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**UNVEILING PROTECTIONISM:
REGIONAL RESPONSES TO REMAINING BARRIERS IN
THE TEXTILES AND CLOTHING TRADE**



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I. TEXTILE AND CLOTHING INDUSTRY: ADJUSTING TO THE POST-QUOTA WORLD*

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Introduction

It is just over two years since the phasing-out of the global system of quota controls that governed trade in the textile and clothing (T&C) industry. That industry generates US\$ 479 billion in world exports and accounts for a 4.6 per cent share in global merchandise exports (World Trade Organization, 2006a). The quota system and policy developments since its demise illustrate the highly selective and targeted nature of production and market relations in the industry. Although 1 January 2005 was supposed to mark the end of the quota system for all countries, and was expected to unleash massive adjustment challenges for a number of countries, quota elimination has shown a mixed result so far. Moreover, those countries that have lost out the most had seen their exports decline earlier, which means that their dismal performance cannot merely be ascribed to the quota phase-out.

Several countries that had been projected by numerous studies to lose out in the post-quota world not only managed to hold on to their past gains, but also achieved significant growth in their export earnings. This is mainly because of the re-imposition of quotas on T&C exports from China, not only by the developed countries but also by some developing countries that were making use of temporary safeguard measures as agreed to by China during the process of its accession to WTO.

Most analysts predict that the situation will change after the phasing-out of the safeguards measures, which will expire in 2008. At the same time, the entry of Viet Nam into WTO on 11 January 2007, which has enabled the country to compete in the global T&C market without any quantitative restrictions on T&C exports, means that the competitive pressure is likely to become intense for the small and marginal players. Therefore, the real adjustment challenge has yet to begin.

Textiles and clothing comprise a unique industry in the global economy mainly for three reasons. First, most developed countries of today as well as newly industrialized countries (NICs) have used this industry as the springboard for their development journey; even some least developed countries (LDCs) have been able to step onto the development ladder on the basis of their T&C industry. Millions of people, mostly women, are employed in this industry in most of these economies.

Second, this industry has very low entry barriers; entry does not require huge capital outlay and factories can be set up that employ workers with relatively low skills. Therefore, this industry is characterized by high competition intensity.

Third, this industry is the most protected of all manufacturing industries in the global economy, both in developed and developing countries. Protectionist interests have been extremely ingenious in creating new protectionist instruments in the past 50 years.

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Taking as a precedent the imposition in 1957 of voluntary export restraints (VERs) on the exports of cotton textiles from Japan to appease the domestic textile industry in the United States, the regime of protection in this industry was institutionalized in 1974 with the introduction of the Multi-fibre Arrangement (MFA). This governed international trade in textiles and clothing for almost two decades. This arrangement enabled developed countries to bilaterally negotiate quotas with supplier countries, taking into account their competitiveness and the perceived threat to the domestic interests in the importing countries. During the Uruguay Round of multilateral trade negotiations (1986-1993), the international community decided to integrate the MFA into the new Agreement on Textiles and Clothing (ATC), which featured a clear timetable for phasing out the quota system within a 10-year period, starting on 1 January 1995 (Adhikari and Weeratunge, 2007).

Even during the heyday of the quota system, characterized by a distorted global market for T&C products, entrepreneurs in countries restricted by quotas found ways to exploit the system. They established factories in countries with low levels of quota utilization and in some instances even helped in the industrialization process of those countries. For example, Korean companies established factories in Bangladesh, the Caribbean and sub-Saharan Africa, Chinese companies established factories in several Asian and African locations, Indian companies in Nepal; even relatively minor players in the global market such as Sri Lankan and Mauritian businesspersons established factories in Maldives and Madagascar, respectively, to overcome quota restrictions. While the indigenization of the industry took place in some countries (e.g., Bangladesh and Nepal) due to the entry of the local entrepreneurs, in other countries (e.g., Maldives) the industry itself was wiped off the industrial map once the foreign investors pulled out.

Against this backdrop, the objective of this chapter is to discuss the current state of play in the global T&C market, identify the factors shaping and influencing the evolution of this industry including emerging trends, and provide some policy recommendations for the developing countries in order to help them not only survive in the post-quota regime, but also exploit the opportunities created by the increased competition in the industry.

Section A summarizes the trade flows in the post-quota world and discusses the human development implications of the quota phase-out. Section B discusses challenges facing developing countries and LDCs in using the T&C industry as a springboard for their development efforts. Section C deals with emerging issues in the areas of T&C trade at the global level, which offers various opportunities as well as challenges to the T&C industry in the developing countries. Section D analyses the efforts made by various developing countries to overcome the emerging challenges and critically evaluates the sufficiency of such measures in addition to proposing some measures that could help these countries minimize the human development fallout of the phasing out of quotas. Section E provides the conclusion.

A. Trade flows in the post-Agreement on Textiles and Clothing period and their human development implications

Textiles and clothing are among the first manufactured products that an industrializing economy produces. They played a critical role in the early stage of industrialization in the United Kingdom of Great Britain and Northern Ireland, parts of North America, Japan and, more recently, in the export-oriented growth of the East Asian economies (Yang and Zhong, 1998). Hong Kong, China, the Republic of Korea and

Taiwan Province of China relied heavily on T&C products for their exports from the 1950s to the mid-1980s. As these economies scaled up their industrial development toward more capital-intensive and high-tech manufacturing products, South-East Asian and South Asian developing countries and LDCs started to join the race. For example, Bangladeshi clothing exports increased 10-fold over the past 15 years and the country is now one of the world's leading exporters of clothing (table 2). In Cambodia, clothing exports took off in the late 1990s (Adhikari and Yamamoto, 2006). The T&C share in total exports exceeds 70 per cent in these two economies (UNDP RCC, 2005a). As a result, the T&C exporters' group has diversified over time, and Asia has become a hub of manufacturing production. This transition period overlaps the time when the latecomers introduced their liberalization policies under structural adjustment programmes, acceded to WTO and/or undertook domestic reforms.

1. Trends in the global market

Table 1 shows exports of textiles from selected economies. Global textile exports reached a historical high of US\$ 203 billion in 2005, almost double the 1990 level of US\$ 104 billion. In broad terms, the immediate effect of the expiry of quotas in the textile industry was a gain for developing countries, and a loss for developed and semi-developed economies in Asia and the European Union. The growth of Chinese textile exports has been remarkable – increasing by 22.8 per cent from 2004 to 2005 – so that more than 20 per cent of textiles traded in 2005 originated in China. Other developing countries in Asia also experienced a significant growth during the first post-ATC year (e.g., exports from Bangladesh, India, Indonesia, Malaysia, Pakistan and Thailand grew at between 7 and 15 per cent). On the other hand, textile exports from the top producers in East Asia (Hong Kong, China; Japan; Republic of Korea; and Taiwan Province of China) decreased by 3 per cent to 4 per cent from 2004 to 2005. The European Union, the largest textile exporter in the world, also experienced a loss of exports in both intra- and extra-European Union markets, recording reductions of 7.2 per cent and 3.3 per cent, respectively. Textile exports from Asia to Africa, Europe and North America increased by 14 per cent to 20 per cent after the expiry of quotas (World Trade Organization, 2006a).¹

Products from the top 15 economies account for more than 90 per cent of global textile exports while the top 15 economies accounted for 77 per cent to 83 per cent of global clothing exports in 2004-2005 (World Trade Organization, 2006a).² Table 2 shows the exports of clothing in selected economies. The clothing export market grew at a faster rate than textiles; the total value of clothing exports reached US\$ 276 billion in 2005, 150 per cent higher than the US\$ 108 billion recorded in 1990.

