. Countries which were exporting both apparels and textiles, tended to concentrate on exports of apparels, using more and more of their own textiles. This resulted in lower growth in the global trade in textiles compared to that of apparels.

4. DYNAMICS OF CHANGES IN T&C SOURCING IN MAJOR MARKETS

This section captures the changes in major markets of the EU, US and Canada to see how T&C imports by these major importing countries have been influenced in view of the quota phase-out.

4.1 Clothing

4.1.1 US Market

In 2007, China had the highest share in the export of clothing to the US market followed far behind by Mexico, Vietnam and Indonesia. Bangladesh ranked sixth among the top suppliers of clothing to the US market. Between 2004 and 2007, China increased her share from 16.14 per cent to 31.91 per cent, and Vietnam from 3.83 per cent to 5.73 per cent, Indonesia from 3.64 per cent to 5.30 per cent, and India from 3.45 per cent to 4.34 per cent. However, Mexico, whilst retaking the second position, saw a decline from 9.88 per cent to 5.92 per cent of market share in the US. Bangladesh retained her sixth position but was also able to increase her share from 2.87 per cent to 4.02 per cent. Countries such as Vietnam, Indonesia, Bangladesh and Cambodia have been gradually increasing their share in the US market whilst much of this had been at the cost of Mexico and other smaller suppliers.

The mid-1990s up to 2000, presented a very different picture. Even though China was one of the leading exporters of clothing to the US, its export growth was limited. It was Mexico which was growing fastest in the US market, and captured the highest market share. In 1996, Mexico was the third major supplier of apparels to the US, but by 1998, it had become the number one exporter of apparels to the US. It occupied the top spot until 2002, when it was displaced by China. Cambodia and Vietnam also rose to prominence on China's heels. In 1996, Cambodia's rank was 106th in the US market and by 2007 it was the eighth largest exporters of apparels to the US. Similarly, Vietnam's rank in terms of garments export to the US was 63rd in 1996, but by 2007 it was the third largest apparels exporter to the US, following China and Mexico.

Mexico, which has been the second largest exporter to the US since 2002, experienced further decline in the US market in recent times and is currently (through the first two months of 2008) the fifth largest exporter; whereas, Vietnam jumped to the second position with Indonesia and India in the third and fourth spots.

4.1.2 EU Market

In 2007, China was the foremost supplier in the EU apparels market, a position it has continued to retain for quite some time. However, her share in the EU market had increased from 9.60 per cent in 2000 to 12.88 per cent in 2004, and then saw a significantly faster increase to 17.85 per cent the next year, in 2005, by taking advantage of the quota phase-out. In spite of the sanctions, her share had risen to 20.38 per cent in 2007. Turkey, the second largest supplier in the EU, experienced its share going up from 6.69 per cent to 8.65 per cent between 2000 and 2004. Thereafter, Turkey has seen some decline till 2006 (7.99 per cent); however, her share increased to 8.32 per cent in 2007. Bangladesh on the other hand, whose share in 2007 was 4.08 per cent, has yet to reach the 2004 share (4.15 per cent) whilst India was able to increase her share, in a significant manner – in 2004, her share was 2.77 per cent, whilst in 2007 this increased to 3.58 per cent, a total increase of USD 2.1 billion in a period of three years.

4.1.3 Canadian Market

A redistribution of market share was also observed in the Canadian apparels market, although China was not the driving force behind it. China edged out the US to become the top supplier to Canada in 1999, and has remained number one since. The US managed to hold on to second place until 2007, when the surprising ascent of Bangladesh knocked it down to third. Bangladesh had climbed the ladder steadily, from 11th place in 1999 to third place in 2004, and claimed 6 per cent of the Canadian clothing market in 2007 to become the second highest exporter to Canada.

Turkey and Vietnam also made gains, shooting up from 17th and 22nd place in 1999 to 10th and eighth place respectively in 2007. Their rise came at the cost of Hong Kong, South Korea, Taiwan and Thailand, which saw their respective market shares fall in the recent past.

4.2 Textiles

4.2.1 US Market

In the textiles arena, Canada, Mexico, South Korea, Japan and Taiwan were pushed down in the suppliers list, as China, India, Pakistan and Turkey increased their shares in the US textiles import market. At the start of the MFA phase-out, Canada held the top spot, aided by its proximity to the US market and NAFTA preferential access. However, in 2000, China increased market share to 11.80 per cent (from 9.54 per cent in 1996) to become the leading exporter of textiles to the US, capturing almost one-third (30.85 per cent) of the US textile market by 2007. Canada remained the second largest exporter of textiles until 2005, when the removal of quota restrictions enabled India to overtake it. This was a big leap for India, which had occupied the seventh spot when the quota phase-out began. Pakistan's rise was equally impressive, as it worked its way up from ninth place in 1996 to fourth place in 2007. Turkey, which was 14th on the list in 1996, was ninth in 2007.

As some suppliers expanded exports, others lost market share. South Korea went from fourth place in 1996 to sixth place in 2007, while Taiwan fell from the fifth to the eighth spot. Japan ceded to Turkey and moved down to tenth place, while Germany dropped one spot to become 11th in 2007.

4.2.2 EU Market

The removal of quotas in the EU did not introduce any major new players, although some of the top ten suppliers traded places with one another. China's influence in the EU market expanded significantly, as it went from being fifth in 2004 to third in 2007. Belgium and Luxembourg fell to fourth place in 2007, as they ceded third place to China. France took a big hit, falling from fourth in 2004 to sixth place in 2007. Turkey and India each moved up one spot to become fifth and eighth respectively.

4.2.3 Canadian Market

In 2007, the US was the leading exporter of textiles to the Canada, showing little sign of yielding the position it held throughout the MFA phase-out. However, its market share has gone down since quota barriers were lifted; compared to 57.53 per cent in 2004, it had 52.21 per cent of the market in 2007. China's market share, on the other hand, has increased. Even though it remained in second place between 1995 and 2007, its market share increased rapidly once quotas were eliminated. Whereas, in 2004, it supplied 10.79 per cent of Canada's textiles imports, in 2007, 16.32 per cent of Canada's textiles imports were of Chinese origin. India was the third largest supplier of textiles to the Canadian market in 2007, as it has been since 2003.

Mexico made a modest gain in market share, from 2.62 per cent in 2004, to 2.82 per cent, but this was enough to pull it up two spots to fourth place among textiles suppliers to Canada – a big leap from the 11th spot it occupied in 1995, at the beginning of the quota phase-out period. The Netherlands made even greater progress, going from 18th in 1995, to ninth in 2004. However, it subsequently traded places with Germany and dropped back to

tenth place. South Korea suffered the biggest loss over the period, tumbling from fourth place in 2004 to seventh place on the suppliers list in 2007.

5. A DISAGGREGATED ANALYSIS OF CHANGES IN MARKET SHARE IN LEADING IMPORTING MARKETS

This section presents a disaggregated picture of the dynamics of trade in T&C products as far as major markets for these products were concerned. For the purpose of present analyses, these are the EU, US and Canada, accounting for about 75 per cent of global trade in apparels and 45 per cent of global trade in textiles.

5.1 Clothing Sector

Table 14: Disaggregated Analysis of Apparels Imports in Leading Markets

(Million USD)

Exporter	1999			2004			2007		
	EU	US	Canada	EU	US	Canada	EU	US	Canada
Asia	22518.39	28982.20	1582.97	35107.63	40119.57	3055.36	53939.10	55862.62	5365.19
South Asia	5032.24	5683.10	339.85	9904.67	7492.31	711.29	13981.77	9904.61	841.30
Bangladesh	1910.09	1635.00	83.84	4629.00	2002.00	342.59	6010.34	3168.00	439.94
India	1808.62	1704.38	206.41	3084.87	2411.00	302.52	5264.98	3418.00	324.78
Pakistan	297.26	802.39	47.40	587.14	1245.00	59.03	700.48	1625.00	70.89
East Asia	11928.21	15876.45	1220.57	18574.30	20851.73	2018.17	33389.72	30022.95	3778.87
China	6986.41	6058.71	600.45	14347.60	11275.00	1543.78	29989.36	25161.00	3625.51
EU (27)	40051.96	2526.10	219.18	55446.46	2742.55	333.35	67701.52	2603.78	402.07
Sub-Saharan Africa	1007.34	618.02	16.33	952.34	1865.12	29.45	1053.67	1362.56	25.97
Lesotho	0.19	115.65	1.79	1.06	481.99	10.75	2.33	402.25	4.62
Mauritius	668.44	245.94	13.13	639.79	239.73	5.00	653.32	120.95	15.05
Caribbean	94.03	2981.88	26.73	93.58	2501.01	24.48	4.89	1567.50	33.01
Dominican Republic	15.86	2354.02	22.60	10.00	2076.00	17.40	12.00	1069.00	2.70
Pacific	4.50	234.29	13.03	8.00	322.27	17.30	5.60	16.23	11.00
Australia		140.70	1.32		218.00	1.59		10.00	0.23
Fiji	1.81	73.67	0.35	0.63	89.00	0.46	0.47	2.20	4.73
Latin America	193.24	17233.48	203.05	355.24	18613.30	433.76	444.97	14673.13	463.13
Honduras	3.70	2241.00	26.00	31.00	2801.00	53.00	34.00	2648.00	54.00
Mexico	22.82	7801.39	107.81	53.82	6901.11	268.51	78.95	4664.75	283.00
United States	427.15		496.45	349.01		423.74	496.56		396.01
Others	11691.03	1941.82	394.68	19110.75	3679.68	357.23	23525.00	2753.91	173.68
Total Clothing Imports	75987.65	54517.80	2952.43	111423.02	69843.50	4674.67	147171.31	78839.72	6870.07

Source: Statistics Canada, OTEXA, Eurostat.

Table 15: Disaggregated Analysis of Apparels Imports Market Share in Leading Markets*(in Per cent)*

Exporter	1999			2004			2007		
	EU	US	Canada	EU	US	Canada	EU	US	Canada
Asia	29.63	53.16	53.62	31.51	57.44	65.36	36.65	70.86	78.10
South Asia	6.62	10.42	11.51	8.89	10.73	15.22	9.50	12.56	12.25
Bangladesh	2.51	3.00	2.84	4.15	2.87	7.33	4.08	4.02	6.40
India	2.38	3.13	6.99	2.77	3.45	6.47	3.58	4.34	4.73
Pakistan	0.39	1.47	1.61	0.53	1.78	1.26	0.48	2.06	1.03
East Asia	15.70	29.12	41.34	16.67	29.85	43.17	22.69	38.08	55.00
China	9.19	11.11	20.34	12.88	16.14	33.02	20.38	31.91	52.77
EU (27)	52.71	4.63	7.42	49.76	3.93	7.13	46.00	3.30	5.85
Sub-Saharan Africa	1.33	1.13	0.55	0.85	2.67	0.63	0.72	1.73	0.38
Lesotho	0.00	0.21	0.06	0.00	0.69	0.23	0.00	0.51	0.07
Mauritius	0.88	0.45	0.44	0.57	0.34	0.11	0.44	0.15	0.22
Caribbean	0.12	5.47	0.91	0.08	3.58	0.52	0.00	1.99	0.48
Dominican Republic	0.02	4.32	0.77	0.01	2.97	0.37	0.01	1.36	0.04
Pacific	0.01	0.43	0.44	0.01	0.46	0.37	0.00	0.02	0.16
Australia	0.00	0.26	0.04	0.00	0.31	0.03	0.00	0.01	0.00
Fiji	0.00	0.14	0.01	0.00	0.13	0.01	0.00	0.00	0.07
Latin America	0.25	31.61	6.88	0.32	26.65	9.28	0.30	18.61	6.74
Honduras	0.00	4.11	0.88	0.03	4.01	1.13	0.02	3.36	0.79
Mexico	0.03	14.31	3.65	0.05	9.88	5.74	0.05	5.92	4.12
United States	0.56		16.82	0.31	0.00	9.06	0.34		5.76
Others	15.39	3.56	13.37	17.15	5.27	7.64	15.98	3.49	2.53
Total Clothing Imports	100.00								

Source: Statistics Canada, OTEXA, Eurostat.

5.1.1 Asia, including South Asia and East Asia

As was noted above, Asia is the world's leading clothing exporter, and supplies more than half of the global clothing demand. The clothing sector has served as an engine of industrialisation in many Asian countries, as its low start-up costs and labour-intensive nature has proven to be an ideal way of harnessing the abundant low-wage labour that these countries have. However, market performance has not been uniform, depending on several factors. Firstly, preferential access in a particular market was a major determining factor. For example, zero-tariff access for Bangladesh in the EU was a major factor in the high growth export of apparels in the EU market. Secondly, Rules of Origin (RoO) was an important factor even when a country had competitive advantage and received preferential treatment. This often determined whether a country was able to have a strong foothold in a particularly preference-giving market. Thirdly, geographical proximity was a factor. For example, CBI countries and Mexico have concentrated on the US market. A disaggregated market specific analysis could reveal important insights to us as to the differential outcomes in terms of export performance in T&C products following the MFA phase-out.

EU Market

Asia's importance as a source of clothing for the EU has increased over the course of time. In 1999, the continent catered to about 30 per cent of the EU's clothing import demand, providing USD 22.52 billion worth of clothing. Its market share had risen to 31.51 per cent by 2004, and the removal of quotas enabled it to expand its share further; in 2005, its market share jumped up to 34.47 per cent. By 2007, Asia was exporting USD 53.94 billion worth of clothing to the EU, equivalent to 36.65 per cent of total EU clothing imports from the world. Since the LDCs enjoyed duty-free, quota-free access under the Everything But Arms (EBA) initiative of the EU, these particular countries enjoyed substantial competitive advantage in the clothing market of the EU.

The six South Asian countries – Bangladesh, India, Pakistan, Bhutan, Nepal, and Sri Lanka – made up 9.50 per cent of total EU imports of apparels in 2007. This was much higher than the 6.62 per cent market share they had held in 1999; the share in 2006 however, was about 10.02 per cent. Both Bangladesh and India, the two largest South Asian clothing exporters in the EU market, improved their respective market shares, driving the regional gain. India's share increased steadily from 2.38 per cent in 1999 to 3.58 per cent in 2007, and was on the verge of catching up to Bangladesh. However, Bangladesh's market share trend was steady; it rose up to 4.15 per cent in 2004, as the country took advantage of the duty-free access it was granted under the EBA, but fell to 3.72 per cent after the elimination of quotas eroded the preference in terms of quota, and opened it up to competition from RMG producers worldwide who were no longer constrained by quotas. This happened in spite of the considerable edge it continued to enjoy thanks to the EBA that granted Bangladesh's apparels zero-tariff access. Average tariffs on clothing in the EU, at 12.1 per cent, gave Bangladesh and other LDCs a substantial advantage since preferential access granted 100 per cent rebate on tariffs. India, as a developing country, received only the equivalent of 15 per cent of tariff rebate. After the EU imposed restrictions on China in June 2005, this share went back up to 4.48 per cent in 2006, subsequently coming down to 4.08 per cent in 2007. Of the two categories of clothing exports, Bangladesh's share of the total EU market was split evenly between knitwear and woven apparels in 1999. However, by 2007, knitwear was a bigger contributor, accounting for 2.68 per cent of total EU clothing imports, and 5.74 per cent of the EU knitwear import market. The higher capacity of Bangladesh's knitwear sector to comply with the EU's RoO for apparels obviously contributed to this stellar performance.¹³ Woven apparels, by comparison, made only nominal headway – compared to 2.83 per cent in 1999, it held 3 per cent of the EU woven apparels market in 2007. This can partly be attributed to the two-step value addition requisite for EBA preferences; since Bangladesh has a domestic supply of knit fabric, knitwear more readily qualified under these terms, and was thus more competitive. Pakistan, a relatively small supplier in the market, mirrored Bangladesh's trend – its market share posted a rise from 0.39 per cent in 1999 to 0.53 per cent in 2004, and then fell to 0.48 per cent in 2005. Political turmoil and increasing costs of doing business at home, made the road rocky for Pakistani clothing exporters, and the 0.49 per cent market share in 2006 shrank back to 0.48 per cent in 2007.

¹³ EU RoO for apparels stipulates the so-called double jump (two-stage conversion) yarn to fabrics to garments. Currently, the RoO criteria are being revised. In all likelihood, this will be based on value-addition though the ranges of value addition are yet to be worked out.

East Asia's share of the EU market rose from 15.7 per cent in 1999 to 22.69 per cent in 2007, with gains speeding up after the expiry of the MFA. Between 1999 and 2004, the region's share only increased to 16.67 per cent, but it then jumped to 20.60 per cent in 2005. Needless to say, the rise of China was the major force behind East Asia's performance. In 1999, China catered to 9.19 per cent of the EU market, with USD 7 billion of clothing exports. Its share remained below 10 per cent until its accession to the WTO in 2001, after which it increased to 10.96 per cent in 2002. Its gains were modest until 2004, by which time its market share had risen to 12.88 per cent. However, once the quota was finally removed, double digit growth figures powered it to a 17.85 per cent claim on the EU market in 2005.¹⁴ Despite concluding a Memorandum of Understanding (MoU) with the EU that restrained its export growth in apparels, China continued to gain market share, and in 2007, finally crossed the 20 per cent mark; it is at present the single largest supplier of clothing items to the EU.

US Market

Unlike the EU, the US Generalised System of Preferences (GSP) scheme did not include apparels. Therefore, developing and LDCs did not enjoy any DF-QF treatment for apparels in the US market. However, CBI and AGOA countries did enjoy such preferential treatment under the two aforesaid Acts put in place in 2001. Once the most quota-restricted market for Asian exporters, the US clothing market came to be dominated by Asian exporters once quotas were removed. Their share in the US market was consistently above 50 per cent until 2004, with 58.64 per cent (1996) and 57.44 (2003) the highest they managed to attain. But in the three years after the MFA regime was terminated, Asia's share soared up to 70.86 per cent in the US, equalling USD 55.86 billion, more than double their exports a decade back.

South Asia boosted its market share from 10.70 per cent in 1996 to 12.56 per cent in 2007. This figure remained below or around 11 per cent for much of the interim period, until 2005, when it rose from 10.73 per cent (2004) to 12.02 per cent. India was the leader here, with 4.34 per cent of the US market in 2007. This was higher than the 3.45 per cent share it had in 1996, and also 2004. In terms of value, knitwear exports had doubled, and woven apparels exports increased fourfold. Again, the liberalisation of the clothing sector had an immediate and noticeable effect. 2005 was the first year since 1996 that India's market share exceeded 4 per cent. Bangladesh's knit and woven apparels exports increased 2.7 and 3.7-fold respectively, as she expanded her market share from 2.73 per cent in 1996 to 4.02 per cent in 2007. Pakistan also increased her market share, from 1.55 per cent in 1996 to 2.06 per cent in 2007, her highest in over a decade. The elimination of quotas proved to be beneficial for the region as a whole, as it put South Asian countries on a level playing field with all the Latin American and Caribbean countries that enjoyed preferential access to the US market (in terms of quota).

East Asia's share of the US market had been falling from 1996 to 2001, but quota de-restriction accelerated the upturn that began in 2002. Its share diminished from 34.61 per cent in 1996 to 27.23 per cent in 2001, but regained some ground to rise up to 29.85 per

¹⁴This late spurt happened, to a large extent, because the quota phase-out was back-loaded with major import quota categories being phased out only at the last stage (December, 2004).

cent in 2004. In 2005, this further increased to 34.19 per cent, and then increased further to 38.08 per cent in 2007, underwritten mainly by China's significant contribution to this growth during this period. In 1996, China accounted for 13.35 per cent of the US market, which fell to 10.55 per cent by 2000. It rose following China's accession to the WTO in 2001. Between 2001 and 2004, her share increased to reach 16.14 per cent by 2004. However, this share rose in an accelerated manner, reaching 31.91 per cent of the US market in 2007. China had already replaced Mexico as the pre-eminent supplier of apparels to the US in 2002, and has continued to remain so since.

Canadian Market

Understandably, Canada's clothing import market is much smaller compared to the US and EU, totalling USD 6.87 billion in 2007, with Asia accounting for USD 5.37 billion of that. This represents 78.10 per cent of the market, a significant increase from the 62.37 per cent share it held in 1996.

South Asia has not been a party to this success, however, as its market share fell after the clothing sector was liberalised. It had built up its share gradually, from 10.6 per cent in 1995 to 15.22 per cent in 2004, but by 2007, the share had slipped to 12.25 per cent. However, the burden was not shared equally. India's loss was the largest; the 4.73 per cent of Canada's clothing imports she provided in 2007 was a comedown from its decadal peak of 7.34 per cent, achieved in 2003. Bangladesh's share also shrank somewhat after 2004, in spite of a rise in absolute exports, from 7.33 per cent before quota removal to 6.40 per cent in 2007; this was, however, a big improvement on the 2.73 per cent market share Bangladesh held in 1995. Pakistan also lost ground, with its market share falling from 1.91 per cent (1995) to 1.03 per cent (2007) over the MFA phase-out period.