In 2005, Asia was supplying nearly half of the global T&C market; China's exports alone accounted for 27 per cent of world trade in clothing. During the first year of the post-ATC regime, the value of China's clothing exports went up from US\$ 62 billion in 2004 to US\$ 74 billion in 2005 – a growth rate of almost 20 per cent. Among the Asian economies listed in table 2, NICs³ plus Macau, China, on the one hand, were

¹ Table IV.70.

² Table IV.74 and table IV.82.

³ The composition of 8.7 per cent growth of Hong Kong, China is domestic exports (11.1 per cent reduction from 2004 to 2005) and re-exports (18.3 per cent growth).

hit hard with a 14 per cent to 24 per cent reduction from 2004 to 2005. On the other hand, the remaining developing countries from South-East Asia and South Asia survived the first year of quota elimination, in spite of pessimistic predictions made before the expiry of ATC. The smaller clothing producers are not listed in table 2, however. As discussed below, Fiji, Mongolia and Nepal are struggling to survive, while Maldives has ceased to export T&C products.

Some developing countries in other regions, including the ones that have preferential market access to the United States, also recorded declines in 2005. Examples are: Morocco, which has a bilateral trade agreement with the United States, the Dominican Republic, El Salvador, Guatemala and Honduras, which are part of the

Table 1. Textile exports of selected economies, 1990 and 2004-2005

Region/economies (ranked by value in 2004)	Value (US\$ million)			Change (%)	Share of world exports
	1990	2004	2005	2004-2005	2005
World	104 354	195 378	202 966	3.9	
Asia					
China ^a	7 219	33 428	41 050	22.8	20.2
Hong Kong, China	8 213	14 296	13 830	3.3	6.8
Republic of Korea	6 076	10 839	10 391	4.1	5.1
Taiwan Province of China	6 128	10 038	9 706	3.3	4.8
Japan	5 871	7 138	6 905	3.3	3.4
India ^b	2 180	7 009	7 850	12.0	3.9
Pakistan	2 663	6 125	7 087	15.7	3.5
Indonesia	1 241	3 152	3 447	9.4	1.7
Thailand	928	2 563	2 764	7.8	1.4
Malaysia ^a	343	1 227	1 356	10.4	0.7
Singapore	903	977	916	6.3	0.5
Islamic Republic of Iran ^b	510	817	848	3.8	0.4
Macao, China	136	313	275	12.2	0.1
Philippines ^a	132	257	265	3.1	0.1
Bangladesh	343	204	221	8.4	0.1
Sri Lanka ^b	25	149	136	8.8	0.1
European Union, North America					
European Union 25		72 196	67 977	5.8	33.5
Intra-EU 25 exports		47 889	44 464	7.2	21.9
Extra-EU 25 exports		24 307	23 513	3.3	11.6
United States of America	5 039	11 989	12 379	3.3	6.1
Canada	687	2 431	2 464	1.4	1.2
Mexico ^a	713	2 071	2 133	3.0	1.1
Other regions					
Turkey	1 440	6 428	7 068	9.9	3.5
Brazil		1 244	1 326	6.5	0.7

Source: World Trade Organization, 2006a.

^a Includes significant exports from processing zones.

^b Includes Secretariat estimates.

Table 2. Clothing exports of selected economies, 1990 and 2004-2005

Region/economies (ranked by value in 2004)	Value (US\$ million)			Change (%)	Share of world exports
	1990	2004	2005	2004-2005	2005
World	108 129	259 147	275 639	6.4	
Asia					
China ^a	9 669	61 856	74 163	19.9	26.9
Hong Kong, China	15 406	25 097	27 292	8.7	9.9
India ^b	2 530	6 632	8 290	25.0	3.0
Bangladesh	643	5 686	6 418	12.9	2.3
Indonesia	1 646	4 454	5 106	14.6	1.9
Viet Nam ^b		4 441	4 805	8.2	1.7
Thailand	2 817	3 985	4 085	2.5	1.5
Republic of Korea	7 879	3 391	2 581	23.9	0.9
Pakistan	1 014	3 026	3 604	19.1	1.3
Sri Lanka ^b	638	2 776	2 877	3.6	1.0
Malaysia ^a	1 315	2 326	2 479	6.6	0.9
Philippines ^a	1 733	2 157	2 276	5.5	0.8
Cambodia ^b		1 981	2 199	11.0	0.8
Singapore	1 588	1 972	1 696	14.0	0.6
Macao, China	1 111	1 952	1 654	15.3	0.6
Taiwan Province of China	3 987	1 951	1 561	20.0	0.6
Myanmar	12	568	331	41.7	0.1
Islamic Republic of Iran ^b		222	273	22.6	0.1
European Union. North America					
European Union 25		76 887	80 354	4.5	29.2
Intra-EU 25 exports		57 759	57 737	0.0	20.9
Extra-EU 25 exports		19 128	22 617	18.2	8.2
Mexico ^a	587	7 490	7 271	2.9	2.6
United States	2 565	5 059	4 998	1.2	1.8
Other regions					
Turkey	3 331	11 193	11 818	5.6	4.3
Romania	363	4 717	4 627	1.9	1.7
Tunisia ^b	1 126	3 289	3 332	1.3	1.2
Morocco ^a	722	3 023	2 783	7.9	1.0
Honduras ^b	64	2 680	2 626	2.0	1.0
Dominican Republic ^{a,b}	782	2 121	1 908	10.0	1.0
El Salvador ^{a,b}	184	1 815	1 702	6.3	1.0
Guatemala	24	1 651	1 506	8.8	0.5
Mauritius ^{a,b}	607	939	745	20.7	0.3
Peru	120	883	1 057	19.7	0.4
Colombia	460	853	904	6.0	0.4
Madagascar ^b	7	552	530	4.0	0.2
South Africa	85	258	173	32.7	0.1

Source: World Trade Organization, 2006a.

^a Includes significant exports from processing zones.

^b Includes secretariat estimates.