All of these countries lost market share to China, whose market share grew steadily from 15.28 per cent in 1995 to 52.77 per cent in 2007, driving, as was noted above, East Asia's overall market share up from 41.23 per cent to 55 per cent in 2007. Some of the other East Asian clothing manufactures were squeezed out of the market, struggling to keep their foot in the door as China grabbed market share from all of them.

5.1.2 Sub-Saharan Africa

Clothing is a major export item for some Sub-Saharan countries, though their combined share is small. After the removal of quotas and the consequent quota premium, their share came down, although given the duty-free status they enjoy in the US market, they continue to retain some competitive edge against some of the other countries. Similarly, the Sub-Saharan African LDCs (SSA-LDCs) enjoy DF-QF status in the EU and Canadian markets. However, all other (non-SSA) LDCs also enjoy such preferential treatment in these countries. RoO has been a problem, however, that has constrained SSA's ability to take advantage of the GSP.

EU Market

As was mentioned, SSA LDCs enjoyed DF-QF treatment under the EC GSP scheme; the benefits from quota-free export were gone with the MFA phase-out, though duty-free treatment continued. However, since RoO for clothing were rather stringent (double conversion requirement), the GSP utilisation rate was rather low. The EU procured 1.33 per cent of its total clothing imports from Sub-Saharan Africa in 1999, but subsequently, this figure has gradually declined. By 2004, it had come down to 0.85 per cent; and by 2007, the share had been reduced further to 0.72 per cent. Mauritius, one of the foremost Sub-Saharan clothing exporters to the EU, saw its market share halve, from 0.88 per cent in 1999 to 0.44 per cent in 2007; if the overall growth of imports to the EU market is considered, the loss in value terms was less dramatic, with exports dropping from USD 668 million to USD 653 million over the period. Lesotho, which had exported USD 0.19 million to the EU in 1999, made a modest gain in market share during the first year of the quota free world by increasing her exports to USD 0.79 million, and continued to grow until 2007, when her exports to the EU were USD 2.33 million; this was, however, lower than the country's market share in 2001, when she reached a ten-year peak of 0.004 per cent, but higher than in 2004.

US Market

Sub-Saharan Africa's clothing exports to the US had been increasing until the MFA phase-out resulted in a set back. From 1996 to 2004, exports rose from USD 380.57 million to USD 1.87 billion, driving its market share up from 0.96 per cent to 2.67 per cent. Lesotho's market share mirrored this trend, increasing from 0.17 per cent to 0.69 per cent from 1996 to 2004. But following the full implementation of the ATC, both Lesotho and the Sub-Saharan region as a whole, suffered downturns. By 2007, the regional share was at 1.73 per cent; Lesotho's share came down to 0.51 per cent. Meanwhile, Mauritius, whose market share had fluctuated back and forth between 0.42 per cent and 0.48 per cent between 1999 and 2003, was left clinging to 0.15 per cent of the US market in 2007, a significant downturn. This market share represented a major downfall considering the share (0.34 per cent) they had in last year of the quota period.

Canadian Market

Sub-Saharan Africa's market share in Canada had never been above 1 per cent (during the time period under consideration), but the 0.38 per cent it mustered in 2007 was its lowest. Lesotho and Mauritius each garnered 0.07 per cent and 0.22 per cent shares, as the surge in Chinese exports to Canada ate away at much of Africa's share in the Canadian clothing market. Of course, it should be noted that the figures had been headed south long before then; with some brief respite between 2002 and 2004, when it went back up from 0.4 per cent to 0.63 per cent, Africa's market share in Canada spiralled downwards pretty much throughout the duration of the ATC. Mauritius's share fell from 0.64 per cent in 1995 to 0.06 per cent in 2005-06. Lesotho suffered some ups and downs, but was able to bring its market share up to 0.23 per cent in 2004, almost quadrupling the 0.06 per cent it held in 1999. It obtained only 0.23 per cent of the market in 2004, but as mentioned above, its share came down to 0.11 per cent in 2007.

5.1.3 Caribbean Basin

The Caribbean's apparel exports have gone down significantly from USD 2.57 billion (1997) to USD 437 million (2006) over the past decade in the face of competition from NAFTA and the loss of preferences provided by the MFA.

EU Market

USD 94 million of the USD 2.83 billion worth of apparels exported by the Caribbean countries in 1999 made their way to the EU market. Whilst this was a significant portion of the Caribbean's apparel exports, it was a mere 0.12 per cent of the EU's apparel imports. By 2004, this figure had fallen to 0.08 per cent, and in the quota de-restricted era, this nosedived to 0.003 per cent (2007). The region's leading clothing exporter, the Dominican Republic, once had 0.02 per cent market share in the EU, but by 2007, this had come down substantially, reaching only 0.008 per cent.

US Market

Exports from the Caribbean to the US market rose thanks to the preferential access provided by US GSP schemes. The launch of NAFTA in 1994 caused many apparel producers to go to NAFTA member countries such as Mexico which received DF-QF preferential access in US market. Consequently, data for the late 1990s shows the Caribbean's market share slipping. From 6.21 per cent in 1997, it fell to 4.83 per cent in 2000, and even the enhancement of apparel preferences under the newly introduced Caribbean Basin Initiative failed to rejuvenate exports. Countries from the region continued to lose market share even with the MFA in place, and by 2007, accounted for only 1.99 per cent of the US clothing import market. The Dominican Republic, which had fuelled much of the rise, led the fall; from 4.44 per cent in 1996, its market share plunged to 2.97 per cent in 2004, and further deteriorated to 1.36 per cent in 2007, equalling only 60 per cent of the value of its USD 1.75 billion export in 1996.

Canadian Market

Canada was always a secondary destination for Caribbean apparels, absorbing only USD 16 million of the USD 2.07 billion of apparels it exported in 1995. The region's exports to Canada grew nonetheless, taking market share up from 0.68 per cent in 1995 to 0.91 per cent in 1999. Subsequently, there was a decline, up to 2004, when the region's market share came down to 0.52 per cent. An increase to 0.62 per cent in 2005 offered a little hope that appeared to be illusory as market share fell once again and hit 0.48 per cent in 2007.

5.1.4 Pacific, including Oceania

Pacific apparel exporters suffered a similar fate as the Caribbean countries, seeing exports to major developed country markets come down with the termination of the MFA. Fiji, the largest exporter among the Pacific island economies, along with Australia, struggled to stay afloat in the global apparels market, as China and other low cost Asian producers emerged as powerhouses.

EU Market

Exports from the Pacific region to the EU market constituted only 0.006 per cent of the EU's total clothing imports in 1999, which increased to about 0.007 per cent in 2004, and then dropped to 0.004 per cent by 2007. EU records did not show any imports from Australia, but Fiji's share dived from 0.002 per cent to 0.0003 per cent over the period.

US Market

The US has traditionally been a more important market than the EU for Pacific apparel exporters. Between 1996 and 2002, their share in this market rose from 0.31 per cent to 0.57 per cent, but the ensuing reversal was much more dramatic, as their hold on the market came down to 0.46 per cent in 2004, and then shrank dramatically to 0.02 per cent by 2007. Fiji, which used to fill 0.14 per cent of US apparel import demand in 1996, met only 0.003 per cent of that demand in 2007. Australia began in the exact same position as Fiji in 1996, but its apparel exports expanded from 1996 onwards to hit a peak of 0.40 per cent in 2002 – equalling USD 245 million, compared to USD 55 million in 1999. The removal of quotas placed it too in dire straits, with its market share sliding from 0.31 per cent in 2004 to 0.16 per cent in 2005, and by the end of 2007, it was only 0.01 per cent with Australia exporting only USD 10 million of clothing to the US.

Canadian Market

Pacific economies finished 2007 with 0.03 per cent more market share than they had in 1995, and to that extent were somewhat better off. However, the 0.16 per cent they attained in 2007 was not the result of a rising trend, but rather of a downward one. From 1995 to 1998, their market share in Canada increased from 0.13 per cent to 0.53 per cent, after which it began to fall. There was a slight rise, from 0.27 per cent in 2003 to 0.37 per cent in 2004, but post-MFA competition from garments producers worldwide drove their share back down. Australia's market share in Canada was not an improvement either. After quota restrictions were lifted, Australia's share rose minimally from 0.03 per cent in 2004 to 0.04 per cent in 2006, and then dropped to 0.003 per cent in 2007. Similarly, the 0.07 per cent market share recorded by Fiji in 2007 appears to be its best so far, since the highest figure it had previously attained in the 1995-1999 period was 0.01 per cent. It remains to be seen whether this spike is the start of a new chapter for Fiji's apparel industry.

5.1.5 Latin America

Latin America's apparel export industry has been faltering since quotas were lifted in 2005. However, the region continues to retain a strong position, especially when compared to other regions like Sub-Saharan Africa and the Caribbean. Its proximity to important North American markets like the US and Canada, as well as the preferential access to those markets which some Latin American countries enjoy, helped the industry to register high growth while major producers like China were restrained by quotas. Once the quotas were lifted, however, emerging powerhouses like China wrenched away some of their market share in the leading import markets of the US and the EU.

EU Market

Compared to the US, the EU is a market of secondary importance for the Latin American countries. As of 2007, Latin America held 0.30 per cent of the EU apparels import market, equalling USD 445 million in value. This was slightly higher than the 0.25 per cent market share it had in 1999, but marginally lower than the 0.33 per cent attained in 2006. Mexico, one of the leading apparels exporters from the region, managed to improve its market share over this period; compared to 0.03 per cent in 1999, and 0.05 per cent in 2004, its share remained constant at 0.05 per cent in 2007. However, its biggest market was elsewhere, in America. The same goes for Honduras, whose market share fluctuated back and forth between 0.2 per cent and 0.3 per cent in the years between 2000 and 2007, settling at 0.2 per cent in 2007.

US Market

As mentioned earlier, proximity to the US market and free trade arrangements such as NAFTA provided Latin American apparels exporters with a considerable advantage over other apparel exporting nations, and they were able to claim a large chunk of the US market for themselves. In 1996, they held just over a quarter of the USD 39.47 billion US apparels import market, and this continued to grow for a few years. China's accession to the WTO resulted in a major setback for these suppliers, as they quickly found themselves outdone in terms of price competitiveness. Throughout the late 1990s, until China's accession to the WTO, Mexico was the leading exporter of apparels to the US; it held 13.63 per cent of the US market in 2001. However, Mexico was displaced by China as the top supplier the following year. Its share started to decline, however in view of the rapidly expanding share of China, and by 2007, it only held 5.92 per cent of the market, just enough to keep it in second place. Honduras' exports followed a similar curve; from 3.21 per cent of the US market, they rose up to serve 4.09 per cent of the US market in 2001, but stumbled somewhat after quota barriers were lifted (4.01 per cent market share in 2004). Market share remained steady at 3.36 per cent in 2006 and 2007, contrary to speculation that the ratification of Dominican Republic – Central America Free Trade Agreement (DR-CAFTA) in 2005 would provide a big boost. The market share of the Latin American region as whole, however, sank to 18.61 per cent in 2007. However, it was much higher, at about 26.65 per cent, in the last year of the quota regime.

Canadian Market

Canada has also been an important apparels market for Latin America, at one time procuring 8.75 per cent of its apparels imports from that region. This was in 2004, before the global apparels sector was liberalised, and things have not quite been the same since. Mexico, which had built its market share up from 1.05 per cent in 1995 to 5.74 per cent in 2004, saw its grip slip to 4.12 per cent in 2007, with the decline beginning immediately after the quota removal. Honduras had captured 1.12 per cent of the Canadian market by 2004, but this figure had decreased to 0.79 per cent by 2007. Overall, Latin American market share in Canada was 6.52 per cent in 2007, down from the 8.75 per cent in 2004, as was noted earlier.

5.2 Textiles Sector

Table 16: Disaggregated Analysis of Textiles Imports in Leading Markets

(Million USD)

Exporter	1999			2004			2007		
	EU	US	Canada	EU	US	Canada	EU	US	Canada
Asia	9353.00	7272.00	808.00	12632.00	11569.00	1077.00	17830.00	15486.00	1405.00
South Asia	3267.00	2097.00	209.00	4589.00	3485.00	278.00	5952.00	4318.00	343.00
Bangladesh	109.62	95.42	6.31	221.18	125.27	22.19	356.49	124.73	43.34
India	1899.18	1059.95	106.65	2469.16	1782.37	163.23	3309.30	2374.46	192.49
Pakistan	1070.06	793.37	91.89	1791.11	1484.62	88.53	2159.27	1726.35	97.76
East Asia	3846.00	4439.00	508.00	6108.00	7198.00	731.00	9614.00	10299.00	983.00
China	1962.69	1707.22	195.61	4380.11	4554.47	471.94	7830.68	7718.97	756.30
EU (27)	43858.65	2750.57	382.00	53273.91	3239.37	453.46	58712.13	3412.05	457.60
Sub-Saharan Africa	700.00	50.00	25.00	678.00	45.00	8.80	499.00	40.00	5.40
South Africa	203.22	32.63	8.38	296.80	41.67	8.02	265.01	36.47	2.77
Caribbean	2.30	41.00	8.10	7.70	85.00	8.60	8.70	96.00	1.70
Dominican Republic	0.87	33.22	3.94	5.52	80.91	1.31	7.70	94.20	1.68
Pacific	856.00	127.00	24.00	863.00	102.00	12.00	607.00	90.00	12.00
Australia	689.40	84.00	20.14	643.15	57.00	6.06	418.45	52.00	5.36
New Zealand	166.40	42.00	4.00	219.14	43.00	5.57	188.45	35.00	6.52
Latin America	448.00	1843.00	125.00	605.00	2525.00	174.00	543.00	2550.00	180.00
Argentina	77.49	13.95	0.31	100.36	25.73	3.22	135.43	15.43	3.97
Brazil	129.09	149.74	21.95	251.37	385.17	28.07	135.96	407.31	26.52
Mexico	60.03	1410.13	80.51	65.34	1703.56	114.48	53.99	1700.64	130.65
United States	427.15		2767.71	349.01		2516.18	496.56		2419.76
Others	7720.90	2695.43	74.18	9642.37	3477.63	123.47	11201.60	3349.95	153.06
Global Textiles Import	63366.00	14779.00	4213.99	78051.00	21043.00	4373.52	89898.00	25024.00	4634.51

Source: Statistics Canada, OTEXA, Eurostat.

Table 17: Disaggregated Analysis of Textiles Imports Market Share in Leading Markets

(in Per cent)

Exporter	1999			2004			2007		
	EU	US	Canada	EU	US	Canada	EU	US	Canada
Asia	14.76	49.20	19.17	16.18	54.98	24.63	19.83	61.88	30.32
South Asia	5.16	14.19	4.96	5.88	16.56	6.36	6.62	17.26	7.40
Bangladesh	0.17	0.65	0.15	0.28	0.60	0.51	0.40	0.50	0.94
India	3.00	7.17	2.53	3.16	8.47	3.73	3.68	9.49	4.15
Pakistan	1.69	5.37	2.18	2.29	7.06	2.02	2.40	6.90	2.11
East Asia	6.07	30.04	12.06	7.83	34.21	16.71	10.69	41.16	21.21
China	3.10	11.55	4.64	5.61	21.64	10.79	8.71	30.85	16.32
EU (27)	69.21	18.61	9.07	68.26	15.39	10.37	65.31	13.64	9.87
Sub-Saharan Africa	1.10	0.34	0.59	0.87	0.21	0.20	0.56	0.16	0.12
South Africa	0.32	0.22	0.20	0.38	0.20	0.18	0.29	0.15	0.06

(Table 17 contd.)

(Table 17 contd.)

Exporter	1999			2004			2007		
	EU	US	Canada	EU	US	Canada	EU	US	Canada
Caribbean	0.00	0.28	0.19	0.01	0.40	0.20	0.01	0.38	0.04
Dominican Republic	0.00	0.22	0.09	0.01	0.38	0.03	0.01	0.38	0.04
Pacific	1.35	0.86	0.57	1.11	0.48	0.27	0.68	0.36	0.26
Australia	1.09	0.57	0.48	0.82	0.27	0.14	0.47	0.21	0.12
New Zealand	0.26	0.28	0.09	0.28	0.20	0.13	0.21	0.14	0.14
Latin America	0.71	12.47	2.97	0.78	12.00	3.98	0.60	10.19	3.88
Argentina	0.12	0.09	0.01	0.13	0.12	0.07	0.15	0.06	0.09
Brazil	0.20	1.01	0.52	0.32	1.83	0.64	0.15	1.63	0.57
Mexico	0.09	9.54	1.91	0.08	8.10	2.62	0.06	6.80	2.82
United States	0.67	0.00	65.68	0.45	0.00	57.53	0.55	0.00	52.21
Others	12.18	18.24	1.76	12.35	16.53	2.82	12.46	13.39	3.30
Global Textiles Import	100.00								

Source: Statistics Canada, OTEXA, Eurostat.

The global textile market expanded quite rapidly following the quota phase-out in 2005. The global textile market rose from USD 166.08 billion to USD 311.41 billion between 1996 and 2006, a 87.51 per cent rise. EU textile imports rose from 63.37 billion USD to 89.90 billion USD during the 1999-2006 period, a 41.87 per cent increase. To compare, the corresponding figures for the US were USD 14.78 billion to USD 25.02 billion, an international increase of 69.32 per cent. However, the increase in imports of textile by Canada was not significant; imports rose from USD 4.21 billion to USD 4.63 billion, an increase of only 9.98 per cent between 1999 and 2007.

5.2.1 Asia, including South Asia and East Asia

As a whole, Asia accounts for 52.91 per cent of the global market share in the textiles trade, making it the largest exporter of textiles in the world. While textiles industries in the region have indeed flourished since the elimination of quotas – it was one of the few that did not lose market share as a result – it has to be noted that Asia had over 50 per cent market share even before the ATC was implemented, and has traditionally been a dominant force in the international textiles market. In fact, export growth rate in 2005 (8.85 per cent) was lower than in previous years when it had been around 11.9 per cent (2003 and 2004), and substantially lower than its decadal high of 13.08 per cent (1995).

EU Market

A number of Asian countries were able to make big gains in terms of market share in developed market economies such as the EU, US and Canada, taking advantage of the quota-phase-out. Exports to the EU increased 1.9-fold in value terms between 1999 and 2007, from USD 9.35 billion to USD 17.83 billion – pushing market share up from 14.76 per cent to 19.83 per cent. Of the 22 suppliers from the region, the 13 South and East Asian countries were the most prominent suppliers, as they contributed 87 per cent of the exports

from Asia in 2007. This figure was over 86 per cent immediately following quota removal in 2005, when China and India alone accounted for nearly 60 per cent of total textiles exports from Asia. China's exports grew 25 per cent that year, and a further 19 per cent in 2006 and 2007; its strong performance helped East Asia expand its share of the EU market from 6.07 per cent in 1999 to 7.83 per cent in 2004, and thereafter, to significantly increase her share to 10.69 per cent in 2007.

South Asia, by contrast, increased market share from 5.16 per cent in 1999 to only 6.62 per cent in 2007, as China rapidly absorbed most of the increase in demand. However, India, Pakistan and Bangladesh were all able to make modest improvements in terms of their respective market shares. Exports from India, the region's biggest textile producer, reached 3.68 per cent of the EU's import demand for textiles in 2007, compared to 3.16 per cent in 2004, and 3 per cent in 1999. Thus, India's share did not rise in any significant manner. Pakistan's market share increased from 1.69 per cent in 1999, to 2.29 per cent in 2004, to 2.4 per cent in 2007 respectively. Bangladesh's exports in the HS 63 category multiplied 5.6-fold between 1999 and 2007, edging its share of the EU market up from 0.17 per cent in 1999 to 0.28 per cent in 2004 to 0.40 per cent in 2007.

US Market

The influx of Asian textiles was much more dramatic in the US compared to 1996, when only 45 per cent of America's textile imports were procured from Asia; the region accounted for a very high 61.89 per cent of the US market in 2007. The share was 54.98 per cent in 2004, the last year of the MFA phase-out. Many Asian producers faced stringent restrictions under the MFA system, and hence took full advantage of its expiry with a 16 per cent boost in exports – from USD 11.57 billion (2004) to USD 13.49 billion (2005). Further increases of 9.7 per cent (2006) and 4.6 per cent (2007) enabled Asia to push its exports up to the USD 15.5 billion mark.

Growth of South Asia's exports to the US kept pace with the overall regional growth rate, and peaked at USD 4.42 billion in 2006. There was a 2.3 per cent fall-off in 2007 (USD 4.32 billion) but South Asia's 17.26 per cent market share was still significantly higher than the 11.27 per cent it held at the beginning of the MFA phase-out – this share was 16.56 per cent in 2004. India was the region's biggest winner, increasing both the value and market share of her exports, the latter from 8.47 per cent in 2004 to 9.49 per cent in 2007. Pakistan's share increased from 5.37 per cent in 1999 to 7.05 per cent in 2004, but declined to 6.9 per cent in 2007. Bangladesh, on the other hand, experienced 2 per cent downturns in both 2005 and 2006, bringing the value of its exports down from USD 125.27 million in 2004 to USD 120.12 million in 2006. It was able to win back some ground in 2007, but its export growth rate was consistently lower than the expansion of US demand, making its position in the US market relatively weak. Indeed, Bangladesh's share had come down to 0.65 per cent in 1999 to 0.60 per cent in 2004. This trend continued after the phasing out of the MFA, and by 2007 her share had gone down further to 0.50 per cent.

East Asia increased market share from 30.04 per cent in 1999 to 34.21 per cent in 2004. It gained a further foothold in 2007 when its share reached 41.16 per cent of the US market. This was driven once again by China. Whereas Chinese exports to the US had expanded by

just under 15 per cent between 1998 and 2000, this increased by more than 33 per cent after its accession to the WTO, and by a further 33 per cent after quota restraints were removed, making it the top supplier of textiles to the US. Between 1998 and 2007, China's exports to the US increased by more than fivefold, from USD 1.5 billion to USD 7.72 billion. Her share increased from 11.55 per cent in 1999 to 21.64 per cent in 2004. By 2007, it had increased further to 30.85 per cent. As China was unleashed, its smaller East Asian neighbours struggled to stay in the market. Mongolia's exports to the US sank from USD 4.02 million in 2004 to USD 0.67 million in 2005, while Macao's share had dwindled to USD 0.2 million by 2007. Hong Kong's fate was similar to Mongolia's, as it saw exports drop from USD 3.23 million to USD 0.84 million. Even Korea, which had managed a modest positive gain in 2005, saw its exports decline by over USD 50 million from 2004 to 2007.

Canadian Market

In the Canadian market, Asia's market share has increased from 20 per cent in 1995 to 30.3 per cent in 2007, representing a value expansion from USD 808 million to USD 1.41 billion. However, much of the gain was made prior to quota removal – in 2004, Asia was already exporting USD 1.08 billion worth of textiles to Canada, and held 24.63 per cent of the market. Post-MFA export growth rates averaged out to be 4 per cent higher than the 5.4 per cent average of the MFA phase-out period and significantly outstripped the historical growth rate of the Canadian import market as a whole, which had hovered around 2 per cent.

For South Asia, growth rates before and after quota elimination maintained a steady average of around 7 per cent, so the modest increase in market share from 4.46 per cent (1995) to 6.36 per cent (2004) to 7.39 per cent (2007) is not surprising. India has made some progress from 1995, when only USD 61 million of its textiles made their way to Canada; its market share is still small (4.15 per cent in 2007), but its exports have grown to over USD 192 million. Bangladesh's exports to Canada rose significantly following the introduction of the revised Canadian GSP which stimulated market access under a new RoO requirement of 25 per cent flat value addition in 2002; between 2003 and 2007, textiles exports from Bangladesh to Canada increased from USD 22 million (about the same in 2004) to USD 43 million – about a twofold increase. Pakistan's market share on the other hand, has failed to cross the 2.5 per cent mark which it attained in 1995.

East Asia's exports, in comparison, grew at almost twice their 5.8 per cent pre-MFA pace every year after the elimination of quotas. From 13.16 per cent market share in 1995, East Asia grew to supply 16.71 per cent in 2004 to 21.2 per cent of Canada's textile imports in 2007. Once again, China's domination was evident; it alone accounted for over 16 per cent of Canada's total textile imports, amounting to USD 756 million in 2007. The share in 1999 was a low 4.46 per cent which rose to 10.79 per cent in 2004. South Korea, the next second largest supplier from the region, saw its share drop to 2.06 per cent in 2007 from the over 3 per cent market share it had maintained during the quota phase-out.

5.2.2 Sub-Saharan Africa

The Sub-Saharan textiles industry, always a minnow in the international arena, was almost stamped out of the major markets once the MFA expired. For one, the growth of the textiles sector started to fall after the quota phase-out – it fell down by (-) 5.07 per cent in 2005 and further dropped down by (-) 19.71 per cent in 2006¹⁵ – meaning that all of the countries freed from quota restraints were competing for the same pie, albeit a growing one. Those countries that were more cost competitive, or differentiated their products by high quality or flexible production, swallowed up most of the gains; the African nations, which had always faced problems of scale, lack of infrastructure and technology, and technical barriers, found they could not rely on the competitive advantage conferred on them by PTAs, and struggled to match the competitiveness of countries like China and India. Even in the export of cotton and Sub-Saharan Africa's other major revenue-earners in developed country markets, it is being squeezed out of the market gradually by expanding Asian exporters.

EU Market

In 1999, Sub-Saharan Africa exported USD 700 million worth of textiles to the EU, garnering a 1.11 per cent share of the market. Exports had been at about the same level till 2004 (USD 678 million). By 2007, this figure had fallen significantly to USD 499 million, and it only accounted for 0.55 per cent of the EU's total textile import needs. South Africa, the region's biggest supplier, saw its exports register some increase between 1999 (USD 203 million) and 2004 (USD 296.8 million); but only to see some decline in 2007 (USD 265 million). Although its overall textiles exports in 2007 were about USD 62 million higher than in 1999, market share over the period had in fact decreased, from 0.38 per cent to 0.29 per cent between 2004 and 2007.

US Market

Sub-Saharan Africa's share of the US textiles import market shrank from 0.38 per cent in 1996 to 0.22 in 2004. It fell further to 0.16 per cent in 2007. In value terms, exports increased from USD 44.03 million in 1996 to USD 50 million in 1999, and then began to slip and in 2004 when its exports to the US came down to slightly over USD 45 million. By 2007, exports to the US were worth only USD 40 million, scattered between several categories. The dominance of cotton and manmade staple fibres, which once constituted 60 per cent of US textiles imports from Africa, had waned to only 20 per cent. The decline in cotton supply was the most marked, as its 2007 value was a mere one-tenth of what Africa had exported in 1996. This was somewhat offset by increases in imports of African textile articles for industrial use and textile floor coverings by the US, but the overall performance was disappointing. South Africa, the only Sub-Saharan country that exports more than USD 1 million of textiles to the US, saw its market share fall from 0.25 per cent to 0.20 per cent in 2004; the share had come down further to 0.15 per cent by 2007, despite an insignificant increase (about USD 6 million) in the value of exports over the period.

¹⁵This figure may be misleading, as data for many of the SSA countries for the period 2005 and 2006 are not available in the WTO trade statistics database.

Canadian Market

Canada has always been a secondary destination for the manufacturers of textiles. As was noted earlier, Canada's total global textile import was around USD 4.63 billion in 2007, of which the share of SSA countries were a meagre 0.12 per cent. SSA's share in Canada dropped about USD 3.4 million in 2007, compared to 2004, the last year of the quota restricted regime. Similar to the US market, South Africa remains the major supplier of textiles to the Canadian market. It exported around 73 per cent of the total SSA export in 1995; in value terms it was USD 8.26 million. South Africa's exports to Canada hovered around USD 8 million until 2004, but dropped drastically to USD 3.61 million in 2005 and continued to falter until 2007 when its export to Canada was only USD 2.77 million, contributing only 51.15 per cent of the total SSA market share.

5.2.3 Countries of the Caribbean Basin

Similar to Sub-Saharan Africa, the Caribbean countries are insignificant players in the global market for textile exports. Its share of world textiles trade has generally been less than 1 per cent, and its market share in industrialized nations has been even smaller.

EU Market

The Caribbean region's export to the EU market is rather low; however, exports have multiplied about four times in value since 1999, but the gain in market share has been nominal; compared to 0.004 per cent in 1999, it now caters to 0.01 per cent of the EU's import demand. The Dominican Republic, which dwarfs all other exporters from the region, was able to increase its share in total Caribbean export and at present accounts for about 90 per cent of the regional export.

US Market

The situation in the US market is not too different as compared to the EU market, though in value terms it is significantly higher. Taking advantage of its proximity to the US and the preferential access it was granted under the Caribbean Basin Trade Partnership Act (CBTPA) in 2000, the Caribbean countries had managed to build up market share to 0.4 per cent in 2004, from 0.28 per cent in 1999, with the value of exports doubling from USD 41 million to USD 85 million. But following quota removal its share came down, and by 2007 it had gone back to 1996 levels of 0.38 per cent.

Canadian Market

The Caribbean's market share in Canada did not change between 1999 and 2004 (0.19 per cent and 0.20 per cent respectively) but then fell drastically to 0.04 per cent in 2007. Indeed, exports came down from USD 8.61 to USD 1.72 million between 2004 and 2007. Indeed, exports from the Dominican Republic had decreased from USD 3.94 million in 1999 to USD 1.31 million in 2004; exports slightly increased to USD 1.68 million in 2007. The market share of the Dominican Republic did not change much – it accounted for 0.03 per cent and 0.04 per cent of the Canadian market in 2004 and 2007 respectively.

5.2.4 Latin America

Latin America's share of the world textiles market has decreased since 2005, largely as a result of a decrease in market share in its biggest export market, the US. As mentioned earlier, the Latin American textiles industry had grown to prominence under the shelter of preferential trade agreements, and found it difficult to cope with the cost competitiveness of China and other global manufacturers.

EU Market

About one-eighth of Latin American textiles exports in 1999 made their way to the EU, accounting for 0.71 per cent share of the market. While this increased somewhat, to 0.78 per cent in 2004, by 2007 this had come down to 0.6 per cent. During this period, exports did in fact increase in value terms – from USD 448 million to 543 million – but the growth rate did not keep pace with the expansion of the EU market, and thus market share in EU had decreased. At the individual country level, Argentina caught up with Brazil, once the region's foremost exporter to the EU, and they both had 0.15 per cent shares in 2007. For the latter, this was a setback from the 0.20 per cent share it had enjoyed in 1999. Mexico also experienced a decline in market share, from 0.09 per cent in 1999 to 0.06 per cent in 2007. In all three cases, shares were seen to increase between 1999 and 2003-04, after which they began to fall.

US Market

The US has traditionally been the number one destination for Latin American textiles, largely because its proximity confers a certain cost advantage and flexibility in production response. However, after China's accession to the WTO in 2001, her share in the US market started to decline. 13.38 per cent in 2002 marked its ten-year peak; by 2004, her share had already fallen to 12 per cent and by 2007, it was 10.19 per cent.

Mexico was the leading supplier of textiles from Latin America accounting for 8.5 per cent of the total US import market in 1996. This share rose to 10.1 per cent in 2001, after which it was displaced by China in the ranking of top textiles suppliers to the US. By 2004, Mexico's grip had slipped to 8.1 per cent from 9.54 per cent in 1999, a result of China's ascendancy, and by 2007, it held only 6.8 per cent of the US market. Brazil managed to maintain a constant 1.6 per cent share from 2005 to 2007 – an increase from the 1.3 per cent it held in 1996, but lower than the 2004 figure of 1.8 per cent. By contrast, Argentina's share plunged from 0.8 per cent in 1996 to 0.1 per cent in 2007.

Canadian Market

Contrary to trends in the EU and US markets, Latin America's position actually appeared to be improving in Canada. From 2.84 per cent in 1995, the region grew to cater to 3.88 per cent of Canada's textile import demand in 2007. This was about the same in 2004 when the share was 3.97 per cent. Export value was USD 125.0 million in 1999, increasing to USD 174.0 million 2004. In value terms, exports stagnated from USD 98 million in 1995 to USD 179.7 million thereafter in 2007. Nearly 73 per cent of Latin America's textiles exports to

Canada in 2007 came from Mexico, which improved its market share from 1.48 per cent in 1995 to 2.62 per cent in 2004. Their share increased further to 2.82 per cent in 2007. Argentina also increased its share, from 0.05 per cent in 1995 to 0.09 per cent in 2007. Brazil however, saw its claim on the Canadian import market fall: the share fell from 0.82 per cent in 1995 to 0.52 per cent in 1999, then rose to 0.64 per cent in 2004, only to fall to 0.57 per cent in 2007.

5.2.5 Pacific Countries, including Oceania

As was noted, the Pacific region is an assortment of small and medium sized island states, each exporting a very small amount compared to most other global producers. The inclusion of Australia and New Zealand makes a significant difference, as these two are fairly large exporters of textiles although even their combined share in the global textile markets fell from about 0.30 per cent to about 0.27 per cent between 2004 and 2006.¹⁶

EU Market

Of the importing countries considered here, the EU is by far the most important for Pacific textiles suppliers. In 1999, it absorbed USD 856 million worth of Pacific textiles exports, which constituted 1.35 per cent of its total textiles imports that year. Between 1999 and 2001, this increased to 1.68 per cent, but subsequent steady decline brought it down to 1.11 per cent in 2004. Exports decreased further to 0.68 per cent by 2007. Australia and New Zealand, which were responsible for over 98 per cent of the exports from the region in 2007, both lost market share over the 1999-2007 period. Australia's loss was more conspicuous, as its share fell from 1.09 per cent in 1999 to 0.82 per cent in 2004, and to just 0.47 per cent in 2007. This was an especially marked turnaround from the 1.38 per cent market share it had attained in 2001. New Zealand's decline was more modest, rising from 0.26 per cent in 1999 to 0.28 per cent in 2004, and then declining to 0.21 per cent in 2007.

US Market

In the US market, Pacific countries have lost quite some ground between 1996 and 2007. Their share of the market fell from 1.87 per cent in 1996 to 0.86 per cent in 1999, and further declined to 0.48 per cent in 2004. The export share of Pacific countries further came down to 0.36 per cent in 2007; between 1999 and 2007 exports had come down from USD 127 million to USD 90 million. Australia and New Zealand both lost in terms of value of exports and also in terms of market share. Compared to 1996, when the US imported USD 174 million worth of textiles from Australia, in 2007 it only procured USD 52 million – as a result, Australian market share in the US sank from 1.51 per cent (1996) to 0.21 per cent (2007). The decrease in value was more modest for New Zealand, from USD 40 million to USD 35 million; this, however, represented a fall in market share from 0.35 per cent to 0.14 per cent.

¹⁶The global data for Pacific countries (taken from WTO Trade Statistics) doesn't match with the individual data for the EU, US or Canadian import from the Pacific region, perhaps because of differences of specification.

Canadian Market

In Canada, the Pacific's market share had increased between 1995 and 1998, from 0.36 per cent to 0.66 per cent. But from then on, it began to decline, until it stood at 0.57 per cent in 1999, and declined further to 0.27 per cent in 2004. Since then, its share has remained about the same up to 2007 (0.26 per cent). This trend was reflected in the trade figures for Australia, which show a rise in market share from 0.23 per cent in 1995 to 0.56 per cent in 1998, and a subsequent steady decline up to 2007, when it hit 0.12 per cent. During this time, exports of textiles from Australia fell drastically from USD 20.14 million in 1999 to USD 6.06 million in 2004, and further to USD 5.36 million in 2007. In comparison, New Zealand's export curve is almost the inverse. It began with a 0.13 per cent share in 1995, which declined for several years afterwards. The share was 0.09 per cent in 1999, rose up to 0.13 per cent in 2004 and remained about the same in 2007 (0.14 per cent).

6. MFA PHASE-OUT AND PERFORMANCE OF SELECTED DEVELOPING ECONOMIES IN GLOBAL T&C TRADE

As was noted, the pie of the global market in apparels and textiles has been increasing in size over the past years. A number of countries are emerging as major gainers in this dynamic of change, while others are losing their market share. This section looks at the performance of a number of important regional suppliers from Asia to identify which factors are becoming important in terms of ensuring success in the post-MFA global T&C market.

Table 18: Clothing and Textiles Exports of Selected Developing Economies

Reporter		Million USD						% Growth				% Share		
		1995	2002	2003	2004	2005	2006	2003	2004	2005	2006	1995	2004	2006
Bangladesh	Clothing	1969	4084	5067	6296	7751	8933	24.07	24.25	23.11	15.25	1.24	2.42	2.87
	Textiles	432	496	413	597	696		-16.73	44.55	16.58		0.28	0.31	
Cambodia	Clothing	0	1313	1600	1981	2193	2675	21.86	23.81	10.70	21.98	0.00	0.76	0.86
	Textiles	0	26	21	26			-19.23	23.81			0.00	0.01	
China	Clothing	24049	41302	52061	61856	74163	95388	26.05	18.81	19.90	28.62	15.19	23.74	30.63
	Textiles	13918	20562	26900	33428	41050	48683	30.82	24.27	22.80	18.59	9.14	17.10	22.27
India	Clothing	4110	6037	6625	6632	9212	10192	9.74	0.11	38.90	10.64	2.60	2.55	3.27
	Textiles	4358	6028	6846	7009	8462	9330	13.57	2.38	20.73	10.26	2.86	3.58	4.27
Vietnam	Clothing	0	2633	3467	4430	4838		31.67	27.78	9.21		0.00	1.70	
	Textiles	0	424	473	534			11.56	12.90			0.00	0.27	
Pakistan	Clothing	1611	2228	2710	3026	3604	3907	21.63	11.66	19.10	8.41	1.02	1.16	1.25
	Textiles	4256	4790	5811	6125	7087	7469	21.32	5.40	15.71	5.39	2.79	3.13	3.42
Sri Lanka	Clothing	1758	2350	2513	2776	2874	3046	6.94	10.47	3.53	5.98	1.11	1.07	0.98
	Textiles	164	171	161	149	136	154	-5.85	-7.45	-8.72	13.24	0.11	0.08	0.07
Global	Clothing	158353	206168	234100	260569	277971	311410	13.55	11.31	6.68	12.03	100.00	100.00	100.00
	Textiles	152319	155843	174599	195541	205135	218594	12.04	11.99	4.91	6.56	100.00	100.00	100.00

Source: Trade Map (2008).

6.1 Bangladesh

The growth of Bangladesh's T&C industry over the past decade has been nothing short of remarkable. Between 1995 and 2007, textiles and apparel exports nearly quadrupled in value, and came to constitute over 80 per cent of total export revenues. In 1995, the export of clothing was less than USD 2.0 billion, whilst by 2007 it had craned the USD 10.0 billion threshold. Aside from the obvious advantages conferred by an abundant supply of low-wage labour, the country also benefited from the MFA quota system, which provided the country sheltered and secured market access at a time when some of the other competing countries, and more efficient suppliers, were constrained by quotas imposed under the regime. Preferential market access in the EU, and later in Canada, helped Bangladesh to take advantage of the emerging opportunities in the global T&C market. However, it was apprehended by many that once the quota was phased out, that Bangladesh would face increasing competitive pressure and could lose market share. However, the reality proved otherwise.

Three years after quota elimination, the country's T&C sector has continued to perform quite remarkably. Bangladeshi clothing exports increased from USD 6.296 billion in 2004 to USD 7.75 in 2005 – a 23 per cent rate of growth. According to 2006 estimates, exports expanded by 15 per cent, and totalled over USD 8.9 billion. By 2007, they had reached USD 10.5 billion (FY 2007-8). According to the WTO, Bangladesh was the world's sixth largest exporter of clothing in 2005 and 2006. Textile exports have also increased after the elimination of quotas, albeit from a much lower base. In 2005, Bangladesh's textiles exports increased 16.58 per cent, from USD 597 million to USD 696 million. Export of home textiles have increased from USD 163.91 million in 2004 to USD 272.74 million in 2007.

Bangladesh has emerged as a major competitive supplier in knitwear, which has grown from 25.27 per cent of its total exports in FY 2003 to nearly 38 per cent in FY 2007, and surpassed 39 per cent of total exports in FY 2008. Its share within apparels increased from 17.65 per cent in 1995 to 29.16 per cent in FY 2000, and then to 51.7 per cent in FY 2008. Growth rates for exports of woven garments, on the other hand, were relatively lower (Export Promotion Bureau Bangladesh, Export Performance). The key to the success in knitwear exports is the inputs, some three-quarters of which are made locally. Major advantages are the lower costs emanating from strong backward linkages (as against imports entailing higher fabrics cost and higher transport cost), shorter lead time and ability to access the GSP in the EU (Rahman *et al.*, 2008). Indeed, the GSP utilisation rate was about 88 per cent for knitwear in the EU (Adhikari, 2007). In comparison, woven could not match knitwear's performance because of more intensive competition in the post-MFA era; the lack of vertical integration and lower domestic value addition are not only barriers to price competitiveness of woven products, but also constrain the sector's ability to qualify for preferential access to important markets like the EU, which have stringent RoO requirements included in GSP arrangements (Adhikari, 2007). Indeed, the GSP utilisation rate for Bangladesh's woven garments was about 24 per cent at the time this was written.