United States-Caribbean Basin Trade Partnership Act (CBPTA); and Madagascar, Mauritius and South Africa, which receive preferential market access to the United States market under the African Growth and Opportunity Act (AGOA). Exports from Mauritius and South Africa started to decline in 2004 (World Trade Organization, 2006a) and even in the United States market despite the preferential arrangement under AGOA (Morris, 2006). The extent of the declines in exports of clothing from Mauritius and South Africa in 2005 were 20.7 per cent and 32.7 per cent, respectively. Exceptions were Peru and Colombia, which benefited from the preferential arrangement with the United States under the Andean Trade Promotion and Drug Eradication Act and experienced continuous growth over time.

2. Two years after the expiry of quotas

The 2006 data will help demonstrate the impacts of quantitative restrictions imposed on Chinese exports by the European Union and the United States in the summer of 2005. This section summarizes the growth of T&C exports from selected Asian and Pacific countries, based on the import data from two major markets – the European Union and the United States.^{4,5} For the European Union, data for the first eight months of 2006 are available; for the United States, data for the first nine months of 2006 were available at the time of writing.

The main focus is on 12 selected Asian countries (Asian 12) – Bangladesh, Cambodia, China, India, Indonesia, the Lao People's Democratic Republic, Nepal, Pakistan, the Philippines, Sri Lanka, Thailand and Viet Nam. These countries can be grouped into four categories: (a) countries with a large production capability in both textile and apparel production (China and India); (b) countries that have limited production capability in both textiles and apparel (Indonesia, Pakistan, Thailand and Viet Nam); (c) middle-income countries that mainly have apparel production capability (Philippines and Sri Lanka); and (d) LDCs (Bangladesh, Cambodia, the Lao People's Democratic Republic and Nepal). The cases of Fiji, Maldives and Mongolia, which were severely hit by the expiry of ATC, are also discussed.

(a) European Union market

Table 3 shows the market share and growth rates of imports from the Asian 12 and other major trading partners in European Union markets from 2004 to 2006. This analysis focuses only on imports from non-European Union member countries, i.e., extra-European Union trade. The share of extra-European Union trade in total imports of T&C products had increased to around 50 per cent in 2006 from 46 per cent in 2004.

Asia's share of European Union T&C imports continued to increase in the post-ATC period. In 2004, about 46 per cent of total European Union imports were from the Asian 12; that share now accounts for more than half of European Union imports of

⁴ Analysis based on the countries' export data is ideal; however, the disaggregated export data of many countries in the region are not available in a timely manner and the period of coverage based on the calendar/fiscal year and timing of releasing data differ country by country.

⁵ Data are compiled by the Harmonized Commodity Description and Coding System (HS) at 6-digit and 10-digit levels. Agricultural raw materials such as silk, cotton, wool and vegetable fibres are excluded from HS 50-53. European Union data from HS 54 to HS 63 include trade data broken down at chapter level only, corrections due to erroneous codes, and confidential trade at chapter level.

Table 3. Share of the value of European Union imports of textile and clothing products, 2004-2006

(In percentages)

Country	European Union 25 imports				
	Market share			Growth rate	
	Annual	Jan.-Aug.	Annual	Annual	Jan.-Aug.
	2004	2005	2006	2004-2005	2005-2006
Extra-EU trade ranked by 2004 value of imports	100.0	100.0	100.0	6.4	12.4
Asian 12	45.9	51.5	52.8	19.6	13.9
1 China	21.8	29.0	28.0	41.9	5.5
3 India	6.6	7.3	8.1	18.3	18.4
5 Bangladesh	5.8	5.2	6.1	5.0	34.8
8 Pakistan	3.4	2.8	2.9	13.2	14.9
10 Indonesia	2.6	2.2	2.3	9.6	30.8
15 Thailand	1.7	1.5	1.5	8.0	16.9
16 Sri Lanka	1.2	1.2	1.2	1.3	26.0
18 Viet Nam	1.1	1.1	1.4	6.2	56.9
22 Cambodia	0.8	0.7	0.6	8.3	22.7
29 Philippines	0.5	0.3	0.4	33.1	36.2
46 Lao PDR	0.2	0.2	0.2	0.7	10.8
53 Nepal	0.1	0.1	0.1	6.1	6.2
Rest of the world	54.1	48.5	47.2	4.7	10.8
2 Turkey	15.5	15.2	14.5	4.1	5.1
4 Romania	6.3	5.6	5.0	5.1	0.6
6 Tunisia	4.2	3.7	3.5	5.5	1.5
7 Morocco	3.8	3.3	3.2	6.9	2.6
9 Hong Kong, China	3.0	2.5	3.7	13.4	221.8
Extra-EU trade/ total EU trade	46.4	47.9	49.8		

Source: Eurostat external trade database (COMTEXT).

T&C products. In contrast, regions that have a trade agreement with the European Union have lost their market shares in spite of their preferential market access. For example, the market shares of Morocco, Romania, Tunisia and Turkey declined, albeit slightly, in the post-ATC years.

Between 2004 and 2005, European Union imports from the Asian 12 increased by 19.6 per cent; however, the gains were not distributed evenly in Asia. China was the leading contributor to this rapid growth, with India a distant second. European Union imports from China increased by US\$ 6.1 billion (42 per cent up), from US\$ 14.7 billion to US\$ 20.8 billion during the first post-ATC year while European Union imports from India increased by US\$ 800 million, from US\$ 4.4 billion to US\$ 5.2 billion, a growth rate of 18.3 per cent. Other Asian 12 countries (except Viet Nam and the Lao People's Democratic Republic) as well as the exporters in other regions (except Turkey) had a difficult start to the post-ATC regime, experiencing negative growth despite their benefits from several variants of the generalized system of preferences (GSP) and other preferential arrangements.

This trend changed noticeably in 2006 after the European Union and China came to an agreement on restricting Chinese T&C exports to the European Union in June 2005. Until 2008, the annual growth rate of 10 of the 35 categories of Chinese imports liberalized with the expiry of ATC is restricted to between 8 per cent and 12.5 per cent (European Commission, 2005). A comparison of the data for the first eight months of 2005 and 2006 reveals that European Union imports from China slowed to a 5.5 per cent growth rate whereas the rest of the Asian 12 countries (except Nepal) revived their exports to the European Union market at two-digit growth rates. Exporters in other regions (rest of the world in table 3) also resumed their exports to the 2004 level by experiencing 10.8 per cent growth for the first eight months of 2006.

(b) United States market

Table 4 shows the market share and growth rates of imports from selected Asian and Pacific countries, including the Asian 12 and other major trading partners, in the United States market from 2004 to 2006. The Asian 12 share of United States T&C imports continued to rise. In 2004, the Asian 12 share of United States T&C imports

Table 4. Share of the value of United States imports of textile and clothing products, 2004-2006

(In percentages)

Country/area	United States imports				
	Market share			Growth rate	
	Annual	Jan.-Aug.	2006	Annual	Jan.-Aug.
	2004	2005	2006	2004-2005	2005-2006
World	100.0	100.0	100.0	6.8	2.6
Asian 12 ranked by 2004 value of imports	41.3	49.8	54.8	28.6	11.8
China	17.2	24.2	26.4	50.2	7.3
India	4.6	5.4	5.8	26.0	11.7
Indonesia	3.0	3.3	4.1	18.9	27.2
Viet Nam	3.0	2.9	3.5	5.9	24.1
Pakistan	2.9	3.1	3.4	13.2	16.2
Thailand	2.5	2.4	2.3	1.3	1.5
Bangladesh	2.3	2.6	3.1	19.8	24.4
Philippines	2.1	2.0	2.2	1.0	11.8
Sri Lanka	1.8	1.8	1.8	5.9	1.2
Cambodia	1.7	1.9	2.2	19.9	26.8
Nepal	0.2	0.1	0.1	25.8	9.2
Lao PDR	0.0	0.0	0.0	34.3	303.2
CBI-Mexico	21.6	19.2	17.0	4.9	9.3
AGOA	2.1	1.6	1.4	16.5	13.2
Rest of the world	35.0	29.4	26.9	10.3	4.6
Fiji	0.1	0.0	0.0	77.7	81.5
Maldives	0.1	0.0	0.0	94.2	100.0
Mongolia	0.3	0.1	0.1	41.2	15.0

Sources: USITC, interactive tariff and Trade Data Web.

was 41.3 per cent; data for the first nine months of 2006 show that 54.8 per cent of the total United States imports are now from the Asian 12. In contrast, exporting countries from other regions – in fact, the majority of those countries that have preferential arrangements with the United States – continued to lose their market shares. For example, the share of the Caribbean Basin Initiative member nations plus Mexico declined from 21.6 per cent in 2004 to 17 per cent in 2006. The share of sub-Saharan African countries (in the category classified as AGOA) also declined from 2.1 per cent in 2004 to 1.4 per cent in 2006.

United States imports from the Asian 12, like in the European Union case, showed significant increase during the first year of the post-ATC regime. The growth rate of United States T&C imports from the Asian 12 between 2004 and 2005 was 28.6 per cent. China is the leading contributor to this growth with a 50 per cent growth rate from 2004 to 2005. In contrast to the trend in the European Union, other Asian 12 countries – except Nepal and Thailand – also showed steady growth even after the expiry of quotas. When United States imports from China declined to a growth rate of 7.3 per cent for the first three quarters of 2006 compared with the same period in 2005, the rest of the Asian 12 (except Nepal) either succeeded in exporting more or sustained their positive growth. As a result, United States imports from the Asian 12 continued to grow at 11.8 per cent for the first nine months of 2006, which is much higher than the 2.6 per cent growth rate of total United States imports.

The difference in the pattern observed between United States and European Union imports is that, in the United States market, exports from other regions did not revive after quantitative restrictions imposed by the United States on Chinese T&C imports.⁶ This was the case for countries that have preferential arrangements with the United States. For example, United States imports from the Caribbean Basin Initiative countries plus Mexico decreased by 4.9 per cent from 2004 to 2005 and by 9.3 per cent from 2005 to 2006. In the case of sub-Saharan African countries, the reduction rate of United States imports was 16.5 per cent in 2005 and 13.2 per cent for the first nine months of 2006.

Smaller exporters from the Asia-Pacific region (e.g., Fiji, Maldives, Mongolia and Nepal) were hit hard by the elimination of quotas. In the case of Mongolia and Nepal, it was observed that some orders came back after the safeguards on Chinese imports. For Fiji and Maldives, United States imports continued to decline in 2006.

3. Human development impact of the expiry of quotas

As discussed above, the ready-made garment (RMG) industry in the countries hit hard by the expiry of quotas (Fiji, Maldives, Mongolia and Nepal) was established by foreign investors whose T&C exports were bounded by the quota system. These small exporters have the disadvantage of being landlocked or small island economies as well supply-side problems, as discuss later in this chapter. The expiry of quotas triggered the closure of factories in those countries as foreign investors shifted production back to their own countries. As a result, thousands of jobs were lost in these countries.

⁶ For an example of quantitative restrictions by the United States, see United States Trade Representative, 2005.

(a) *Fiji*

Fiji's garment industry expanded rapidly in the late 1980s and the 1990s after obtaining preferential market access to Australia and New Zealand under the 1981 South Pacific Regional Trade and Economic Co-operation Agreement, with the restriction of using 50 per cent locally manufactured fabric and granting a 13-year tax holiday and other benefits to companies exporting 70 per cent or more under the 1987 Tax Free Factories scheme. The latter attracted foreign investors to open production facilities in Fiji. Moreover, the 1991 Import Credit Scheme allows Australian fabrics to be shipped to Fiji at competitive prices for production of garments that will be re-exported to Australia. Furthermore, Fiji enjoyed quotas from the United States under the MFA. The number of tax-free garment factories had risen from 27 in 1988 to 88 by the end of 1991 (Harrington, 2000).

In 2000, the industry employed nearly 20,000 people, more than 70 per cent of them women. About two-thirds of manufacturing jobs were provided by the garment industry. Exports peaked at F\$ 322 million (US\$ 163 million) in 1999, which accounted for more than 30 per cent of total exports and 11 per cent of GDP (Storey, 2004). The coup in 2000 triggered the downfall of Fiji's garment exports, leading to the closure of a dozen factories during 2002 and retrenchment of up to 6,000 people (Global Education Centre and Family Planning International Development, 2004). T&C exports decreased by 28 per cent from F\$ 312 million (US\$ 137 million) to F\$ 223 million (US\$ 106 million) between 2000 and 2002, but the expiry of quotas in 2005 led to a negative growth rate of 47 per cent with regard to 2004 (Adhikari and Yamamoto, 2006), triggered by a 78 per cent decrease in RMG imports by the United States (table 4).

An immediate negative impact on employment was estimated as a retrenchment of 6,000 workers, predominantly women (Asian Development Bank, 2006). The Australian Government agreed to relax its rules of origin requirement to 25 per cent in January 2008, something that the Fijian garment industry had long requested (*Fiji Times*, 2006). This policy change is expected to create thousands of jobs; however, the industry fears further job losses of several thousand instead, due to possible economic sanctions imposed by its trading partners as a result of the recent political instability in the country.

(b) *Maldives*

Exports of RMGs by Maldives took off in 1997 and peaked in 2002. Having "guest workers" from Asia is not unique to the clothing industry in island economies, given their lack of trained domestic workers. In its peak time, 2,478 expatriates were employed in the industry. The number of expatriates started to decline in 2004 and, by January 2005, it had been halved to 1,228; by the end of that year, it had declined to 431. During its peak, more than 70 per cent of expatriate garment workers were sewing machine operators, with more than 90 per cent of them women. The majority were Sri Lankan women who were sent home as operations slowed down (Adhikari and Yamamoto, 2006).