Low wages have worked as Bangladesh's biggest competitive edge over other T&C suppliers; wages in the clothing sector are lower than in China, India, Cambodia or Vietnam, its main competitors, while textile industry wages are the second lowest, after Cambodia (see Table

7.2, p. 92). Cheap labour, along with reluctance among buyers to rely on China for all their purchases (the so-called *China plus one* policy of major buyers), has won the Bangladeshi industry a temporary reprieve from the Chinese onslaught in the world market. However, it must be noted that the recent growth in exports to its two biggest markets, the EU and the US, following the MFA phase-out, has occurred mainly because these countries had imposed transitional restrictions on Chinese exports a few months following the MFA phase-out.

In 2005, after liberalisation of the sector, Bangladesh's textiles exports to the US suffered a 2.10 per cent downturn – from USD 125.27 million (2004) to USD 122.64 million – as Chinese textiles exports to the US surged by 33.47 per cent. Bangladeshi textile exports to the US fell a further 2.06 per cent in 2006, even after the US established agreed upon restraint levels on Chinese exports in certain categories. However, things looked to be improving in 2007, with a 3.84 per cent increase, pushing textiles exports back up to USD 124.73 million. The effect of quota removal was less severe in the apparels market, which continued to show positive growth. In 2005, Bangladesh clothing exports to the US increased by 21 per cent, from USD 2.0 billion (2004) to USD 2.42 billion. Despite a modest 5.49 per cent expansion in 2007, the 24 per cent jump it made the preceding year (2006) helped the export figure cross USD 3.1 billion in 2007. Bangladesh now meets 4.02 per cent of US's total apparels demand (and is the sixth largest exports of apparels to the US), whereas the share was only 2.86 per cent in 2003.

Bangladesh also struggled to compete with China in the EU market, the single biggest destination for its T&C exports. In 2004, 37 per cent of Bangladeshi textiles exports went to the EU, amounting to USD 221.184 million. In comparison to the 48.5 per cent growth in exports represented by this figure, the 2005 growth rate was a mere 1 per cent. However, after the EU signed a MoU with China in January 2006, there was a resurgence of Bangladeshi textiles exports to the EU; these increased by 27.96 per cent and 24.72 per cent in 2006 and 2007 respectively, posting a total of USD 356.49 million in 2007. This situation was mirrored in the clothing sector, where Bangladeshi exports to the EU experienced a (-) 4.9 per cent fall-off in the first year after quota elimination, as the 47 per cent increase in Chinese clothing exports edged out Bangladeshi apparels (as well as apparels exports from many other countries). It should be noted that the loss was concentrated in the woven apparels sector, which decreased by 12.28 per cent (2005); by contrast, Chinese and Indian manufacturers increased their exports by 42 per cent and 38 per cent in that category. The imposition of quota restraints on China was thus beneficial for Bangladesh, as it enabled their clothing exports to the EU to pick up and grow by 31.64 per cent in 2006. Although expansion occurred at a significantly lower rate of 3.72 per cent in 2007, the value of total clothing exports to the EU exceeded USD 6 billion that year – the first ever to cross the USD 6 billion maximum in the history of Bangladesh's apparels export to the EU.

In comparison to the EU and US, Canada is not a major destination for Bangladesh. However, when Canada offered market access under LDC-friendly 25 per cent flat value addition in 2002, Bangladesh's GSP utilisation rate was almost one hundred per cent. Between 2002 and 2007, apparels exports from Bangladesh to Canada increased from USD 86.17 million to USD 439.94 million – a 5.1-fold increase.

While the wages paid to T&C workers in Bangladesh are much lower than those paid in China, Bangladeshi T&C workers are not as competitive as the Chinese workers due to poorer skills, notably of non-production workers, and other factors impacting on productivity. While previously, workers could put in longer hours to compensate, Ahmed, Rahman and Sobhan (2005) found that overtime for RMG workers has also decreased in the post-ATC environment, because of buyer pressure to meet the legal limit of 60 hours a week. Similarly, an Asian Development Bank technical assistance study in 2003 found that clothing producers in Bangladesh were likely to earn 30 per cent more if inefficiencies were removed at the Chittagong port (cited in Adhikari, 2007). The port infrastructures in Bangladesh suffer from problems arising from physical geography, climatologic uncertainty, and enormous administrative problems. In recent times, thanks to initiatives of the Caretaker Government, the time required at the port for export and import has come down quite significantly; related administrative steps have also been reduced significantly. Other areas in which Bangladesh lags behind major competitors like China and India include modern machine capacity, vertically integrated value chains and flexible mass production capabilities. Bangladesh has proven her competitive strength particularly at the lower end of the demand curve, for mass-produced, low-end items. She has been able to sustain her performance in the EU even when the quotas were lifted in January 2008. The quota on Chinese export of T&C items in the US will go away in January 2009. Since there are MFN duties on Bangladesh's T&C items in US market, lifting of the quota is likely to have a more negative impact on Bangladesh's exports in the US.

To maintain her competitive strength, Bangladesh will need to reduce her lead time, upgrade the skill levels of her RMG workers, go for higher productivity and diversify her T&C items.¹⁷ Bangladesh will also need to address such problems as power shortage, rationing of gas (used by garments units for productive power generation) and infrastructural bottlenecks.

6.2 China

China is today the world's largest producer and exporter of clothing and textiles, and seems set to reinforce its dominant role in the market environment in coming years. In 2001, the year of her accession to the WTO, China already had 18.91 per cent of the USD 193.799 billion global clothing trade, and was responsible for 11.27 per cent of global textiles exports. Growth, however, had been sporadic. After joining the WTO, China's exports grew at double digit rates every year, and by 2006, it held 30.63 per cent of the USD 311.4 billion clothing market, and 22.27 per cent of the USD 218.6 billion textiles trade.

¹⁷For more details, see Abernathy, Frederick H., Volpe, Anthony and Weil, David. 2005. *The Future of the Apparel and Textile Industries: Prospects and Choices for Public and Private Actors*. Harvard Centre for Textile and Apparel Research. December, 2005 and Bhattacharya, Debrapriya and Rahman, Mustafizur. 2002. *Experience with Implementation of WTO-ATC and Implications for Bangladesh*, Centre for Policy Dialogue Occasional Paper Series No. 7.

As mentioned in Section 3, China was the single biggest beneficiary of the removal of MFA quotas. Between 2004 and 2005, total clothing exports increased by USD 17.40 billion, of which 70 per cent was captured by China. In the same period, global textile exports rose by USD 9.594 billion, 80 per cent of which was captured by China. The latter's clothing exports to the world market grew by 19.9 per cent in 2005, as exports to major markets such as the US, EU and Canada expanded rapidly. The growth rate of exports to the US more than doubled in 2005, from 23.44 per cent (2004) to 57.55 per cent. Although growth rates came down in 2006 (17.8 per cent) and 2007 (20.15 per cent), these still remained at high levels. Exports of clothing from China to the US rose from USD 11.27 billion in 2004 to USD 17.76 billion in 2005. In 2007, this stood at USD 25.16 billion. China accounted for almost 32 per cent of US market share in apparels in 2007. Even though the US signed a MoU with China at the end of 2005 to restrict exports of some of its items to the US market, still they were unable to contain the export surge from China, and the results are obvious from the aforementioned paragraph – a 32 per cent market share in 2007, and export growth of over USD 7.4 billion between 2005 and 2007.

Chinese exports, which constituted only 15 per cent of Canadian clothing imports in 1995, made up 45.44 per cent of Canadian clothing imports in 2005, thanks to a 58.15 per cent expansion in exports to that market. China's share in the EU apparels market also increased from 12.88 per cent to 20.38 per cent between 2004 and 2007, with exports rising from USD 14.34 billion to USD 29.98 billion between 2004 and 2007.

Textile exports were worth less than half of her clothing exports in 2006, but still contributed USD 48.6 billion to China's export revenues. Following the elimination of quotas in 2005, China's textile exports to the world market rose sharply by 19.9 per cent in 2005, and 28.62 per cent in 2006. Indeed, the export of textiles went up from USD 33.4 billion in 2004 to USD 48.68 billion in 2007.

It should be noted that the prices of Chinese exports came down sharply during this period, as the volume of T&C outputs surged, putting even more pressure on its competitors. Figures from Chinese customs show that in the first eleven months of 2005, the country exported USD 1.29 billion pieces of knit goods, worth USD 3.93 billion, to the United States, with an average unit price reaching USD 3.05, down 43.69 per cent year-on-year. The average unit price of cotton-made knit goods and chemical-fibre knit goods dropped 43.37 per cent and 36.25 per cent year-on-year during the period. Export unit prices for tating apparel, cotton yarn, chemical-fibre yarn and carpet to the United States also dropped. During the period, the average unit prices of Chinese cotton yarn and cotton-made knitting clothing to the European Union also dropped significantly by 21.56 per cent and 13.17 per cent respectively (Xinhua News Agency, 2006).

The sharp rise of exports from China and its consequently negative impact on domestic products and traditional foreign suppliers led the US and EU to invoke safeguard measures against China in 2006.¹⁸ However, China's T&C export growth rates hardly slowed as a result. While export growths of apparels in the US and EU markets rose by 2.66 per cent and 13.73 per cent respectively in 2007, Chinese exports growth to these countries grew

¹⁸Provisions in China's accession to the WTO treaty (negotiated with the EU and the US) allowed for this.

was much higher at 20.15 per cent and 26.48 per cent respectively. Similarly, when the US and EU textile imports from the globe in 2007 rose by 3.34 per cent and 11.16 per cent respectively. China was growing in these markets (US and EU) by 9.96 per cent and 19.45 per cent. However, these measures can only be invoked until 2008, so their impact could be transitional with the possibility that China continues to remain a lower house in global T&C market.

China's success can be attributed to certain strategies it adopted in the final years of the MFA phase-out, as well as the natural advantage of longstanding low wage costs due to the high volume of human resources available.

Although the absolute hourly wages in India, Bangladesh, Cambodia and Vietnam are lower than those in China, productivity in China is higher, making unit labour costs lower. It has been estimated that the productivity of Indian garment exporters – China's closest competitor in Asia – is some 35 per cent of the US level, while for China, the figure is around 55 per cent (McKinsey & Company, 2004). This is largely the result of significant investments in training of T&C workers. Even a decade ago, a Chinese firm, on average, provided about 70 hours of training per year to its workers and managers compared to only 10 hours in India.¹⁹ The government had also relaxed restrictive labour laws, which made firms reluctant to hire staff to meet a big one-off order, because of the difficulty of laying off workers later.

China has also increased production capacity by investing in high-tech, high-speed machinery in anticipation of the end of the quota system. Large scale restructuring of the industry took place between 1997 and 2000, during which over USD 30 billion worth of state-of-the-art textiles machinery was imported (Adhikari, 2007). According to statistics from the International Textile Manufacturers Federation (ITMF), 50 per cent of all the weaving machines delivered between 1994 and 2003 were installed in China. The country's share of around 23 per cent of spinning machines put it just behind India (27 per cent) (Deutsche Bank, 2005). Producing textile machinery domestically also helped to reduce costs. As of 2007, the size of the Chinese textile machinery market was USD 8 billion per year, with imports of USD 3.5 billion. To induce local capacity, the Chinese government has cancelled tax incentives for imports of certain machines, such as automatic winders and air-jet looms, and transferred them to the import of critical components for locally manufactured machines. Foreign direct investment (FDI) and joint ventures also helped Chinese enterprises with technology accumulation and upgradation.

Another advantage of China was its ability to integrate its entire T&C value chain. China, along with India, is the country least dependent on imports of textile feedstocks (Deutsche Bank, 2005). China is the world's biggest producer of cotton. The country is also capable of mass producing material of a specified quality and increasing outputs in a short amount of time, thanks to the investments in modern machine capacity mentioned above. All these provide China a crucial advantage in terms of lead time. Other forms of value addition, which distinguishes Chinese products and provides them with advantage from their

¹⁹ Adhikari and Yamamoto, 2005, refer to Chandra, 'Competing through capabilities: strategies for global competitiveness of Indian textile industry', 1998, cited in Tewari, 'Is price and cost competitiveness enough for apparel firms to gain market share in the world after quotas?', 2006

competitors, include eco-friendly production methods, performance-based fibres made from renewable resources, and strong brand images.

Besides these factors, the infrastructure in China is also well developed compared to that of its competitors. Over the past decade, China invested heavily in infrastructure throughout the country, including a major highway system linking western China with the more developed eastern part of the country, the massive Three Gorges dam to extend electricity generating capabilities, and deep water port facilities, all of which shorten production and shipping time, and makes trade easier.²⁰ It has also invested in information technology infrastructure to shorten lead times, forecast future sales to reduce inventory costs, manage sourcing of replenishment-intensive items, and respond more quickly to changes in consumer tastes.

Strong infrastructure, vertical integration, and investments in new research and technology have enabled China to multiply its pre-existing labour cost advantages in T&C production and become a global industry leader. It is already looking towards the future, seeking ways to add value to products rather than decrease price. By all accounts, China is well set to regain some of its lost (because of the quota) momentum after 2008. It is true that the Yuan could appreciate further, more factories could perhaps be located inland and production costs could rise. But China is paying a lot of attention to productivity enhancement and it is also trying to move more upmarket to value-added brand items. In all likelihood, China will remain a major powerhouse in the global T&C market in years to come.

6.3 India

As the world's third-largest producer of cotton and the second-largest producer of textiles, India was ideally poised to become a leader in the T&C industry after the expiry of the MFA quota system in 2005. India's global clothing exports rose from USD 4.11 billion to USD 6.63 billion between 1995 and 2004. Thereafter, it increased further to USD 10.19 billion in 2006, registering 38.90 per cent and 10.64 per cent growth rates in 2005 and 2006. India's global textile exports rose from USD 4.36 billion to USD 7.01 billion between 1995 and 2004. Following the phase-out, textile exports rose to USD 9.33 billion in 2007, with growth rates slowing down in 2006 (10.26 per cent) compared to 2005 (20.73 per cent). Following the MFA phase-out, India was able to increase her share in the global T&C market. India, in 2006, accounted for 3.27 per cent of the global clothing market and 4.27 per cent of the global textile market. Comparable figures for 2004 were 2.55 per cent and 3.58 per cent respectively.

Clothing exports rocketed by 38.9 per cent in 2005, from USD 6.632 billion (2004) to USD 9.21 billion (2005), largely as a result of 36.43 per cent and 30.62 per cent increases in exports to the US and the EU respectively during 2005. The shift to the EU has been particularly dramatic; compared to 1999, when the EU received about 35 per cent of all Indian clothing exports, in 2006, India exported 47 per cent of its apparels to the EU. Market

²⁰See Footnote 12 above, and 'China: Description of Selected Government Practices and Policies Affecting Decision Making in the Economy', Investigation No. 332-492, USITC, December 2007.

share in the US, on the other hand, has tended to hover around 34 per cent over the years, varying only 1-2 per cent either way. However, given the expansion in US demand for apparels, this figure has come to represent an increasingly larger volume and value of exports. It was only in the Canadian import market that India lost share due to the influx of Chinese products. Although Canadian import of Indian apparels grew by 7.80 per cent in 2005, market share went down from 6.47 per cent (2004) to 6.07 per cent (2005), and in 2007, hit 4.73 per cent, the lowest figure in decades. But this did not deter India from capturing 14.83 per cent of the expansion of global clothing trade after quota removal, making it the biggest gainer after China. By 2006, its apparel exports had grown to USD 10.19 billion, making it the fifth largest exporter of apparels in the global market. In just three years, India moved up three spots (from eighth in 2003) in the top list of global apparel exporters.

Textiles exports surged by 20.73 per cent in 2005, from USD 7.009 billion (2004) to USD 8.46 billion in 2005, and further increased by 10.26 per cent (USD 9.33 billion) in 2007; here too, India was able to absorb about 15 per cent of the increase in global demand. In terms of market share in the US and EU, trends in the textile sector runs somewhat different to the clothing sector. The importance of the EU as a buyer for Indian textiles has been diminishing; whereas 37.34 per cent of India's textile exports in 1999 went to the EU, by 2006 this had shrunk to 29.92 per cent. The view from Europe shows sluggish growth in market share, rising from 3 per cent in 1999 to just 3.68 per cent in 2007, but double-digit growth of the EU market (with minor slowdowns in 2005 and 2006) ensured that India's exports crossed the USD 3 billion mark (2007) regardless. Data show India as a major beneficiary of restrictions imposed on China from January 2006.

In the US, Indian market penetration has increased from 5.81 per cent to 9.49 per cent between 1996 and 2007. The growth in value terms is significant – USD 1.71 billion dollars in just over a decade. However, exports to the US still constitute less than a quarter of total Indian textiles exports. Other major buyers of Indian textiles are Canada, U.A.E., Japan, Saudi Arabia, Republic of Korea, Bangladesh and Turkey (Ministry of Textiles, Analysis of Exports of Textile Items). Of these, exports to Canada were worth about USD 170 million in 2005, a 4.44 per cent growth on the USD 163 million worth of exports in 2004. Although this was a slight increase in market share – from 3.73 per cent (2004) to 3.75 per cent – the growth rate was much lower than preceding years, when it was 11.62 per cent (2004) and 17.54 per cent (2002). Exports continued to increase, however, and were able capture 4.15 per cent of the Canadian textiles import market in 2007.

India's emergence as a major winner of the MFA phase-out was not unexpected though. It has large supply of cheap labour, low production costs, and extensive fibre and fabric base. The strength of the Indian textile industry is a legacy of the country's vast capabilities in cotton production and the government's efforts to harness this abundant raw material base to generate employment and ensure adequate availability of cloth for domestic consumers. India's T&C market draws on the advantage of having a large domestic market. Scale of production in India, however, is somewhat different when compared to other major suppliers. The Indian textile industry is organised in much smaller average unit sizes. However, production capacities and raw material availability are formidable and second only to China. It has the second-largest yarn-spinning capacity in the world (after China),

accounting for roughly 20 per cent of the world's spindle capacity. India's spinning segment is fairly modernised; approximately 35 to 40 per cent of India's spindles are less than 10 years old. In the late 1990s, India was the leading buyer of spinning machinery, accounting for 28 per cent of world shipments. It also has the largest number of looms in place to weave fabrics, accounting for 64 per cent of the installed looms in the world. With a 13 per cent share in the global production of textile fibres, India is the third largest global producer of cotton yarn and cellulosic fibres/yarns, the second largest producer of silk, and the fifth largest producer of polyester fibres and filament yarns. It is one of a few developing countries today (along with China, Turkey, parts of Eastern Europe and Pakistan) with a fully developed textile value chain extending from fibre to fabric to garment exports. This is reflected by the very low import intensities (1.2 per cent) of its apparel exports, which have benefited from the availability of domestic textiles. As Indian apparel firms compete for market share in a world where timely deliveries, low costs, variability and quality are critical, the proximate availability of good quality textiles is a major advantage for her which would ensure her competitive edge in the global T&C market of the future.²¹

India has her disadvantages when compared with China. India's cost competitiveness in the global T&C market is constrained by lack of modern machine capacity and the low productivity of its workers, two areas in which China is very strong. Although India's wage rates in textiles and apparel manufacturing are USD 0.14/hour and USD 0.02/hour lower than China's, the difference in productivity means that India's unit costs of labour are still higher than China's. Indian exporters' productivity is only about 35 per cent of US levels – compared with the 55 per cent achieved by Chinese exporters. It is to be noted that the overall productivity of the Indian apparel industry, including tailors and domestic manufacturers, is estimated to be just 16 per cent of the US industry's productivity (McKinsey & Company, 2004).

For India, another disadvantage has been the limited scale of operation and the use of traditional technologies in apparels, a result of government policy that reserved the sector for small scale industries. Although things have been changing in recent years,²² regulations still protect small-scale producers in a number of ways. While the production of readymade garments is no longer set aside for small scale industries, a few product markets, such as hosiery, still are. In addition, Indian manufacturers tend to set up several small plants, instead of a single big one, to take advantage of labour laws and a tax regime that tends to favour smaller factories. As a result, Indian clothing plants typically have, on average, 10 to 20 per cent of the machines that Chinese plants have.²³

In preparation for the post-MFA era, the Government of India (GoI) implemented a number of strategies to enhance comparative strength. This included the creation of a USD 6 billion Technology Upgradation Fund to spur investment in new textile and apparel technologies,

²¹For more details on the structure of India's T&C industry, see 'India's Textile and Apparel Industry: Growth Potential and Trade and Investment Opportunities', USITC, March 2001, and 'Post-MFA Adjustments in India's Textile and Apparel Industries: Emerging Issues and Trends', Indian Council for Research on International Economic Relations (ICRIER), June 2005.