Given the high dependence on expatriate labour, one analysis suggested that the effects of the elimination of quotas on the economy of Maldives were expected to be negligible (United States Department of State, 2006). Although detailed data for local employment are not available, the 2000 census data show that 2,699 men and 5,518 women were working as "craft and related trade workers" in manufacturing (Ministry of Planning and National Development, 2004a). Female production workers in manufactur-

ing received the lowest pay among industries (Ministry of Planning and National Development, 2004b). Since many garment factories have been located in the outer atolls, where alternative jobs for low-paid garment workers are hard to find, female workers with low skills are likely to face the loss of income and possible long-term unemployment.

Income inequality between Malé and the atolls increased, as did gender inequality in the labour market. Unemployment among women aged 15-24 years rose from 30 per cent to 40 per cent during 1997-2004 compared with the male unemployment rate of 10 per cent to 23 per cent, respectively, for the same age group (Ministry of Planning and National Development, 2005). The loss of foreign exchange may be another factor to consider. RMGs accounted for about one-third of total merchandise exports and half of merchandise exports by the private sector in 2003 (Ministry of Planning and National Development, 2004a).

(c) *Mongolia*

The T&C industry accounted for 11.3 per cent of total 2004 exports in Mongolia and employed an estimated 20,000, mostly women, as well as illegal migrants (Asian Development Bank, 2006). With the elimination of quotas, United States' T&C imports from Mongolia recorded a 41.2 per cent decline from 2004 to 2005 (table 4). In March 2005, the number of workers was 4,526 persons in textiles and 8,880 persons in wearing apparel, dressing and dyeing fur sectors, a 30 per cent decline from 6,401 and 12,725 persons, respectively, in March 2004 (National Statistical Office of Mongolia, 2005).

Products that faced severe declines in 2005 were those items for which quotas expired at the end of 2004 as well as products that other countries were producing. Table 5 shows the top five United States T&C imports from Mongolia, based on their value in 2004. Three of the top five were knitted jerseys and pullovers of cotton, cashmere and man-made fibres, whose export value plunged by 35.1 per cent, 91.6 per cent and 54.8 per cent, respectively. Two other products, women's and girls' woven

Table 5. Top five trade and clothing products imported by the United States from Mongolia, 2004-2005

Top five commodities (HS code)	2004	2005	% change, 2004-2005
Knitted cotton jerseys, pullovers, cardigans, waistcoats and similar articles (611020)	53 072 983	34 443 733	35.1
Women's or girl's woven cotton trousers (620462)	38 832 389	35 084 568	9.7
Knitted cashmere jerseys, pullovers, cardigans waistcoats and similar articles (611012)	34 369 618	2 887 544	91.6
Knitted manmade fibres, jerseys, pullovers, cardigans, waistcoats and similar articles (611030)	21 323 058	9 637 070	54.8
Knitted cotton T-shirts, singlets and other vests (610910)	5 860 528	2 580 009	56.0

Sources: USITC, interactive tariff and Trade Data Web.

cotton trousers and knitted cotton T-shirts, are also common RMGs produced by many other countries. These products recorded a negative growth of 9.7 per cent and 56 per cent, respectively, during the first post-ATC year. Cotton imported from China and Mongolia is used in the most labour-intensive parts of production, such as sewing.

Mongolia, which traditionally produces cashmere and wool clothing products, has not been successful in establishing vertical integration for export markets. For example, more than half of the foreign exchange generated from cashmere-related trade consists of exports of raw cashmere to China. The price of raw cashmere is not stable while the price of manufactured cashmere products is; therefore, it is more profitable for Mongolia to process the raw cashmere for domestic manufactures and export the final products. However, Mongolia currently lacks a cashmere processing industry; thus, it often imports cashmere inputs back from China to produce the final products. Lecraw and others (2005) reported that if all raw cashmere produced in Mongolia were fully processed into finished knitted and woven products before export, such exports would generate about US\$ 206 million, more than the 2005 level of the country's entire T&C exports, and employment in the processing industry would more than double.

As for wool, Mongolia currently exports about US\$ 6 million worth of uncombed sheep wool, while carpet exports generate only US\$ 1 million. Mongolia committed to remove its export duty on raw cashmere by 2007 upon its accession to WTO in 1997; however, the Government of Mongolia has been studying the possibility of extending this period to discourage the exports of raw cashmere (German Technical Cooperation, 2006).

With quantitative restrictions on Chinese T&C imports, it was hoped that foreign investors would reopen their factories and restart production in Mongolia. The first eight months of the country's 2006 industrial production data show that the total textile output was 30.7 per cent higher compared with the previous year in real terms (German Technical Cooperation, 2006). In December 2005, the European Union granted Mongolia GSP-plus status for 2006-2008. However, the United States market accounts for more than 95 per cent of Mongolia's T&C exports; therefore, the positive impact from GSP-plus will be limited. Mongolia is currently negotiating a free trade agreement with the United States.

(d) Nepal

The T&C industry in Nepal grew rapidly and became a major foreign currency earner after Indian exporters established an RMG industry in the country in the early 1980s. Nepal also expanded its exports of carpets, a product in which the country traditionally has a competitive advantage. RMG exports peaked in 2000 and thereafter started to decline, partly because of preferential market access granted by the United States to sub-Saharan African countries under AGOA. Uncertainties and apprehensions regarding the post-ATC scenario also appear to have contributed to the gradual decline in Nepalese garment exports between 2000 and 2004 (Dahal, 2006). Nepal's T&C exports were heavily concentrated in the United States and European Union markets, accounting for 98 per cent of total T&C exports. The United States alone accounted for more than 90 per cent of T&C exports in the early 1990s, but this share has since been declining (Bhatt and others, 2006).

In both the European Union and the United States markets, Nepal's exports in 2005 and 2006 could not recover to their pre-ATC levels (tables 3 and 4). Table 6 displays the top five T&C export products to the European Union and United States

markets, based on their value in 2004. Wool or fine animal hair carpets and other textile floor coverings (HS 570110) were the top exports of Nepal in both markets. In the European Union, this commodity accounted for nearly 60 per cent of total Nepalese T&C exports in terms of value. Two other commodities that appear in both European Union and United States markets are woven cotton trousers for women or girls (HS 620462) and for men or boys (HS 620342). In 2004, they ranked second and fourth in the European Union market, and second and third in the United States market.

Table 6. Top five Nepalese export products to the European Union and United States markets, 2004-2005

	HS	European Union (Euro 1 000)		Change (%)
		2004	2005	
1	570110	46 024 461	41 890 749	9.0
2	620462	5 586 541	1 386 703	75.2
3	621420	5 058 894	5 597 784	10.7
4	620342	2 016 490	1 194 459	40.8
5	621410	1 796 347	1 457 607	18.9

	HS	United States (US dollars)		Change (%)
		2004	2005	
1	570110	28 489 601	2 257 750	13.2
2	620342	21 200 101	12 844 170	39.4
3	620462	18 489 193	12 214 687	33.9
4	611020	14 159 360	6 022 073	57.5
5	610510	4 663 232	1 879 954	59.7

Sources: Eurostat and USITC.

However, both the value of European Union and United States imports of these commodities dropped significantly in 2005 – in the European Union, by 75.2 per cent and 40.8 per cent, respectively, and in the United States, by 39.4 per cent and 33.9 per cent. The two other categories in the top five United States imports from Nepal were knitted cotton jerseys, pullovers, cardigans, waistcoats and similar articles (HS 611020), and knitted men's or boy's cotton shirts (HS 610510). The export value of these two categories decreased by 57.5 per cent and 59.7 per cent, respectively, in 2005. Similar to the Mongolian case described above, Nepal's loss of competitiveness in three of the top five commodities in the United States market are explained by the fact that: (a) they faced more competition after the eliminations of quotas; and (b) they are also produced by other countries in the region.

During its peak period, the RMG industry in Nepal employed more than 50,000 persons; when production for exports declined, the number of workers also went down. A recent study by Bhatt and others (2006) found that the industry employed less than 5,000 persons. Several alarming findings reported in the study regarding Nepali RMG workers can be summarized as follows:

- (a) Nearly 25 per cent of employees reported a decrease in their salaries after 2005 while about 40 per cent saw no changes in salary and 36.1 per cent received better salaries;
- (b) Only 14.6 per cent of the RMG employees lived above the poverty line with net earnings of more than NRs 7,500 (US\$ 100) per month;
- (c) Women on average earned only 60 per cent of a man's monthly salary, and gender disparity in salary was observed among similar occupations even after working hours were taken into account;
- (d) Two-thirds of workers who were previously employed in the RMG industry had become unemployed because of factory closures and about 82 per cent of former workers had not found other forms of employment immediately after leaving the industry; and
- (e) The loss of garment factory jobs had resulted in declining income for almost 20 per cent of the workers while the majority experienced a rise in food and housing costs.

The job losses among RMG workers indicate further negative impacts on human development. More than half of RMG workers surveyed sent remittances home; a majority of those remittances were used to buy necessities and support education of family members. With the loss of income or a reduced salary, their livelihoods are also likely to be affected.

(e) Trade gains, but not in terms of human development

Even in countries where export growth has been robust, increased exports do not necessarily translate into more employment, better wages or better working conditions. In general, T&C workers receive relatively low wages. In Bangladesh, where the total number of workers in RMG sector is 2 million, of which 80 per cent are women, the legal minimum earnings of Tk 930 per month (US\$ 16), fixed in 1994, has not been revised since, despite a rising trend in inflation (Asian Development Bank, 2006). In the case of Sri Lanka, a recent report on apparel industry workers estimated that the total costs of covering the basic needs of a worker, excluding savings and remittance, were SL Rs 7,000 and SL Rs 8,800 (US\$ 70-US\$ 85) for outside-free trade zone (FTZ) workers and FTZ workers, respectively (Prasanna and Gowthaman, 2006). The minimum wage of US\$ 36, however, does not meet workers' basic needs; in fact, 86 per cent of workers surveyed receive a basic salary of less than SL Rs 6,000 per month (Prasanna and Gowthaman, 2006).

In Cambodia, despite a rise in RMG exports, workers' earnings decreased by 8.5 per cent in 2005, compared with 2004 (Cambodia Development Resource Institute, 2006, cited in Chan and Sok, 2006). A recent study by Chan and Sok (2006) also found that 30 per cent of workers surveyed perceived that their real wage had decreased in the post-ATC years, opposed to 19 per cent who perceived that their salaries were increasing. The study also found that about 60 per cent perceived that their health condition had worsened compared with the number in 2004 (i.e., prior to the quota expiry). The study argued that longer working hours to meet an increase in orders in the post-ATC environment and less expenditure on food, in order to save money for other purposes such as remittances and savings, might have affected workers' health conditions. Employment had become increasingly casual over time, with increasing prevalence of short-term contracts and piece-rate work. As discussed later in this

chapter, Cambodia has adopted the industry-wide compliance monitoring system. However, the latest report shows that less than a quarter of those factories monitored comply with the overtime within the legal limit (International Labour Organization, 2006).

In the case of Bangladesh, Ahmed and others (2005) found that although overtime for RMG workers had decreased in the post-ATC environment because of buyer pressure to meet the legal limit of 60 hours a week, this had affected workers' well-being negatively because of reduced income and loss of nutritional supplements provided as snacks for overtime workers. The factories were meeting the increased orders by subcontracting some parts of the orders. In short, even in the countries that performed well in the post-ATC period, there were a number of factors that needed to be improved from a human development perspective.

B. Challenges facing developing countries

Getting a foothold in the T&C sector may not be a difficult task, but sustaining and achieving growth may be a real challenge for a number of developing countries. It is not advisable to lump all the countries together because a country with all the necessary prerequisites to become a leading exporter of T&C products (e.g., China) faces challenges that lie more on the demand side, or market access barriers, than on the supply side. However, a small landlocked LDC such as Nepal faces challenges on both the demand as well as the supply side. Therefore, only selected and the most common challenges are highlighted in this section, and examples from countries facing each specific challenge have been included where available.

1. Protectionist forces

Given the existence of powerful vested interests in the T&C industry, particularly in developed countries, the protectionist forces are not likely to wane but rather to be further accentuated in the future. However, the form of protection may change over time. In the past, there was double protection to the T&C industry – through quotas and high tariffs. In the case of China, very little would appear to have changed even after the phasing out of quotas.

Powerful and vocal protectionist lobbies have not only found ways to protect their industries in connivance with their governments, but have also managed to couch these arguments in an altruistic fashion in order to remain “politically correct”. Domestic job losses are the largest single argument made by these interests, followed by helping weaker countries move up the industrial ladder so as to enable them to grow out of poverty through preferential arrangements. Therefore, when it comes to the T&C industry, the normal economic rationale of the need to prevent distortion in the economy caused by trade protection becomes hollow. Moreover, the advice to follow a transparent means of protection such as tariffs, should the protection be inevitable, is also not fully heeded. This is followed by several other near-arbitrary measures such as the imposition of trade remedy measures and discriminatory measures in preferential trading agreements. The various forms of protection in the developed countries, some of which are truly ingenious, are discussed below:

(a) Tariff barriers

On average, the tariffs imposed on T&C products are four times higher than the average industrial tariffs imposed by the developed countries. The average post-Uruguay

Round tariffs on T&C products in three major industrial countries are 14.6 per cent in the United States, 9.1 per cent in the European Union and 7.6 per cent in Japan, while their average industrial tariffs are 3.5 per cent, 3.6 per cent and 1.7 per cent, respectively (Hayashi, 2005).