²²Under the NTP 2000, the Government of India removed readymade apparel articles from the list of products reserved for the SSI sector.

²³See Footnote 13 above.

increasing the share of quotas earmarked for units investing in new machinery and plants, and an Export Promotion Capital Goods (EPCG) scheme that provides preferential tariff rates for firms importing machinery for the production of export items. Between 1990 and 2003, the average investment per firm in plant and equipment in the top-ten cohort of textile firms increased 43 per cent in real terms (constant 1995 dollars). In the apparel sector – which was reserved for small scale firms till 2003 – mean investment per firm in plant and equipment increased an impressive 315 per cent from USD 1.2 million in 1995 to USD 5.1 million in 2003 (in constant 1995 dollars) (Tewari, 2005).

In recent years, a conscious strategy to move upmarket, into the design and fashion segment of the market, is discernible in the Indian T&C industry. India's large pool of talented professionals is a clear advantage. The design stage of clothing manufacture has the highest value addition potential, and India has been developing local skills to procure a competitive edge for firms. Many Indian exporters now have design teams in-house, collaborate with Western designers to make higher value products, and are differentiating themselves with branded manufacturing. India is also making increasingly sophisticated use of information and communication technology in this respect.

As the Indian T&C industry seeks to ensure greater market share in the global T&C market, it will need to further build on its strengths and comparative advantages. Only in this way, will she be able to withstand the competitive pressure from China.

6.4 Cambodia

Clothing

Cambodia's history matches that of many other developing countries including Bangladesh. Until 1998, Cambodia did not face any quota restrictions, and was thus able to attract many brands and retailers looking to source materials cheaply. The garment trade took off very quickly, and its clothing exports to the US soared from USD 2.55 million in 1996 to USD 105 million in 1997 – an increase in market share from 0.01 per cent to 0.23 per cent. By 1998, Cambodia was exporting USD 381 million worth of garments to the US market, which felt sufficiently threatened by its growing market share, and began negotiations to bring the country under the quota system. Through a deal linking labour conditions to trade privileges, the US allocated a bonus quota to Cambodia for improved labour conditions monitored by the ILO. The labour program is cited as one of the major factors helping the Cambodian apparel industry hold its own in the post-quota world.

Contrary to expectations, the country's nascent garment sector has continued to grow rapidly after MFA quotas were removed in 2005. Total exports expanded 10.70 per cent to cross the USD 2 billion mark in 2005, and grew a further 21.98 per cent in 2006 to total USD 2.68 billion of apparels exports. As cheap Chinese apparels grabbed market share away from rich and poor countries alike, a majority of Cambodia's factories managed to retain the loyalty of retailers around the world by appealing not just to their need for low-cost production, but also to their desire to avoid the stigma of exploiting poor labourers in distant sweatshops (Becker, 2005). Cham Prasith, the Cambodian minister of commerce who reached the deal with Washington in 1999, said, "We are extending our labour

standards beyond the end of the quotas because we know that is why we continue to have buyers.”

In the US, by far the most important destination for Cambodian suppliers, her market share increased from 2.16 per cent to 2.44 per cent between 2004 and 2005, despite the loss of preferential access to the US market. Major retailers such as Gap, Levi Strauss and Abercrombie & Fitch continued to source materials from Cambodia, pushing the latter's exports up from USD 1.51 billion to USD 1.81 billion. The 19.98 per cent growth rate represented by this shift was somewhat higher than the 15.91 per cent (2004) and 18.32 per cent (2003) growth rates of previous years. As of 2007, the US imports USD 2.55 billion worth of apparels from Cambodia, constituting 3.24 per cent of its global apparel imports and making Cambodia the eighth largest supplier of clothing to the US. The bulk of these imports (65 per cent) were of the knitwear category, compared to 2002-03, when woven wear earned around 60 per cent of textile revenues. Growth in knitwear averaged 33 per cent per year in the 2004-07 period, as imported raw materials and low domestic value addition bogged down the competitiveness of Cambodian woven apparel factories.

The 8.37 per cent decline in 2005 exports to the EU was indeed a shock, especially when compared to the 34.79 per cent (2004) and 18.69 per cent (2003) expansions has been observed in the preceding years. However, Cambodia quickly recovered once safeguards were imposed on China, showing 17.18 per cent growth in 2006. A similar trend was observed in Canada, where export growth decelerated to 1.22 per cent in 2005.

Textiles

Cambodia has very limited capacity for textile production. In 2004, the latest year for which total country export data could be obtained, it exported USD 26 million worth of textiles, a mere 1.3 per cent of its total T&C exports. Based on data from major importing nations like the US, EU and Canada, there does not appear to have been any significant change in Cambodia's textiles exports since then.

Constraints, Policies and Potentials

In mid-2004, the Foreign Investment Advisory Service (FIAS), a joint service between the World Bank and the International Finance Corporation, surveyed 15 of Cambodia's largest US and EU customers. The top three country-specific sourcing criteria these buyers mentioned were: labour standards, tariff preferences and access to materials and supplies. Cambodia was outperforming competitors from China, Vietnam, Thailand and Bangladesh over labour standards and tariff preferences, but was ranked low on access to international materials and supplies and other criteria such as political and economic stability and customs efficiency. At the factory level, leading buyers complained about Cambodia's weakness in terms of price/production costs, production capacity and the range of services offered. However, none of the key buyers had plans to buy less from Cambodia and 60 per cent of them said they planned to increase their garment purchases from the country. They apparently did so, as is indicated by the 10.70 per cent and 21.98 per cent growth posted in 2005 and 2006 respectively (Fibre2Fashion).

However, spiralling transportation costs and low worker productivity are threatening Cambodia's largest export earner, with the Garment Manufacturers Association of Cambodia (GMAC) predicting that the sector's growth would slow from 20 per cent in 2007 to just five per cent this year. The US economic slowdown has been especially damaging to Cambodia because, unlike those in neighbouring Thailand, Cambodian garment makers have failed to diversify to export markets in Europe, Russia and the booming Middle East. About 70 per cent of exports go to the US with only 24 per cent going to the EU. The US slowdown is expected to lead to further declines in Cambodia, with clothing sales dropping 5.5 per cent in July 2008 alone (AFP, 2008).

Rising energy costs have also been taking a toll on the sector, as most garment factories rely on expensive diesel generators to power their plants. According to GMAC, electricity costs were about 5 per cent of total costs a few years ago, and 7 per cent in July 2007, but they are 10-15 per cent in 2008. The Association also noted that electricity rates were significantly higher than in neighbouring Vietnam and Thailand. According to an Asian Development Bank (ADB) report of 2004, the cost of electricity in Cambodia was USD 0.15 per kilowatt-hour compared with the international norm of just USD 0.06.

The report also observed that worker motivation and productivity has become a big issue. Although Cambodia has one of the lowest wage rates among Asian apparel suppliers, only USD 0.23 per hour, productivity was significantly lower than in countries like China and Vietnam for a variety of reasons. These included training methods and low levels of skill development; cultural and communication gaps between workers and supervisors/management, which arise frequently since most of the factories in Cambodia are foreign-owned; low level of technologies used; the work environment – large sized operations appear to have more problems in motivating workers and achieving productivity levels as high as smaller units with a more 'family' atmosphere; unusually high number of public holidays; and health and stress problems. Recently, an increasing number of worker strikes have also begun to take a toll on Cambodia's performance.

Garment lead times in Cambodia are also lengthy compared to other suppliers; it takes at least 90 days to deliver on orders of woven garments, compared to 40 in the case of China, and 60 days in the case of Vietnam. This is mainly due to the low-tech production processes and the absence of significant backward linkages and domestic suppliers. Cambodia imports most of the raw materials for clothing production, which not only includes yarn and fabric, but also most of the accessories and trimmings, such as threads, plastic collar inserts and clips, hang tags, etc.

The sector is also attracting plenty of foreign investment, and the number of garment factories continues to increase. According to GMAC, there are now 298 factories in Cambodia employing 355,000 workers, up from 250,000 workers in 220 factories in 2004. New garment investment projects, mostly of Chinese, Cambodian, Korean and Taiwanese origin, are coming up on a regular basis. Since 2006, China alone has invested in more than 23 textile and garment projects.

Despite all of these problems, the Cambodian apparel sector's labour standards and strong buyer loyalty differentiate it from many of its competitors. As buyers and international

organisations put pressure on clothing manufacturers to comply with international labour standards, the importance for Cambodia as an export market niche based on high labour standards should not be underestimated.

6.5 Pakistan

Clothing

Pakistan's clothing exports account for only a third of its total T&C exports, but are still worth USD 3.91 billion (2006). With a wide domestic textile base to support the production and export of clothing, the country's apparel sector has gradually increased its stake in the global clothing trade pie, from 1.02 per cent in 1995 to 1.25 per cent in 2006. Overall, clothing export growth remained robust even after quotas were eliminated, growing by 19.10 per cent in 2005 and by a further 8.41 per cent in 2006.

The change in the US market was less noticeable, amounting to a nominal slowdown in growth rate from 15.63 per cent and 11.68 per cent in 2003 and 2004 to 10.70 per cent in 2005. But in 2006, there was a sudden rise in clothing export to the US market by 12.62 per cent; this may be due to the fact that from that year onwards the US has imposed restrictions on China. However, export growth of apparels dipped to 4.7 per cent during 2007. It should be noted that Pakistani T&C exports to the US were experiencing negative growth rates in the 2001-2002 period, until they were granted a USD 476 million package of increased quota allocations over a three year period.²⁴ On the other hand, certain clothing items have faced access restraints in the EU since the EU imposed anti-dumping duties in 2003, and this was a big hindrance to their post-MFA competitiveness in the EU market.

Textiles

Pakistan's textile exports increased from USD 4.26 billion to USD 6.13 billion between 1999 and 2004. They stood at USD 7.47 billion by the end of 2006, indicating that Pakistan had gained in terms of higher export earnings after the MFA phase-out. Pakistan is one of the world's leading producers of cotton, behind China, the US, and India, which is a major source of her strength.²⁵ Raw and value-added cotton exports account for about 60 per cent of the value of Pakistan's total annual exports, indicative of the importance of the textile sector in Pakistan. This is also one of the reasons for the sporadic growth pattern of Pakistani textile exports to the world, as cotton output is highly weather sensitive. Textile export growth rates shot up from 5.86 per cent in 2002 to 21.32 per cent in 2003, and then tumbled to 5.40 per cent in 2004. The 15.71 per cent expansion in 2005 indicates that quota removal was beneficial – exports finally crossed the USD 7 billion mark, doubling in value from 1993. Exports to the EU, where competitiveness is bogged down by the 5 per cent dumping duty imposed in 2003 on textiles products such as bed linen, bed sheets, curtains, sofa cloth and home textiles, withered by (-) 11.45 per cent under the Chinese challenge during 2005. On the other hand, 15-16 per cent growth rates were maintained in both

²⁴The package was part of the US commitment to Pakistan for its assistance in the "War on Terror".

²⁵Together, these four countries account for nearly 70 per cent of the world's cotton production.

Canada and the US. But exports to the latter countries declined by 7-10 per cent in 2007 due to escalating costs of production and international competition.

Constraints, Policies and Potentials

Pakistan spent USD 4 billion modernising its T&C sector in anticipation of the MFA quota removal. However, the prevailing shortage of skilled labour and modern technology were serious constraints. T&C exports from Pakistan began to decline in the second half of 2006, as rising input, energy and financial costs took their toll. The country faces stiff competition from China, India, and Bangladesh on grounds of lower unit prices and quality, and buyers were also worried about the reliability of Pakistani supplies because of instability and militant violence.

The recent sharp rise in the price of natural gas (July 2008), coming on top of chronic power cuts, dealt the industry a double blow. Struggling with a 4000 MW power shortfall, the Pakistani government has been cutting power for an hour at a time about six times daily to make up for the deficiency; many T&C factories installed gas powered generators to cope with the cuts, but in late July, the government raised the price for those using natural gas to generate power by 68 per cent. The gas price rise will particularly hit manufacturers who are using the hot water they get as a by-product of power generation for the processing of fabrics (Reuters, 2008).

To counterbalance these constraints, the government has been building infrastructure support and promoting human resource development. The Pakistani Ministry of Textile Industry has launched several initiatives such as the construction of “Garment Cities” at Faisalabad, Lahore, Karachi, Gujranwala and Multan, a “Weaving City” at Faisalabad and a “Textile City” at Karachi. These projects are intended to boost investment in the T&C sector by providing the necessary facilities and infrastructure for apparel, textile and accessory production. The Ministry has also created a Research, Development and Advisory cell to promote research in textile and textile engineering, and has begun setting up training centres at different locations.

6.6 Vietnam

Clothing

Vietnam has been able to expand her export of apparels quite significantly in the recent past, with exports rising from USD 2.63 billion to USD 4.43 billion between 2002 and 2004. Exports rose further to USD 4.84 billion in 2005, a 9.2 per cent growth. Following the July 2001 signing of a bilateral trade agreement between the US and Vietnam, the US granted Vietnam conditional normal trade relations (NTR) status in December 2001. A big shift occurred during 2001 and 2002, as clothing exports surged from USD 1.87 billion to USD 2.63 billion, driven by a sharp rise in exports to the US.

The high growth of apparels from Vietnam stirred the US into negotiating quotas on Vietnamese T&C exports in 38 categories, which is reflected in the slow down to a 6.70 per cent export growth rate in the US market in 2004. But US quotas did not slow down the

country's global exports, which grew by 27.78 per cent in 2004 and continued to grow in 2005 as well, when a growth of 9.21 per cent was recorded.

Vietnam found itself at a disadvantage as against countries operating under quota-free trade, since it was not yet a WTO member. However, import figures reported by major markets like the US, EU and Canada indicate that it was only a temporary setback. In fact, exports to the three markets surged by 35.39 per cent, 19.58 per cent and 24.94 per cent respectively in 2007. Export growth to the US was much stronger as compared to the other two in 2007, as Vietnam's accession to the WTO forced the US to lift all quota restrictions on the country.

Vietnam has also benefited from FDI in the T&C sector, a significant part of it coming from China through strategic partnership. Labour costs have remained low at about USD 0.38 per hour, and the government has recently outlined an ambitious plan to increase exports to USD 31.0 billion by 2020.

Textiles

Vietnam has historically been strong in cut-and-sew operations, although it is now investing heavily in spinning and weaving to build up its own fabric production capacity. Its export of textiles was about USD 534 million in 2004. According to the Switzerland-based International Textile Manufacturers Federation (ITMF), Vietnam's investments in textile machinery have increased substantially in recent years, with large scale purchases of spindles, rotors and shuttleless looms. Trade data from textile importers indicate that the investments are paying off. During 2007, Vietnam increased textile exports to the EU by 40 per cent, from USD 162 million to USD 227 million. Textile exports to the US increased by 26.31 per cent in 2007, from USD 85 million to USD 107 million, while exports to Canada rose from USD 10 million to USD 19 million – a growth of 96.48 per cent.

Constraints, Policies and Potentials

Vietnam acceded to the WTO in 2007. However, her exports to the US are still constrained by market access barriers. Vietnam's MFN trade status with the US includes a special monitoring arrangement specific to its textile and apparel exports, enforced by the US Commerce Department to guard against possible dumping violations. Vietnamese exports are subject to burdensome checking procedures. Exporters blame this for delivery time lags to end users which erode their just-in-time competitiveness against other global producers. With safeguards against China due to expire in 2009, competitiveness will become a critical issue, apart from the fact that the threat of US anti-dumping fines and the possibility of trade disputes (of which Vietnam has a long record) may discourage investment in the industry.

Rising inflation is also a growing cause for concern. Vietnam's inflation rate hit double digits in November 2007, and shows no signs of coming down (with the August 2008 figure a whopping 28 per cent). Inflation-fuelled labour unrest has escalated as a result, with about 600 strikes occurring in less than two years. The labour-intensive garment sector is being pressured to raise wage rates, which are already higher than those in competing countries like Bangladesh and Cambodia. Additionally, the State Bank of Vietnam has been allowing

the Dong to appreciate to ease inflationary pressures, which has taken a further bite out of T&C export competitiveness.

The government, however, remains optimistic about achieving the USD 10 billion target it has set for the T&C export sector for 2010. Vietnam's textile and clothing industry plans to achieve this target by streamlining production and thereby reducing unit costs to boost international competitiveness. In support, the government is focusing on shifting from the traditional Cut, Make and Trim (CMT) to Free on Board (FOB) production and on increasing the domestic content of garment production by investing in cotton production, spinning and weaving facilities (Just-Style). It has also succeeded in attracting a large number of foreign investors to boost modernisation and technology transfer, with 438 foreign-funded apparel and textile projects currently underway (Vietnam Textile and Apparel Industry Portal).

Some Selected Non-Regional Countries

6.7 Mexico

Clothing

Apparels remain a major exporting sector for Mexico. The clothing industry has come a long way since 1993, when its global clothing exports amounted to USD 1.19 billion, a mere 0.92 per cent of the world demand. Growth was particularly rapid in the mid-1990s, averaging over 20 per cent per year. The implementation of NAFTA in 1994 drew apparel manufacturers from around the world to Mexico, with the prospect of duty free access to the markets of US and Canada. Over the next few years, overall clothing exports grew by 40-60 per cent, while exports to the US grew at 30-40 per cent. By 1998, Mexico had become the largest supplier of garments to the US, with a 13.11 per cent claim on the USD 51.53 billion US import market. Its victory, however, was short-lived, as China's accession to the WTO in 2001 knocked it down to second place. Export growth rates have been negative since then, with a brief respite in 2004, followed by an accelerated decline after quotas were lifted. Total global clothing exports fell by (-) 2.46 per cent in 2005 and a further (-) 13.43 per cent in 2006, as exports to the US market dropped by (-) 8.98 per cent and (-) 12.58 per cent over the same period. This slowdown in the US market continued in 2007 when its market share dropped to 5.92 per cent whereas it had a market share of 9.88 per cent in 2004. A slowdown in consumer spending in the US and increasing competition from low-cost Asian and Central American producers has hurt the Mexican industry further, with figures for the first two months of 2008 indicating that it has dropped from second to fifth place in the US suppliers list. With China set to rise upon the phasing out of import restrictions in 2008, Mexico will lose its foothold in the US market further.

Textiles

Mexico's textiles exports are worth only one-third of garment exports, and amounted to USD 2.19 billion in 2006. The industry has been ailing since 2001, when an 18.71 per cent decline pushed its global market share down from the 2.27 per cent peak it had attained. Market share has been declining since then, in the US market and globally as well. As in the case of clothing, the US is by far Mexico's largest buyer of textiles, and the loss of market

share there, going from 10.09 per cent in 2001 to 6.80 per cent in 2007, has been a severe blow to the sector.

Constraints, Policies and Potentials

Mexico has several large, reasonably successful synthetic-fibre enterprises, a multitude of export-oriented assembly firms that send products to the United States using the United States' inputs and an emergent retail sector that is fashioning a number of strategic alliances with its larger counterparts.

6.8 Lesotho

Clothing

The removal of quotas appears to be dragging down Lesotho's fledgling apparel export industry just as it was beginning to soar. In 2002, 2003 and 2004, exports expanded by 67.79 per cent, 50 per cent, and 32.53 per cent respectively. The US was a leading importer, absorbing more than 90 per cent of Lesotho's 2004 clothing exports. However, the deluge of cheap Chinese apparels released into the market in 2005 grabbed a lot of business away from the African minnow. Its total clothing exports decreased by (-) 10.06 per cent, from USD 497 million to USD 447 million, led by a (-) 15.34 per cent decline in exports to the US.

6.9 Mauritius

Clothing

Mauritius is one of the largest clothing suppliers from the Sub-Saharan region, with global clothing exports totalling USD 772 million in 2006. Exports are mainly concentrated in the preferential markets of the US and EU, with the EU alone absorbing 78.6 per cent of Mauritius' clothing exports. Market share in the EU, however, has been on the decline since 1999; it has gone from 0.88 per cent in 1999 to 0.44 per cent in 2007, with 2007 exports amounting to less in value terms despite the expansion of the EU clothing market.

In the US market, despite the margin of preference, total apparel exports in value terms from countries eligible to preferential access to the US under the AGOA fell in 2006 to 73.5 per cent of their 2004 level. Mauritius was one of the biggest losers, since it was not eligible for derogation from the AGOA yarn forward rule, which requires yarn and fabric to be manufactured either in the African region or in the US. Export growth to the US market has been negative since 2004, with the rate of decline accelerating from (-) 16.21 per cent to (-) 26.83 per cent after quotas were lifted.

The EU's Non-Agricultural Market Access (NAMA) proposals in Hong Kong implied a reduction to 6 per cent from the present 12-14 per cent tariff protection that countries like Mauritius enjoy vis-à-vis their competitors, most likely over four years starting in 2009. While current Economic Partnership Agreement (EPA) negotiations might expand African countries' export markets, any additional tariff preferences will nevertheless erode over time. In the US as well, AGOA rules of origin are deterring Mauritius' export prospects,

unless they are revised in favour of value addition. The country is thus starting to look for market opportunities elsewhere. The Mauritian government has negotiated a bilateral trade agreement with India where it has secured preferential access for a small quota of Mauritian garments. Major marketing efforts have been engaged in South Africa, where exports have increased by 40 per cent, reaching USD 35 million over the last fifteen months. The regional market is potentially an important space for smaller and medium-size companies that have been domestically oriented (Darga, 2007).

To deal with Chinese competition in the EU and US markets, Mauritius is exploring upgrading along different paths, including the development of full-package capabilities, vertical integration, diversification of export networks and moving into marketing and design. In the last two years, it has also mobilised more than USD 200 million of investment from China to modernise the industry, mainly in spinning – the capital-intensive missing link in the region's supply chain capacity.

7. FACTORS LIKELY TO IMPACT FUTURE GLOBAL TRADE IN T&C

Several new developments are likely to influence future trade in T&C and developing country suppliers will need to be aware of the risks and rewards emanating from the emerging situation. The following discussion identifies a number of these based on the discussion in the preceding sections on (a) trends in performance, (b) factors contributing to success, and (c) emerging issues.

Changes in Price Structure

Per unit values of T&C products plunged in the wake of the MFA phase-out driven mainly by China, across almost all product categories. As mentioned in Section 5, year-on-year average prices of Chinese knit goods in the US and EU markets at the end of 2005 were 43 per cent and 13 per cent lower respectively; prices of cotton yarn, tating apparel, chemical fibre yarn and carpets also came down sharply. A National Council of Textile Organizations (NCTO) report calculated that in apparel categories where quota restrictions in the US were lifted in 2005, average prices of Chinese products were 7.5 per cent lower than average world prices at the end of 2005; in the EU, Chinese prices were shown to fall 31.7 per cent on average in 2005. A press release by the American Manufacturing Trade Action Coalition (AMTAC, 2006) put forward the notions of unfair trade practices by China in numbers. According to the AMTAC, when the price of cotton trousers in the world was rising by 0.7 per cent, their Chinese counterparts were actually exporting the same cotton trousers with a 54 per cent decrease in per unit price, giving them an insurmountable advantage in the market.

Declining per unit value of apparel products is one of the major challenges facing the apparels exporters of Bangladesh following the phasing out of the quota restrictions (Rahman and Anwar, 2006). A CPD study carried out in 2008 shows that unit value has declined considerably for Bangladesh's major products. For example, in the case of product 620342 (men's and boy's cotton trousers) there was a 34 per cent decline in price, while a 64 per cent drop in unit price was observed for 611020 (cotton sweaters, sweatshirts and vests). Interestingly, in all of these categories of products, the fall in the unit value was much

higher in the cases of China and India. It appears that once the restrictions on quotas started disappearing, exporters from these countries were forced to realign their prices with the more competitive suppliers. In most of the selected categories, the fall was within the range of 20 per cent to 76 per cent.

Restrictions against China and their Implications for Competing Suppliers

The astounding growth rate of China's clothing and textile exports, along with plummeting unit prices, moved the US and EU to invoke safeguard measures against China. This was permissible under the WTO.

The EU and China agreed to a broad textile trade agreement on June 10, 2005, setting annual growth restrictions on 10 Chinese textile items, which had seen an export surge immediately after the quotas on these were phased out on December 31, 2004. The agreement restricted export growth of these 10 lines of Chinese textile exports at 8 per cent to 12.5 per cent a year, based on the argument that these categories have clearly "threatened to impede the orderly development of trade" and 'caused market disruption' in the EU. The agreement takes the form of a MoU between the two parties. Major features of the Agreement are presented in Box 3.

Box 3: EU-China Accord on Textiles and Apparels: Salient Features

The EU and China reached the following understanding:

- The growth of the concerned 10 categories (*See table 10*) would be limited to an agreed level until the end of 2007.
- This agreement would cover 10 (pullovers, men's trousers, blouses, T-shirts, dresses, bras, flax yarn, cotton fabrics, bed linen, table and kitchen linen) of the 35 categories of Chinese imports liberalised on January 1, 2005. The agreement covers categories in which EU had serious concern, including most of the categories identified by the European Textile Association (Euratex) and the two categories for which the EU had already launched *formal* WTO consultations with the Chinese: T-shirts and flax yarn.
- The EU agreed to end the ongoing investigations concerning these product categories.
- The agreement limits growth in imports in the 10 categories to between 8 per cent and 12.5 per cent per year for 2005, 2006 and 2007. These levels were to be calculated on a base that includes either two or three months of post-quota trade levels. In those categories for which growth is initially set at 8 per cent, agreed growth rates will rise over the subsequent three year period.
- Quantitative levels on imports were to apply from June 11, 2005. Both sides would at once put in place the necessary administrative arrangements for the management of agreed import levels.
- In categories not covered by the agreement, and for 2008, the European Union was to exercise restraint in the application of its rights under *Article 242* of China's Protocol of Accession to the WTO.
- The two sides stand ready to discuss promptly any aspect regarding the implementation of this agreement.

Source: EU Sanctions on Import of Chinese Apparels: Implications for Bangladesh (Rahman, Mustafizur and Asif Anwar, 2005).

The trend growth rate of Chinese apparels to the US market from 2001 till 2005 was a staggering 26.39 per cent. The same situation is also observed in the EU market, where a trend growth of 15.5 per cent was recorded between 2001 and 2004. Within three years of quota expiry, China has captured 20.38 per cent of the EU market and 31.91 per cent of the US market. In textiles, China has attained 30.85 per cent market share in the US, and 8.91 per cent in the EU.

In the middle of 2005, the EU concluded a MoU with the Chinese government that limited Chinese export of textiles and apparels to the EU market until the end of 2008. As a result,

apparels export growth of China to the EU market in 2006 slowed down to 12.36 per cent, from 47.07 per cent the year before, and the textile export growth rate declined from 25.02 per cent (2005) to 19.73 per cent (2006).

It has now become clear that the safeguard mechanism imposed on China by the EU in the middle of 2005 has benefited some of the other Asian suppliers. South Asian textiles exports enjoyed an overall growth of 11.70 per cent in 2006, rebounding from the 2.86 per cent decline of the year before. Apparels exports from South Asian countries also flourished, growing by an impressive 24.35 per cent (2006) in contrast to a mere 5.82 per cent growth rate in 2005. Bangladesh was able to recover from the shock it suffered in 2005 by raising her export figure to over USD 5.79 billion in 2006 – a growth of 31.64 per cent.

Impact of Preferential Trading Arrangements on T&C Trade

It was pointed out earlier that four factors played a crucial role in the dynamics of the development of the T&C market in the recent past. The imposition of MFA quota in 1974, the signing of the NAFTA treaty in 1993, the phasing out of MFA under the ATC (1995-2004, but more importantly, the completion of the last phase in December 2004) and the imposition of quotas on Chinese exports (which ended in January 2008 in the EU, and are to end in January 2009 in the US). However, the signing of a number of bilateral treaties was also an important development since these provided preferential access to some T&C exporting countries (and denied the non-members). It is important to have some idea about these developments to compose a holistic assessment of the emergent situation in the global T&C trade.

The EU-Turkey Free Trade Area

The EU and Turkey are linked by a Customs Union agreement, which came into force on December 31, 1995. The Customs Union covers all industrial goods, but does not address agriculture (except processed agricultural products), services or public procurement. These measures had particular significance in the area of textiles and wearing apparel, where EU quotas against Turkish imports were eliminated and Turkey committed to adopting the EU regime towards third countries. Turkey has since become the second largest exporter of apparels to the EU, and the fifth largest supplier of textiles (2007).

The EU-Egypt Association Agreement

This Agreement was signed in May 2001, and started gradual implementation in January 2004. This Association Agreement opens markets in all 25 European Union member states to Egyptian goods and sets out a multi-stage reduction of Egyptian tariffs and trade barriers. The RoO protocol for Egypt was to be the same as the ones with EU partner countries. The EU was to grant a total of 80 Million Euros for the restructuring of the Egyptian textile industries to (i) create a modern, market driven, competitive spinning and weaving sector, (ii) improve and strengthen the regulatory framework, (iii) restructure and upgrade public companies, and (iv) upgrade and re-employ redundant workers.

The agreement also stipulates that, for the import of EU textiles to Egypt, all import quotas would be abolished on January 1, 2005 and customs duties would be gradually phased-out starting January 1, 2009, with a 5 per cent reduction of duty each year for the first two years and an annual 15 per cent duty reduction in subsequent years. By January 1, 2016, textiles originating from the EU will enter into Egypt customs duty free. Egypt currently enjoys duty free market access to the EU for the export of garments. The Egyptian textile and garments sector accounts for 40 per cent of all non-oil exports to Europe – the new agreement extends this privilege to fabrics and yarn, but will require Egypt to eliminate high import tariffs on textiles.

US-Jordan Free Trade Agreement

The US-Jordan Free Trade Agreement (FTA) was signed on October 24, 2000 and was the first ever between the US and an Arab state. The FTA is the capstone of growing US-Jordanian economic collaboration, which began with close bilateral cooperation on Jordan's accession to the WTO and was followed by the conclusion of a trade and investment framework agreement and a bilateral investment treaty. The Jordan FTA stipulates significant and extensive liberalisation across a wide spectrum of trade issues and elimination of tariff and non-tariff barriers to bilateral trade in virtually all industrial goods and agricultural products within a span of ten years. In the case of textiles and apparels, the RoO stipulates that these will be considered to be wholly the growth of or manufactured product of a member country under certain conditions.²⁶

US-Chile Free Trade Agreement

The US-Chile bilateral FTA approved by US Congress in 2003 stipulates the elimination of tariffs between the two countries. There is a Special Textiles and Apparels provision in the text that outlines the RoO and safeguard measures (section G of the text of the treaty).

US-Vietnam Bilateral Agreement²⁷

This Agreement was initiated in May 1, 2003 and was extended subsequently through annual extensions, until December 2006. The Vietnam FTA regards exports to the US of cotton, wool, man-made fibre, silk blend and non-cotton vegetable fibre textiles of Vietnamese origin to the Specific Limits set out in Annex B, which are to be increased by the appropriate annual growth rates by adjusting the Specific Limits. These limits can be increased by 6 per cent, with provision for carry forward and carry over.

²⁶ (i) These conditions: the product is wholly obtained or produced in a Party;
(ii) the product is a yarn, thread, twine, cordage, rope, cable, or braiding, and
 (1) the constituent staple fibres are spun in that Party, or
 (2) the continuous filament is extruded in that Party;
(iii) the product is a fabric, and the constituent fibres, filaments, or yarns are woven, knitted, needled, tufted, felted, entangled, or transformed by any other fabric-making process in that Party; or
(iv) the product is any other textile or apparel product that is wholly assembled in that Party from its component pieces.

²⁷ Agreement Relating to Trade in Cotton, Wool, Man-Made Fibre, Non-Cotton Vegetable Fibre and Silk Blend Textiles and Textile Products

AGOA

Exports of textiles and apparels from Sub-Saharan African countries came to enjoy special treatment under the African Growth and Opportunity Act, which was signed into law on May 18, 2000 as Title 1 of The Trade and Development Act of 2000. Section 112 of the AGOA sets out six basic principles governing preferential treatment for textiles and apparels that are exported to the US by Sub-Saharan countries. The agreement states that textiles and apparels could enter the US market duty free and quota free if they belong to one of the following categories: (i) Apparel assembled in Sub-Saharan Africa from fabrics wholly formed and cut in the United States, from yarns wholly formed in the United States; (ii) Apparel cut and assembled in Sub-Saharan Africa, using US thread, from fabrics wholly formed in the United States from yarns wholly formed in the United States; (iii) Apparel cut or knit to shape and assembled in Sub-Saharan Africa from third-country yarn or fabric in short supply; (iv) Apparel assembled in Sub-Saharan Africa from fabric wholly formed in Sub-Saharan Africa from US or sub-Saharan African yarn; (v) Apparel assembled in Sub-Saharan Africa from non-US, non-Sub-Saharan African fabric (“third country” fabric). Only lesser-developed sub-Saharan African countries, defined as those with a per capita gross national product of less than USD 1,500 a year in 1998 as measured by the World Bank, may export apparel wholly assembled in their countries, regardless of the origin of the fabric, through September 30, 2004; and (vi) Certain other conditions. Since AGOA’s duration is coming to an end, it will be important to see whether it is extended or is replaced by some other initiative.

CBTPA: New CBI’s Importance and Benefits

The CBI has undergone various revisions since the 1980s. The new CBTPA entered into force on October 1, 2000 and was to be in place until the earlier date: (a) September 30, 2008; or (b) the date on which the Free Trade Area of the Americas (FTAA) or another similar bilateral or multilateral free trade agreement between the US and the CBTPA beneficiary countries enters into force. The CBTPA provides the Caribbean Basin countries preferential access for their goods, including T&C, under certain conditions and subject to RoO (35 per cent value addition, regional cumulation, etc). Given high MFN import duties in the US, the CBTPA was able to provide additional competitive edge to Caribbean exports of T&C items to the US market. Proximity to the US market was also an important advantage for these countries (vis-à-vis China, India, Bangladesh and other Asian suppliers), although many beneficiary countries found the RoO rather stringent.

T&C Trade and Safeguard Measures in WTO

One new factor that has come to influence global trade in T&C is the various safeguard measures that countries have resorted to, both as an offensive as well as a defensive mechanism to protect their trade interests in T&C.

First amongst these is under the safeguard measures which are permissible in the WTO. A WTO member may restrict imports of a product temporarily if its domestic industry is injured or threatened with ‘serious’ injury caused by a surge in imports. Safeguard measures were always available under GATT (Article 19). However, they were infrequently used, some governments preferring to protect their domestic industries through “grey area” measures

— using bilateral negotiations outside GATT's auspices. However, as the ATC started implementation in 1995, and with the Dispute Settlement Mechanism (DSM) emerging as a powerful institution within the WTO's systemic architecture, more and more countries started taking action and settling cases concerning, inter alia, disputes with regard to trade in T&C, by using the DSM. In most cases, the US was the defendant, and developing countries were the complainant. Mention may be made of the following:

- (i) United States: Restrictions on Imports of Cotton and Man-Made Fibre Underwear: Complainant Costa Rica (DS24); (Violation of ATC Articles 2, 6 and 8);
- (ii) United States: Measure Affecting Imports of Women's and Girls' Wool Coats: Complainant India (DS32); (Violation of ATC Articles 2, 6 and 8);
- (iii) United States: Measures Affecting Imports of Woven Wool Shirts and Blouses: Complainant India (DS33); (Violation of ATC Articles 2, 6 and 8);
- (iv) Colombia: Safeguard Measures on Imports of Plain Polyester Filaments: Complainant by Thailand (DS181); (Violation of ATC Articles 2 and 6);
- (v) Argentina: Transitional Safeguard Measures on Certain Imports of Woven Fabrics of Cotton and Cotton Mixtures: Complainant Brazil (DS190) (Violation of ATC and Articles 2,6 and 8);
- (vi) United States: Transitional Safeguard Measure on Combed Cotton Yarn from Pakistan: Complainant by Pakistan (DS192) (Violation of ATC Articles 2 and 6).

In principle, safeguard measures cannot be targeted at imports from a particular country. However, the agreement does describe how quotas can be allocated among supplying countries, including in the exceptional circumstance where imports from certain countries have increased disproportionately quickly. A safeguard measure should not last more than four years, although this can be extended up to eight years, subject to a determination by competent national authorities that the measure is needed and that there is evidence the industry is adjusting. Measures imposed for more than a year must be progressively liberalised.

The WTO's Safeguards Committee oversees the operation of the agreement and is responsible for the surveillance of members' commitments. Governments have to report each phase of a safeguard investigation and related decision-making, and the committee reviews these reports.

Of critical importance in this regard has been the safeguard measures imposed on China in the recent past. China became a member of WTO in 2001. Although between 2001 and 2004, the phase-out plan itself (back-loaded) provided the developed countries protection against Chinese imports of T&C, they were apprehensive of what could happen once the MFA was phased-out in January 2005.

Apprehensive about the prospect of disruption in the global apparels/textile trade, developed countries were able to make China agree to certain safeguard measures during China's WTO accession negotiations. The idea was to ensure that the quota-free regime was put into effect in an orderly manner, although this undermined the basic objective of ATC: making global trade in T&C fully liberalised and free.

According to China's WTO Accession Agreements²⁸, the United States and other WTO member countries, under the textile-specific safeguard provisions, could unilaterally apply selective safeguards (*Special T&C Safeguard Measures*) on imports of textiles and apparels from China for four additional years beyond the termination of textile and apparel quotas under the WTO-ATC – that is from January 1, 2005 through December 31, 2008. This restriction was applicable only for a period of one year and no notification to the WTO was required if and when such restrictions were imposed. Upon the request of the concerned member country, China was required to automatically limit its shipment to at most 7.5 per cent (6 per cent for wool products) above the amount exported during the first 12 months of the 14 month period preceding the consultation request.²⁹

A second provision embodied in the agreement, known as the *Transitional Product-Specific Safeguard Measure*, allows any WTO member countries to invoke safeguards on any Chinese product through 2013 if the increasing import of that particular product causes or threatens to cause market disruption in its domestic market. This mechanism, which is in addition to the other WTO Safeguards provisions, differs from traditional safeguards measures in that it permits United States and other WTO member countries to address imports solely from China, rather than from the whole world, for the import of products which are deemed to be a cause of significant material injury. This could be done through such measures as import restrictions. Moreover, the United States would be able to apply restraints unilaterally based on legal standards that differ from those in the WTO Safeguards Agreement, and could permit action in more cases. This provision was to remain in force for 12 years following China's accession to the WTO (until 2013) (The White House, 1999). In this case, however, the sanction-imposing country would be required to notify the WTO Committee on Safeguards and reach an agreement with China. If the alleged allegation against China could be proven in the WTO, then the affected country can impose restrictions on particular Chinese products for up to a period of two to three years.

Until the end of 2005, taking advantage of the safeguard measures, the US government had imposed quota restrictions on 24 categories of imports of textile and apparel items from China. Subsequently, on November 8, 2005, the US negotiated quotas on 21 categories of Chinese T&C products which would be in place from January 2006 until the end of 2008. As was noted earlier, taking recourse to this provision, the EU also imposed sanctions on 10 quota categories of exports from China with effect from June 11, 2005 until the end of 2007.³⁰

No doubt, the imposition of these sanctions on China was of benefit to her competitors. Data show a significant diversion of exports from many developing countries, such as Bangladesh, Cambodia, Pakistan and others, to China following the phase-out of MFA in January 2005. This happened both in the case of exports to the EU and the US. However,

²⁸These were first bilaterally agreed, and subsequently multilateralised once China became a WTO Member.

²⁹This limit is effective beginning from the date of request for consultations and ending on December 31 of that year unless three or fewer months remain; in that case, the period ends 12 months after the date of requests.

³⁰These sanctions were of course beneficial to China's competitors. For example, in US market the quota covered more than 70 per cent of Bangladesh's exports; the corresponding figure for Bangladesh in the EU was about 78 per cent.

once these safeguards were imposed by the EU and US, exports of T&C from these countries bounced back. In the EU, as was mentioned earlier, the safeguards ended in December 2007; the US safeguards measures are set to end in December 2008. How the global markets develop after 2009, when T&C trade could become fully liberalised is yet to be seen. But it can be assumed that the global market for T&C products is set to become more competitive under such a liberalised regime. The possibility of the imposition of new safeguard measures, if there is a surge in the export of T&C products from China, can not be totally overvalued. However, as was noted earlier, this time around, China, if she so decides, could take her case to the WTO Dispute Settlement Body (DSB).

Developing country competitors of China will need to carefully follow the developments in this regard.

The DF-QF Initiative of the WTO

Market access initiatives now being discussed in the WTO are likely to have important implications for global T&C trade in the future. For example, the Hong Kong Ministerial Decision of the WTO stipulates that 'developed countries shall, and developing countries declaring themselves in a position to do so, should provide DF-QF treatment to all commodities from all LDCs.' When fully implemented, this WTO decision would provide secured, predictable and highly preferential market access to T&C exports from the LDCs to developed country markets (and also markets of some of the developing countries).