Disaggregated data reveal remarkably high tariffs imposed on some products. In the post-Uruguay Round era, the majority of T&C tariff lines face tariff peaks: 52 per cent of T&C imports in the United States have tariff rates of 15.7 per cent to 35 per cent; 54 per cent of European Union imports have duties of 10.1 per cent to 15.0 per cent; and 55 per cent of Japanese imports have duties of 5.1 per cent to 10 per cent (Hayashi, 2005). The high tariff on T&C products has become an even more important trade policy tool in the hands of the developed countries and is not likely to come down significantly even if the stalled negotiations on non-agricultural market access are revived at WTO.⁷

One of the ways to get around this barrier is to provide preferential market access – through either a GSP or an FTA – to a selected group of countries ostensibly with the objective of helping them in their developmental objectives. Undoubtedly, such preferences have helped some countries. However, evidence shows that their impacts have been, at best, mixed as far as the export performance of the preference-receiving countries is concerned. For example, Bangladesh has been able to use the duty-free, quota-free market access treatment to the European Union provided under the “Everything but Arms” (EBA) initiative to the benefit of its knitted apparel exports, with the preference “take-up” rate of 80 per cent. However, the country has not been able to register significant growth in the export of woven items,⁸ the reason for which is discussed below.

Similarly, Jordan, a country largely unknown regarding its prowess in textiles and clothing, emerged as a significant player in this industry only after its 2001 free trade agreement with the United States. It has maintained its growth momentum for the past five years. Jordan’s clothing exports to the United States increased from a mere US\$ 43 million in 2000 to US\$ 1.1 billion in 2005 (Ahmad, 2005). During the first six months of 2006, Jordan posted an increase of 18.3 per cent in the United States market (International Textiles and Clothing Bureau, 2006). In contrast, the value of Jordanian exports to the European Union, where it does not enjoy duty-free market access, was only US\$ 8.8 million in 2005 (Ahmad, 2005).

A number of other countries that enjoy preferential market access to the United States or European Union markets did not necessarily fare well in the post-quota era. Examples include: Lesotho, Malawi, Namibia and Swaziland in southern Africa, which are beneficiaries of AGOA; Costa Rica, the Dominican Republic, Jamaica, El Salvador

⁷ Although the major demanders of the NAMA negotiations are the developed countries, the major interest of developing countries lies in the possibility of being able to reduce tariff peaks on products of their export interests to the developed countries such as textiles, apparel and footwear. However, due to a call made by several powerful textile lobbies to have a “sectoral” negotiation on T&C tariffs, with the average tariff capped to 15 per cent (which in itself is a very high figure), the chances of a substantial reduction in tariffs on these products are very slim. Moreover, on 13 June 2006, 44 members of Congress sent United States Trade Representative Ambassador Susan Schwab a letter demanding that textiles be negotiated separately in the Doha Round of trade talks. See National Council of Textiles Organizations, 2006.

⁸ See Razzaque and Raihan, 2006.

and Honduras, which are the beneficiaries of CBPTA; and Mexico, which is a beneficiary of the North American Free Trade Agreement (NAFTA). Similarly, a number of countries that enjoy preferential market access to the European Union, e.g., Morocco, Romania and Tunisia, did not achieve a significant export growth in the post-quota era, as discussed above.

There are three major problems associated with countries having preferential trading arrangements. First, since they have had assured market access opportunities during the MFA and ATC periods, they never felt the competitive pressure and did not have any incentive to improve their performance. Complacency led to their lacklustre performance in the post-quota era.

Second, due to strict rules of origin requirements, they have to rely on imported materials from relatively high-cost sources such as the United States and the European Union, which makes them uncompetitive. The “yarn forward” requirement included in most FTAs, which makes it mandatory for the preference-receiving countries to use United States yarn and fabrics as a condition for assembled textile or clothing products to enter duty-free, is a testimony to this factor.⁹ While this scheme provides a captive market for United States textile exporters, it also prevents the preference-receiving countries from using textiles from other competitive sources such as China, which are seen as a threat to the survival of United States textile firms.¹⁰

The captive market hypothesis is corroborated by export data from the United States and the European Union. United States exports of yarns and fabric to NAFTA, Central American and Caribbean Basin countries, which are the beneficiaries of duty-free access to the United States, increased from less than 40 per cent in 1989 to 77 per cent in 2004. Since the European Union also promotes a captive market strategy, 37 per cent of its textiles exports were destined to Eastern European, African and Mediterranean countries (Romania, Tunisia, Morocco, Bulgaria and Turkey) in 2004.¹¹

Third, again due to rules of origin requirements included in GSP preferences, most developing countries and LDCs that lack textile and other raw material producing capacities are handicapped because they cannot meet the minimum rules of origin threshold.¹² Among the existing rules of origin requirements imposed for preferential trading arrangement, the one being implemented by the European Union is considered the most restrictive because it requires at least two finishing operations – a process known as “double transformation” – to occur in the exporting country to qualify for preferential market access. Therefore, despite the EBA initiative, LDCs that are not able to meet the requirement continue to have a low level of preference utilization. For example, the utilization rates for clothing preferences of the Asian LDCs under EBA in 2004 were 33.8 per cent for Bangladesh and 65.8 per cent for Nepal (World Trade Organization, 2005). This partly explains the reason behind Bangladesh’s ability to achieve impressive export growth in knitted garments, in which domestic value addition

⁹ See UNDP RCC, 2005b.

¹⁰ See National Council of Textiles Organizations and American Manufacturing Trade Action Coalition, 2005.

¹¹ See Ahmad, 2005.

¹² For a detailed discussion on rules of origin, see Adhikari and Yamamoto, 2005 and Adhikari, 2005.

is very high and not on woven garments where domestic value addition is extremely limited due to lack of vertical integration. Low utilization of preferences means that LDCs continue to pay MFN tariffs on their exports to the European Union market.¹³

Preferential market access has distorted the tariff structure. The distribution can be quite regressive in nature as it penalizes the poorer countries and rewards the rich countries. For example, Asian countries that are not beneficiaries of preferential market access in the United States market pay much higher tariffs on T&C products than beneficiaries (table 7). Exporters from a poor country such as Bangladesh pay 82 times higher tariffs than Canada for the exports of knitted apparel and 107 times higher tariffs for the exports of woven apparel. Similarly, Bangladesh exports of knitted apparel contribute almost the same share as that of Canada to United States customs revenue, and its woven apparel exports contribute 2.8 times more revenue than do those of

Table 7. Discriminatory tariffs charged by the United States on apparel imports
(based on January-May 2006 figures)

Countries/groups/product categories	Calculated duties as a percentage of customs value		Customs value share in percentage	
	Knit (HS chapter 61)	Woven (HS chapter 62)	Knit (HS chapter 61)	Woven (HS chapter 62)
Non-beneficiary Asian exporters				
Bangladesh	17.96	17.12	2.04	5.38
Cambodia	17.29	16.36	3.47	2.43
China	13.20	11.58	14.50	27.04
India	16.62	13.38	4.22	7.34
Indonesia	19.33	17.40	3.90	6.32
Sri Lanka	15.86	16.54	2.12	2.90
Viet Nam	18.40	16.92	4.47	4.56
NAFTA beneficiaries				
Canada	0.22	0.16	2.09	1.94
Mexico	0.34	0.24	7.78	8.62
CBTPA beneficiary				
Honduras	3.13	1.90	6.06	1.58
AGOA beneficiaries				
Kenya	n.a.	0.68	n.a.	0.52
Lesotho	0.12	0.07	0.68	0.38
Madagascar	n.a.	0.38	n.a.	0.33
Bilateral FTA beneficiary				
Jordan	0.19	0.41	2.50	1.27

Source: EmergingTextiles.com, 2006.