As is known, the EU, Japan and Australia have indicated their willingness to comply with this decision. Indeed, since their respective GSP schemes cover almost all items of export³¹, in a practical sense this would mean the continuation of benefits enjoyed under the GSPs. However, the US, whose GSP scheme does not include T&C items, has indicated that it would take recourse to the Hong Kong decision that allows 'countries finding it difficult at this time to provide DF-QF treatment to all products from LDCs' to provide market access 'to at least 97 per cent of LDC products'. The negotiations in Geneva indicate clearly and explicitly that the US will exclude most of the T&C items of interest to LDCs. Asia-Pacific LDCs (AP-LDCs) such as Bangladesh, Cambodia and Nepal will be most affected by this since other LDCs are getting DF-QF treatment for their T&C products under the AGOA and CBI initiatives. At present, Bangladesh and other A-P LDCs are bargaining hard in the WTO for greater coverage of T&C items in the '97 per cent list'. Whether there will be a single exclusion list for all LDCs (in that case the DF-QF list will be common for AP-LDCs and SSA LDCs) or whether SSA LDCs will continue to enjoy more favourable treatment, remains uncertain at this stage. If regional initiatives such as CBI and AGOA continue to exist following the implementation of the Hong Kong Decision, then this differentiation will persist for some time in future (until the HK decision is fully implemented).

As it appears now, T&C products of AP-LDCs will possibly continue to enter the US by paying MFN duties for some time to come. This is more so, because no timeframe has been agreed in the WTO negotiations for the phasing-in of the 'exclusion list'. This is of crucial

³¹Japan has indicated that it would be ready to provide DF-QF treatment to all but five items (includes fisheries and leather), but T&C items are not in Japan's exclusion list.

importance to AP-LDC exporters of T&C products to the US market since many T&C items face tariff peaks. For example, the average tariff on T&C products faced by Bangladesh in the US was about 16 per cent in 2007, three times more than the average US tariff. The amount of import tariff on Bangladesh's T&C exports to the US in 2007 exceeded USD 500 million which was several times the bilateral aid received by Bangladesh from US and equivalent to about 40 per cent of total annual aid received by Bangladesh from all sources. AP-LDCs will need to carefully monitor the developments in the WTO negotiations on the DF-QF decision.³²

Preference Erosion

Of critical importance to all LDCs will also be the substantial preference erosion that LDCs will suffer in developed countries where they currently enjoy GSP treatment for LDC products, such as in the EU and Canada. Whatever be the Swiss-formula coefficient that is agreed upon in the course of the NAMA negotiations, there will be a drastic reduction of the MFN tariffs, leading to significant preference erosion. For countries such as Bangladesh, this will lead to a substantial decrease in competitive edge enjoyed against countries such as China, India and Pakistan, which do not enjoy duty-free treatment for their T&C items in the aforesaid market (Rahman and Shadat, 2006). Even though the EU and also the US have submitted lists of certain T&C items (Annex 2 and Annex 3 of the WTO NAMA text) for slower reduction (7 years instead of 5 years for implementation of the decision reduction of MFN duties), this is unlikely to assuage the apprehension of preference beneficiary LDCs. The proposal to have a separate list of T&C items (for Sri Lanka and Pakistan – Annex 4 of the WTO NAMA text) has also complicated the issue. In short, preference erosion, in view of the likely substantial reduction of MFN duties, will remain a major issue in the context of relative competitive strength of countries supplying T&C products to the global market, from a medium-term perspective. A number of proposals have come up which would enable LDCs to address the likely loss of competitive edge in view of preference erosion (Sheila Page, 2005).

In view of the above discussion, some of the other developments with regard to market access for T&C products also need to be carefully followed. One such initiative is the proposed New Partnership for Development Act 2007 (NPDA 2007) that has been tabled in the US Congress. The Bill provides for duty-free market access for all items from all LDCs (barring Myanmar and Somalia) in the US. Although there are a number of preconditions which will need to be complied with if an LDC is to become a beneficiary, this is an initiative of crucial importance to non-SSA LDCs such as Bangladesh. Although the Bill stipulates that a quota (with annual increase) will be in place for a number of T&C items from Bangladesh and Cambodia (to be phased out in the tenth year), the Bill is important for AP-LDCs in particular since (i) it will provide a competitive edge to LDCs vis-à-vis suppliers such as China and India in the US market; (ii) provide these LDCs priority treatment with SSA LDCs (who are currently enjoying similar treatment under AGOA), (iii) there is slow progress on DF-QF

³²It needs to be noted that the most recent NAMA text that has been circulated following the recent Ministerial Meeting in Geneva (July, 2008) mentions implementing the Hong Kong Decision so that it ensures 'commercially enhanced market access for LDCs'. However, it is yet to be seen how the 'commercially enhanced' is reflected in the offer list of developed countries, most importantly and particular by the US.

negotiations on the Hong Kong Decision and (iv) the Bill also stipulates substantial financial aid for trade related capacity building.

Future RTAs negotiated between developed and developing countries will also have important implications for the global T&C trade and the relative competitive edge of LDCs. Whether T&C items are in the negative list, how these are phased in, whether there are quotas on DF treatment of T&C items are matters of crucial importance not only for RTA members, but also for their competitors.³³ When the WTO negotiations are completed, there will be preference erosion for all beneficiary country members of these RTAs. The depth of preference erosion will, however, depend on the MFN tariffs in place on T&C products in the various RTA member countries.

Rules of Origin

Of crucial importance to LDCs (and also developing countries enjoying GSP treatment for T&C products) is the issue of RoO. How the RoO are changed and negotiated will have important implications for T&C trade in the future. For example, the European Commission is at present reviewing its RoO for apparels (two stage conversion). Many LDCs have complained that these are stringent. GSP utilisation rate by LDCs has been relatively low, at 60 per cent, globally. Although 88 per cent of Bangladesh's knitwear enters EU by complying with RoO, only 24 per cent of her woven wear could. It has been decided that the RoO will be changed to simple value addition criteria. What will be the percentage of value addition, whether this will be a unique percentage or differentiated for various apparel items, which items of cost will be considered as local value addition and which will not be, are some of the issues which are yet to be decided. The RoO for apparels in the above mentioned NPDA 2007 stipulates a requirement of 35 per cent domestic value addition for Bangladesh and Cambodia, against 25 per cent for other beneficiary countries. How the RoO for preferential market access for apparels is decided in the WTO, bilateral and regional RTAs or autonomous market access initiatives of the type of the US-NPDA 2007 will be of crucial interest to LDCs in terms of actually being able to take advantage of the market access for T&C products.³⁴ Current negotiations in the WTO also stipulate that the RoO under the proposed DF-QF market access for the LDCs be flexible.

Falling Prices

One of the characteristics of the global T&C market, as far as the low-end T&C items are concerned has been the trend of falling prices. Competition in this particular segment has

³³For example, although apparel is in the sensitive list of India as per the SAFTA agreement, India has recently decided to allow Bangladesh to export 8 million pieces of apparels at zero-tariff. Many developing countries such as Brazil, China and India have indicated that in response to the Hong Kong Decision they would accord duty-free treatment to a large number of products from LDCs to their respective markets. It will need to be seen, however, whether items exported by LDCs in large volume and value, such as apparels are actually included in this list.

³⁴The challenge here emanates also from the fact that in some of the LDCs such as Bangladesh there are relatively strong backward linkages in textiles. Whilst apparels exporters are interested in having a low domestic value addition requirement, the textile producers are interested in having higher a value addition requirement to enjoy preferential treatment (in order to induce apparel exporters to source raw materials locally).

been severe, with new suppliers coming to the global market to compete with the old. Countries which have been able to register higher growth of apparels in the post-MFA regime, such as Bangladesh, had to rely more on volume growth, rather than rise in the price index of apparel items (CPD, 2008). At a time of high global inflation, with food, fuel, fertiliser and other commodities rising, particularly in the 2006-08 period³⁵, this has resulted in severe terms of trade losses for low-income T&C supplying countries. This 'race to the bottom' is partly because of buyer pressure³⁶, but also because of lack of capacity to establish forward linkages, particularly by small producers. Ability to raise productivity and move upmarket (into the middle segment of the demand curve) have become critical factors for ensuring competitiveness in the emerging global T&C market.

Table 19: Percentage Change in Unit Value (2005 over 2004)

HS Code	Bangladesh	China	India	Sri Lanka	Cambodia	Pakistan
620520	-48.6	-62.4	-52.4	-57.7	-50.2	-48.8
620462	-42.9	-58.7	-54.5	-36.0	-36.5	-25.8
611020	-65.2	-76.2	-56.2	-61.8	-69.8	-44.2
620630	-63.4	-73.4	-68.4	-66.5	-68.9	-56.8
620342	-34.4	-35.0	-29.2	-31.6	-20.7	5.0

Source: Compiled from Bangladesh Apparel Sector in Post MFA Era (Rahman, Bhattacharya and Moazzem, 2008)

The accession of China and the phase-out of the MFA have resulted in a general fall in unit prices of most of the basic items. Table 19 gives an idea as to the extent of this reduction between 2004 and 2005. Although the pace of reduction has since slowed down, the general trend of stagnating apparels prices has been sustained in the subsequent years.

Table 20: Apparel Manufacturing Labour Costs: 2008

Country	USD/Hour (including Social Charges)
Thailand	1.29-1.36
Malaysia	1.18
Philippines	1.07
China I	1.08
China II	0.86-.94
China III	0.55-0.80
India	0.51
Indonesia	0.44
Sri Lanka	0.43
Vietnam	0.38
Pakistan	0.37
Cambodia	0.33
Bangladesh	0.22

Source: Global Apparel Manufacturing Labour Cost Update 2008, issued by Jassin-O'Rourke Group, LLC, 2008.

Note: China has various costs depending on the region.

³⁵ Prior to the most recent changes in commodity prices as a consequences of the global financial meltdown.

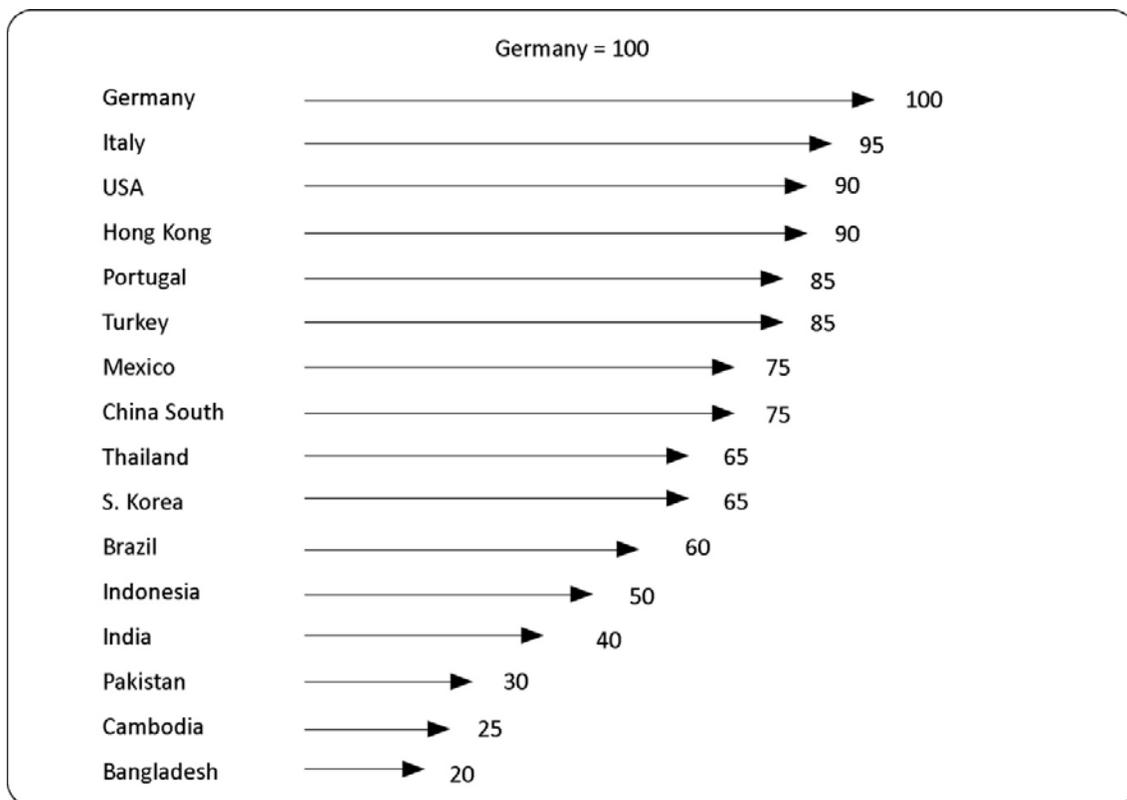
³⁶ Trade in T&C has traditionally been predominantly dominated by 'Buyer Driven Supply Chains' although in recent times there is a conscious effort by some entrepreneurs in low income T&C supplying countries to establish direct contact with buyers. However, the share of such trade in the total apparels export is still very high (Rahman *et al.*, 2008).

Wages and Productivity

Manufacturing costs in apparels vary within a wide range. As figures for per hour wages testify, these are relatively lower in Bangladesh, Cambodia, Pakistan and Vietnam, but higher in Thailand, the Philippines and Malaysia. China's wages vary across the various regions, falling in between the aforesaid two groups. However, of crucial importance is the productivity differential, which often undermines the wage advantages between countries.

Low wages have their advantages; however, there is a certain limit to their ability to provide a competitive edge in the market. As can be seen from Table 21, productivity varies widely among apparels producing countries. Countries which are able to translate their comparative advantages into competitive advantages through higher productivity are the ones which are being able to increase their market share. This is becoming particularly important in view of the stagnating prices in the global apparels market. China is the best example. However, the performance of India, Turkey and now Cambodia and Vietnam (thanks to FDI in the apparels sector) also corroborates this observation.

Table 21: Labour Productivity in Woven Garments



Source: Gherzi Textile Organisation.

Lead Time

Countries with their own supply of cotton, yarn, accessories and good port facilities are being able to reduce the time between order placemen and delivery to the retailers. One of

the advantages of China and India, compared to, for example Bangladesh and Cambodia has been the shorter lead time required to meet orders placed by buyers. Given the increasing seasonal variations in demand, particularly for apparels, the ability to speedily service the orders is giving these suppliers an edge over their competitors. Strong backward linkages in textiles have helped them in this regard. It is clear that in the context of increasing prominence of lean marketing in the global apparels trade, the ability to procure fabrics and accessories locally gives the supplier an edge over its competitors. In future global trade in T&C, lead time, along with price, is likely to emerge as a critically important factor of competitiveness.

Table 22: Lead Times of Competing Supply Countries

Country	Woven Garments	Circular Knit Garments
Cambodia	90 – 120	90 – 120
Bangladesh	90 – 120	60 – 80
China	40 – 60	50 – 60
India	50 – 70	60 – 70
Indonesia	60 – 90	60 – 70
Malaysia	60 – 90	50 – 60
Thailand	60 – 90	50 – 60
Vietnam	60 – 90	60 – 70

Source: Gherzi Textile Organisation (2004).

Compliance Issues

Some of the other issues which are emerging as major concerns include labour compliance issues and environmental standards. Increasingly, major stakeholders including buying houses, customers at the retail level and developed country governments, are pressing developing countries suppliers to adhere to global standards with regard to core labour rights (including trade union rights, minimum wages, labour hours, work place safety, work place environment, etc.). Some countries such as Cambodia, by working with international organisations such as the ILO have been able to present themselves as ‘compliant sources’. This has helped them reap, in a significant manner, advantages in the global apparel market. Some of the market access initiatives, such as the NPDA 2007 of the US, contain specific demands in this regard. Yet another issue which is becoming important is environmental concerns in the apparel sector. This is becoming more evident in the dyeing and washing segment of the T&C production cycle. Indeed, the presence of effluent treatment facilities is becoming an essential prerequisite for the procurement of T&C items by many leading apparels buyers and buying houses. AFL-CIO, which has a presence in many apparel exporting countries such as Bangladesh, monitors labour compliance issues, as is also done by many local NGOs. The same is true for compliance with environmental issues. Developing country suppliers of T&C will need to be ready for the increasing pressure in this respect, and take necessary steps to address the situation.

China and its Competitors

Future global trade in T&C will critically hinge on China's performance. China has traditionally been a major player in the T&C market; her market share was about 9 per cent in 1990. However, only after her accession to the WTO in 2001 did she start to dominate the global T&C market. By 2006, her share in clothing was 30.6 per cent, and in textiles, 32.6 per cent of the global market. Although quotas were imposed in 2006 in the EU and US on certain categories of products following the surge of Chinese exports once the MFA was phased out, she still remained the major player in the market. Many suppliers are apprehensive as to what could happen once the quotas are finally removed in January 2009. Although by all accounts China is seen to continue being the dominant player, as some studies had earlier predicted, several new developments should be taken cognisance of. Firstly, the Chinese Yuan, kept artificially at a depreciated rate, is gradually being appreciated (under pressure from developed countries). This will have an adverse effect on her competitiveness. Secondly, wages in the eastern export belt, where most apparels producers have been traditionally based, have been on the rise in recent times. This is forcing producers to move into the hinterland, raising costs and creating infrastructural bottlenecks. Thirdly, the Chinese government's conscious efforts to raise labour standards and environmental compliance are also having an effect on the costs of doing business. Fourthly, there appears to be a conscious effort on the part of the Chinese government to move upmarket into the more value-added fashion and design segment of the market. Some of the tax and fiscal measures and incentives indicate moves in this direction. No doubt China will continue to remain a major T&C supplier in the foreseeable future. However, the aforesaid emerging factors also are important indicators of the dynamics of future changes. China's competitors will need to keep these developments in perspective whilst strategising their future options.

8. ISSUES FOR POLICY CONSIDERATION

Expiry of the MFA quotas, in place for 30 years before being dismantled, had profound impact and implications for both exporters and importers of apparels and textiles worldwide. The analysis in the preceding sections testifies to the fact that there were gainers and losers in the evolving changed scenario. However, it needs to be appreciated that several factors are at play alongside the emergence of the quota derestricted regime. The analysis also pointed out that major changes started to take place in the global T&C scenario, particularly following the accession of China to the WTO in 2001, which coincided with the third and final segment of the quota phase-out. The global T&C scenario has also been influenced by the various preferential market access initiatives, the large number of RTAs with prominent T&C preferential market access clauses and stringent compliance (labour, environment and ergonomics) related requirements. The sanctions on China, the world's leading T&C supplier, both in the EU and the US imposed a few months after the expiry of the MFA, also had a profound impact on global T&C trade, providing China's competitors, both in developed countries and globally, the same respite. A number of other factors were also identified, which will impact the future T&C regime. The WTO negotiations on bringing down MFN tariffs on industrial and agricultural commodities (NAMA and AoA) are aiming at substantial tariff reductions. Also, there is the likelihood of substantial preference losses, the decision with regard to the DF-QF decision of the Hong Kong

Ministerial, and the general trend of falling prices of T&C products will all likely influence trends in T&C trade in the near future. Indeed, global trade in T&C will perhaps be carried out under a fully liberalised regime, for the first time in January 2009, when the sanctions on imports of T&C products from China will be lifted.³⁷

The analysis showed that the global value of T&C trade is rising, a trend that had begun even before the phase-out (thanks also to the built-in quota expansion mechanism). The share of intra-developed country trade has been falling, and imports from outside have been rising. Apart from China, Vietnam, Bangladesh, Cambodia, India and Indonesia have also gained in the process. Mexico and some of the Caribbean and African countries have lost some ground in this process. Those that have gained have their strong points, and those that have suffered have their weak points. The analysis pointed out several factors that contributed to the success of those that strengthened their position: relatively low wages, higher productivity, preferential access, ability to comply with RoO, good supportive infrastructure, better compliance capacity, ability to move upmarket, reduced lead time, intra-industry diversification and strategic support to the sector.

The global T&C market is an evolving one. The analysis has shown that many of the projections with regard to the impact of the MFA phase-out proved to be wrong. It is true that the size of the pie has been increasing – global trade in apparels increased from USD 154.8 billion to USD 311.4 billion between the start of implementation of the ATC in 1995 and 2006; the corresponding figures for textiles are USD 152.3 billion and USD 218.6 billion. Many developed countries are pursuing a China plus one policy. On the other hand, sourcing countries (about fifty in the 1990s) are being short listed (about a dozen) and signs of consolidation are clearly visible. How low income countries such as Bangladesh, Cambodia, Nepal and SSA can maintain their competitiveness is a question that is of crucial importance. For many of these countries, the T&C sector is essential for employment, forex earnings, associated sectors and overall macroeconomic performance. Any significant decline in their market share will have adverse knock-on implications for their entire economy. As the analyses have indicated, not all of these countries have been able to position themselves appropriately in view of the emerging risks and rewards. Policy support will need to be put in place, both at the global and at the country level, to help the low income countries address the challenges and access the opportunities in the emerging T&C market. The trends in the global post-MFA T&C market analyses put forward in the preceding sectors tend to indicate the need for taking several initiatives in this regard. Needless to say, this need is being further reemphasised in view of the ongoing global financial crisis which is likely to have a negative impact on global trade, including trade in T&C. If there is a recession in the developed economies, even a slowdown, this will have an adverse impact on consumer confidence, purchasing power and, consequently, on demand for T&C products. The need for global and national measures has thus assumed some urgency in view of the emerging situation. This urgency is also strengthened by findings which indicate a strong and significant relationship between growth of the labour-intensive T&C sector and poverty alleviation (Razzaque, 2008).

³⁷ However, as was pointed out in this paper, the WTO provisions allow US and other developed countries to impose quotas on Chinese export of T&C products, until 2013, under special safeguard clauses. China, though, has the right to contest such measures in the DSB.

8.1 Measures at the Global Level

Speedy Implementation of the DF-QF Initiative

A full and faithful implementation of the Hong Kong Decision of the WTO has been the demand of all LDCs since the decision was adopted in 2005. Studies indicate significant global welfare gains (to both consumers in developed countries and producers in low income countries) if DF-QF treatment is provided to LDCs. The offer made by the US must be designed to reflect the spirit of the demands of LDCs at the July 2008 mini-ministerial meeting of the WTO, to be 'commercially meaningful'. For the AP-LDCs this would mean that the 97 per cent 'inclusion list' should cover a significant number of T&C products of export from LDCs. LDCs are also asking for flexible RoO and a clear time line for the phase-in of the 3 per cent exclusion list.

Preferential Access in Advanced Developing Country Market

The Hong Kong decision calls upon 'developing countries in a position to do so' to provide DF-QF market access to LDCs. Some developing countries, as was mentioned in the paper, have indicated their readiness to incrementally implement this decision. Many low income T&C exporting countries are asking for the inclusion of T&C items at the early stages of implementation of the decision by developing countries.

NPDA 2007 and T&C

There are indications that US would prefer to commit DF-QF to all LDCs for all products on a bilateral basis, rather than offering a speedy implementation of DF-QF in the multilateral forum. If that be the case, the need for passing of the Bill on an expeditious basis becomes even more important. It is important to note here that Bangladesh and Cambodia have some concerns with regard to the Bill (more stringent RoO for apparels, quotas on certain apparels items) whilst all the potential beneficiary countries have concerns with regard to other aspects of the Bill (i.e., labour issues, TRIPS compliance, etc.). On the other hand, SSA beneficiaries have their own concerns including the erosion of AGOA advantages vis-à-vis AP-LDCs and consequently more competition in the US T&C market. Since the US is a major destination of the T&C items of many low income countries, there is a need for early initiatives to have the Bill pass in the congress by taking into cognisance the concerns of all beneficiary LDCs.

Mitigating the Consequences of Preference Erosion

It was pointed out earlier that all GSP beneficiary low-income countries are likely to suffer substantial preference losses emanating from the ongoing negotiations in NAMA and WTO. Since import tariffs on T&C products tend to be relatively high (tariff peaks), and because T&C products are major exports of many of these low-income countries, there are tariff peaks in place on imports of T&C products, and the extent of preference erosion will be significantly higher for those countries. A number of proposals have been floated to mitigate the likely negative impact, ranging from the slower reduction of MFN tariffs on certain T&C products (revised proposal of the NAMA Chair), to the creation of a global Preference

Erosion Fund which would be used to provide support to low income countries to address the attendant concerns. There is a need for urgent initiatives in this regard. Preference erosion could also take place when RTAs are formed and some competitor low income countries are left out. There is thus a need for a comprehensive approach to this issue.

Support for Addressing Legal Issues

The DSM has become a powerful institution within the WTO. Many WTO members are taking recourse to the DSM, and as was pointed out in the paper, disputes concerning anti-dumping duties, countervailing duties and other issues, particularly with respect to trade in the T&C sector, are on the increase. Low income countries thus far have not taken full advantage of the DSM, due to various factors, but most particularly because of lack of legal expertise. The WTO Law Advisory support for developing countries should be further strengthened in view of the prospect of increasing disputes concerning trade in T&C products. Low income countries have also been asking for the threshold for the imposition of anti dumping duties (ADD) and counter-veiling duties (CVD) to be raised, and also some have suggested that a moratorium (to be in place for certain years) be put on ADD and CVD cases on exports from low income countries. Support for capacity building to deal with T&C related disputes in the WTO-DSB is also something that should be part of the capacity building support.

More Effective Capacity Building Support in the T&C Sector

Various development partners including the United Nations Development Programme, World Bank, bilateral donors, UNCTAD and WTO have been providing support to developing countries, particularly focusing on strengthening the T&C sector. The Aid for Trade Initiative of the WTO is a recent initiative in this regard. The areas that have traditionally been covered are the so-called 'soft areas' through technical assistance. However, increasingly, the low income countries are voicing their demands for support in strengthening trade related capacities through infrastructure development, trade facilitation, the transfer of technologies, etc., which are somewhat different from traditional modes of support. The development of ports, the computerisation of customs, the building of transport corridors and building fashion and design institutions are the new areas where support is being solicited by low income countries. The 'Aid for Trade' initiative of the WTO and other new trade supportive initiatives must be geared to the new realities emerging in the low income T&C exporting countries. The aid regime will need to come out of the confines of 'soft areas'.

8.2 Domestic Measures

Renewed Effort for Productivity Enhancement and Skill Upgradation

Productivity in many of the low income countries is much lower than in their competitors, often about a fourth of China's. This reduces their competitive edge in the T&C market and undermines their capacity to translate their comparative advantages into competitive advantages. Evidence suggests that merely redesigning production lines within T&C factories could significantly raise productivity. However, many medium-scale enterprises,

not to speak of smaller ones, fail to take such productivity-enhancing initiatives because of lack of knowledge and management expertise. There is also a lack of knowledge about new technologies and machineries being developed for the T&C sector. Often technology spillover from Export Processing Zones (EPZs) to Domestic Tariff Areas (DTAs) is negligible, and skilled working power required to run sophisticated machineries is not available. Although in many T&C supplying low income countries vocational training institutions are in place, there is a large gap between what is required by local T&C entrepreneurs and what is produced by these institutions. The issue of availability of skilled labour is becoming more acute as enterprises move from the heart of the cities to the outskirts. In some countries such as Bangladesh, the producers associations have been asked to take over the management of some of the vocational institutions in order that both the curriculae and training can be customised to cater to the demands of the T&C sector. Some countries have created special Technology Upgradation Funds for providing support to T&C entrepreneurs in their effort to raise productivity and move upmarket. Low income T&C supplying countries will have to take up the issue of productivity enhancement on an urgent basis.

New Sources of Financing

Raising productivity requires investment in technology acquisition, production management and skill augmentation. Even medium-sized T&C enterprises lack the ability to raise the required capital. Access to capital is a major concern in many low income countries such as Bangladesh where a majority of apparels entrepreneurs identified this as a major bottleneck (Razzaque and Raihan, 2008). Also, increasingly, buyers are asking apparels supplier to finance imports of fabrics on their own and not through back-to-back L/C facilities. This problem is often accentuated because the lending interest rates charged by banks are high. In view of this, there is a need to facilitate T&C entrepreneurs' efforts to raise equity through the share market. Tax breaks and other incentives should be put in place to support their search for alternative options to finance their activities. A special window could be created for financing for technology creation.

Scaling Up

Low wages alone no longer provide the competitive edge in the global T&C market, and raising productivity requires the scaling up of production. In many traditional T&C supplying countries, including Bangladesh, factories, traditionally situated in the heart of the city, are being shifted to the outskirts and suburbs and are being operated in newly constructed large scale enterprises. The advantages are obvious: better production management, more efficient layout of production lines, better working environment and compliance assurance and higher productivity, to name a few. Such scaling up is also allowing these enterprises to go for limited R&D and ability to undertake some fashion and design activities. Consequently, productivity is higher and value addition is larger. China's experience of factories within the EPZs lay, in large measure, to such scaling up. Although the EPZs have built-in facilities to support such scaling up, for T&C units in the DTAs this poses many problems including acquisition of land, availability of skilled workers, backwardness of transport and infrastructure, financing, utilities etc. All these require focused support on the part of the government to address the attendant problems including changes in land acquisition laws, setting up of bank branches and vocational training institutions, building

roads, supplying electricity and water and setting up common facilities such as effluent treatment facilities.

Strengthening Moves to Shift Upmarket

Exports from low income apparels suppliers are still concentrated in the Cut and Make (CM) and CMT-based basic production process. As was noted in this paper, the strength of the developed country suppliers of apparels is predominantly in the fashion and design segment of the market. Also, some apparels-supplying developing countries such as Sri Lanka are increasingly focusing on this segment of the market. However, there is a conscious effort on the part of a significant number of RMG entrepreneurs in low income countries to move into the Original Design Manufacturing and Original Brand Manufacturing segments of the market. These endeavours need support in a number of critical areas including R&D in fashion and design, marketing intelligence, quality control, and packaging of the final items. Often such orders are not financed through back-to-back L/Cs and entrepreneurs have to have the financial strength to bear the entire range of costs.

Until now, it is the buyers who have been providing assistance to apparels producers in moving upmarket, through their local offices which have some designing capacities. Evidence suggests that whilst basic items will continue to be an important segment of the apparels market, the 'brand' and fashion and design segment is expected to expand with rising purchasing power and a higher standard of living in developing countries. The increasing South-South trade could emerge as an important destination for these middle-range apparels items of export from low-income supplying countries.

Providing Support for Better Compliance Capacity

Compliance related issues have become a critical component of market access. The pressure is coming from various fronts: buying houses, customers, importing countries and non-government actors. Promoting a 'compliant country brand' could become an important competitiveness factor, as seen from experience of Cambodia. Better labour management, initiatives to improve workers' livelihood in the T&C sector, enforcing national minimum wage at the factory level, providing appointment letter, provision for severance allowance, etc. are factors that are coming under continuous monitoring of the major stakeholders. National laws, rules and regulations will need to be appropriately crafted and implemented, to raise compliance capacity in low-income apparels exporting countries to address these increasingly stringent demands. One issue that is emerging as a concern in this context is non-uniformity of these demands. Some apparel exporting countries are calling for a 'clearing house' for compliance which would ensure some type of coherence in this context.

Initiatives to Bring Down Lead Time

Along with price, lead time has become a critical ingredient of success in apparels export performance. With the number of seasons now having gone up from the traditional four to six or eight seasons and the predominance of lean marketing, the issue of lead time has become very important for competitiveness in the global apparels market. The advantage of cotton and fabrics producing countries is not only that they have the capacity to reduce

prices, but also to cut down on the lead time required for servicing the orders. Lead time is more of a concern for middle-to-high end products compared to basic items which constitute the bulk of apparels export from the LDCs. Here, of crucial importance is the ability to create backward linkage in textiles and forward linkage with the retail chains. It is pertinent to recall here that the success of countries such as Bangladesh in exports of knitwear has been mainly thanks to their ability to establish strong backward linkage with the domestic knit-textiles sector. Efficient transport and communication, as well as customs and port infrastructure are important not only for the speedy export of finished goods, but also the speedy import of raw materials and fabrics. Availability of local accessories also has a favourable impact on lead time. Domestic capacity building in each of these areas, if need be, by tying up related initiatives with the proposed 'Aid For Trade' support, will be required.

Promoting Synergies

Successful models in the production of apparels indicate a number of developments: the emergence of clusters and integrated textile parks, common services and use of common facilities through outsourcing. Such clusters have locational advantages and apparels entrepreneurs are able to raise efficiency and reduce costs by outsourcing to specialised units providing such services as dyeing, washing, printing and embroidery units which operate on a commercial basis.

Although acquisitions and mergers are not common, some form of consolidation is clearly visible as small units (several of which are owned often by the same owner) are merged into larger units to get the benefits of scale economies. Governments should provide support establishment of such clusters through cluster development funds, fiscal and financial incentives, and infrastructural support, by setting up common services such as effluent treatment, creating facilities for skill development, etc.³⁸ Often such clusters serve as a good vehicle for technology transfer, knowledge dissemination and the transmission of best practices.

³⁸India has been able to make good use of such clusters and Bangladesh is also taking initiatives to set up 'garment pallis' (apparels villages).

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ANNEX

Annex Table 1: Top 15 Global Clothing Suppliers

Exporter	Value	Share in World Exports/Imports (%)			
	2006	1980	1990	2000	2006
China a	95.4	4.0	8.9	18.2	30.6
European Union (25)		83.4	-	-	26.9
extra-EU (25) exports	21.9	-	-	6.8	7.0
Hong Kong, China	28.4	12.3	14.2	12.2	9.1
domestic exports	6.7	11.5	8.6	5.0	2.2
re-exports	21.7	0.8	5.7	7.2	7.0
Turkey b	11.9	0.3	3.1	3.3	3.8
India b, c	10.2	1.7	2.3	3.1	3.3
Bangladesh b, c, d	7.8	0.0	0.6	2.1	2.8
Mexico a	6.3	0.0	0.5	4.4	2.0
Indonesia	5.7	0.2	1.5	2.4	1.8
United States	4.9	3.1	2.4	4.4	1.6
Vietnam d	4.8	0.9	1.7
Romania	4.4	...	0.3	1.2	1.4
Thailand	4.3	0.7	2.6	1.9	1.4
Pakistan	3.9	0.3	0.9	1.1	1.3
Morocco a	3.2	0.3	0.7	1.2	1.0
Tunisia b	3.2	0.8	1.0	1.1	1.0
Above 15	256.1	-	-	77.1	82.2

Source: WTO International Statistics Database.

Annex Table 2: Top 15 Global Textiles Suppliers

(Billion USD)

Exporter	Value	Share in World Exports/Imports (%)			
	2006	1980	1990	2000	2006
China a	71.21	-	-	35.6	32.6
European Union (25)	24.60	-	-	10.9	11.3
extra-EU (25) exports	48.68	4.6	6.9	10.2	22.3
Hong Kong, China	13.91	3.2	7.9	8.5	6.4
domestic exports	0.53	1.7	2.1	0.7	0.2
re-exports	13.38	1.6	5.8	7.7	6.1
Turkey b	12.67	6.8	4.8	6.9	5.8
India b, c	10.11	4.0	5.8	8.0	4.6
Bangladesh b, c, d	9.76	3.2	5.9	7.5	4.5
Mexico a	9.33	2.4	2.1	3.8	4.3
Indonesia	7.59	0.6	1.4	2.3	3.5
United States	7.47	1.6	2.6	2.9	3.4
Vietnam d	6.93	9.3	5.6	4.4	3.2
Romania	3.61	0.1	1.2	2.2	1.6
Thailand	2.88	0.6	0.9	1.2	1.3
Pakistan	2.37	0.6	0.7	1.4	1.1
Morocco a	2.19	0.2	0.7	1.6	1.0
Tunisia b	1.89	0.1	0.0	0.8	0.9
Selected 15 countries	256.1	-	-	89.6	90.2

Source: WTO International Statistics Database.

Annex Table 3: Top 10 Apparels Suppliers to the US

	Country	2003	2004	2005	2006	2007
	Million USD	China	9134	11275	17765	20941
Mexico		7154	6901	6281	5491	4665
Vietnam		2506	2674	2830	3337	4518
Indonesia		2282	2542	3037	3872	4177
India		2207	2412	3290	3464	3418
Bangladesh		1875	2002	2422	3003	3168
Honduras		2623	2801	2745	2578	2648
Cambodia		1300	1506	1807	2266	2554
Hong Kong		3885	4051	3673	2916	2112
Thailand		1841	1929	1938	1965	1876
<i>Total (10)</i>		<i>34805</i>	<i>38093</i>	<i>45787</i>	<i>49832</i>	<i>54297</i>
<i>US Apparels Import</i>		<i>65645.19</i>	<i>69843.5</i>	<i>74059.84</i>	<i>76798.73</i>	<i>78839.72</i>
Growth (%)		China	22.72	23.44	57.55	17.88
	Mexico	-7.10	-3.54	-8.98	-12.58	-15.04
	Vietnam	163.49	6.70	5.84	17.93	35.39
	Indonesia	4.80	11.40	19.46	27.49	7.90
	India	5.72	9.29	36.43	5.30	-1.32
	Bangladesh	-0.39	6.80	20.94	24.01	5.49
	Honduras	2.70	6.77	-2.01	-6.08	2.73
	Cambodia	18.32	15.91	19.98	25.36	12.73
	Hong Kong	-4.57	4.29	-9.33	-20.61	-27.58
	Thailand	-1.30	4.80	0.47	1.39	-4.54
	<i>Total (10)</i>	<i>9.35</i>	<i>9.45</i>	<i>20.20</i>	<i>8.83</i>	<i>8.96</i>
	<i>US Apparels Import</i>	<i>7.13</i>	<i>6.40</i>	<i>6.04</i>	<i>3.70</i>	<i>2.66</i>
Share (%)	China	13.91	16.14	23.99	27.27	31.91
	Mexico	10.9	9.88	8.48	7.15	5.92
	Vietnam	3.82	3.83	3.82	4.34	5.73
	Indonesia	3.48	3.64	4.1	5.04	5.3
	India	3.36	3.45	4.44	4.51	4.34
	Bangladesh	2.86	2.87	3.27	3.91	4.02
	Honduras	4	4.01	3.71	3.36	3.36
	Cambodia	1.98	2.16	2.44	2.95	3.24
	Hong Kong	5.92	5.8	4.96	3.8	2.68
	Thailand	2.8	2.76	2.62	2.56	2.38
	<i>Total (10)</i>	<i>53.02</i>	<i>54.54</i>	<i>61.82</i>	<i>64.89</i>	<i>68.87</i>

Source: USITC Trade Database.

Annex Table 4: Top Ten Apparels Suppliers to the EU

	Country	2000	2003	2004	2005	2006	2007
	Million USD	China	7171.25	11604.74	14347.60	21101.14	23709.83
Turkey		4997.33	8477.45	9637.04	10074.91	10343.55	12249.93
Germany		5150.54	6688.51	8574.29	9102.89	9501.87	11043.43
Italy		6071.31	7692.94	8372.34	8536.05	8689.63	9844.94
Belgium		3252.25	4398.52	4915.83	5455.68	5717.94	6478.60
France		2931.59	3770.85	4521.74	4797.98	5232.33	6184.05
Bangladesh		2392.29	3522.68	4629.00	4402.00	5794.71	6010.34
India		1890.21	2694.15	3084.87	4029.51	4785.49	5264.98
Netherlands		2900.29	3624.85	3867.81	4086.30	4446.29	5100.04
Spain		1238.83	2174.38	2586.69	2869.39	3230.85	3945.43
EU Apparels Import		74711.64	97230.63	111423.02	118244.97	129405.96	147171.31
Growth (%)	China	2.65	31.10	23.64	47.07	12.36	26.48
	Turkey	0.01	28.15	13.68	4.54	2.67	18.43
	Germany	-6.89	24.10	28.19	6.16	4.38	16.22
	Italy	-8.97	19.10	8.83	1.96	1.80	13.30
	Belgium	-4.05	18.19	11.76	10.98	4.81	13.30
	France	-1.75	19.22	19.91	6.11	9.05	18.19
	Bangladesh	25.24	35.71	31.41	-4.90	31.64	3.72
	India	4.51	22.64	14.50	30.62	18.76	10.02
	Netherlands	-2.42	19.87	6.70	5.65	8.81	14.70
	Spain	5.88	35.94	18.96	10.93	12.60	22.12
	EU Apparels Import	-1.68	20.37	14.60	6.12	9.44	13.73
Share (%)	China	9.60	11.94	12.88	17.85	18.32	20.38
	Turkey	6.69	8.72	8.65	8.52	7.99	8.32
	Germany	6.89	6.88	7.70	7.70	7.34	7.50
	Italy	8.13	7.91	7.51	7.22	6.72	6.69
	Belgium	4.35	4.52	4.41	4.61	4.42	4.40
	France	3.92	3.88	4.06	4.06	4.04	4.20
	Bangladesh	3.20	3.62	4.15	3.72	4.48	4.08
	India	2.53	2.77	2.77	3.41	3.70	3.58
	Netherlands	3.88	3.73	3.47	3.46	3.44	3.47
	Spain	1.66	2.24	2.32	2.43	2.50	2.68

Source: Eurostat.