Note: n.a. = not available

¹³ Inama (2002) asserted that at least one-third of all LDC exports paid MFN tariffs due to restrictive rules of origin.

Canada. Another comparison between two LDCs from two different regions, Cambodia and Lesotho, is quite striking. Cambodia pays 144 times higher tariffs to access the United States market for its knitted apparel than Lesotho does, and it pays 233 times higher tariffs for exports of its woven apparel.

It is interesting to note that such discriminatory practices do not fall foul of the multilateral rules-based and non-discriminatory systems espoused by WTO. Efforts aimed at remedying these problems have yet to bear fruit. For example, despite the fact that there were extensive discussions in the run-up to the Hong Kong Ministerial conference to provide duty-free and quota-free market access to all LDCs, the decision now limits the duty-free access to only 97 per cent of the products under the tariff lines of the importing countries. Given the strong protectionist undercurrent in the T&C industry in developed countries, many T&C products in which LDCs are competitive may not be included in the "covered list" (Adhikari, 2006a).

(b) Non-tariff barriers

Of the several non-tariff barriers, only two – trade remedy measures and regulatory/standard-related barriers – are discussed in this subsection. While the first one is a traditional barrier that is still being actively used by both developed and developing countries, the second one is an emerging barrier that reduces the competitiveness of the T&C exporters of developing countries. A common element in these barriers is that they can be, and have been abused for protectionist purposes.

(i) Trade remedy measures

Introduced in the global trading system as measures to protect domestic industry from unfair foreign competition, trade remedies or contingent protection measures have become tools in the hands of the domestic protectionist interest in the developed and developing countries. Three types of WTO-sanctioned trade remedy measures, of which the anti-dumping measure is the most pernicious, can be imposed by the importing countries without having to wait for a verdict from a WTO dispute settlement body.

As documented by Adhikari and Weeratunge (2006), such measures have had dire consequences for the industry revenue as well as employment situation in countries such as India and Pakistan. T&C imports from relatively competitive countries such as China, India, Pakistan and Turkey have been routinely subjected to anti-dumping investigations in the past.¹⁴ Bed linen has been one of the most targeted products by the European Union, and most of the time such an action is initiated at the behest of a single industry group – in this case, Euro Cotton.

Based on a survey of anti-dumping actions initiated between 1994 and 2001, it was found that one major WTO member initiated 53 investigations into allegations of dumping, placing the T&C industry in the third position only after iron and steel, and chemicals.¹⁵ In several instances, investigations into the same products were revived back-to-back, extending over a long period (World Trade Organization, 2003). Commenting on the unfair nature of anti-dumping investigations, Oxfam International (2004)

¹⁴ See Adhikari and Weeratunge, forthcoming, for a detailed discussion.

¹⁵ See World Trade Organization, 2003.

asserted, “[T]hey take a long time to resolve, impose heavy costs of arbitration, and can be prolonged by small changes to the case”. Anti-dumping measures, unlike other trade remedy measures, can be applied to targeted firms in specific countries, with almost absolute impunity (Adhikari and Yamamoto, 2005).

The post-quota period has seen the burgeoning of other trade remedy measures alongside anti-dumping ones. Temporary safeguard on Chinese imports is a case in point. Although this measure is part of the WTO accession package that China signed onto, this reflects the ingenuity of the protectionist interests. Taking advantage of this provision, a number of countries/groupings, both developed and developing, have imposed various safeguards measures against China. Although the temporary safeguards will expire on 31 December 2008, two other provisions incorporated in China's Protocol of Accession pose a significant burden to China. They are: (a) until 2013, it is possible for WTO members to impose “selective” safeguards against any Chinese exports that cause “market disruption”; and (b) until 2016, it is possible to use the “non-market economy” criterion against China to calculate a “dumping margin” in the process of an anti-dumping investigation. This margin inflates the dumping margin, subjecting the Chinese imports to a higher anti-dumping duty.¹⁶

(ii) Regulatory barriers

Government regulations or industry standards for goods can have an impact on trade in at least three ways: (a) they can facilitate exchange by clearly defining product characteristics and improving compatibility and usability; (b) they also advance domestic social goals such as public health by establishing minimum standards or prescribing safety requirements; and (c) they can hide protectionist policies.¹⁷ Tariffs cannot block market entry unless they are prohibitive. However, regulatory and standard-related barriers could effectively foreclose the market for the exporters if they are stringent and complex, making compliance de facto very costly if not impossible. These are often known as “frictional” barriers in that they raise the cost to the exporters, but do not provide any revenue to the governments imposing such requirements.

Since governments are ingenious in devising various ways to inhibit imports to protect domestic producers in sensitive industries where domestic pressure for protection persists, the list of possible regulatory barriers could be infinite. The risk is that the traditional barriers such as tariffs, quotas and VERs may be replaced by a new form of regulatory barrier.¹⁸ Baldwin (2000) succinctly described the political economy of regulatory and technical barriers:

¹⁶ This is particularly striking, because on average the anti-dumping duties on dumped imports from non-market economies tend to be more than 12 times higher than normal anti-dumping duties. Messerlin (2004) revealed that in the anti-dumping investigations initiated by the United States (between 1995 and 1998), which resulted in a positive determination, the average dumping margin with price comparison as the basis for estimated normal value of exports was only 3.2 per cent; however, following the non-market economies principle as the basis for arriving at estimated normal value of exports resulted in dumping margin of 40 per cent on an average.

¹⁷ See Sanitary and Phytosanitary Measures and Technical Barriers to Trade (Summary), Centre for International Development at Harvard University, www.cid.harvard.edu/cidtrade/issues/spstbt.html (accessed 14 December 2004).

¹⁸ See Maskus and Wilson, 2000.

“Most [regulatory barriers] are highly technical, and a large fraction covers intermediate inputs – products unknown to most voters. Owing to their technical complexity and political invisibility, product norms are often written, directly or indirectly, by domestic firms to which they apply. Quite naturally, these firms write the norms in a way that favours their varieties or at least disfavors foreign varieties.”

Imposition of regulatory and standards-related barriers on T&C products has been limited, but the future looks uncertain. A particularly elaborate and complex trade-restrictive barrier is posed by a new system called “Registration, Evaluation and Authorisation of Chemicals” (REACH) proposed by the European Union. If adopted, the REACH legislation could subject textiles and clothing firms to a procedure of registration, evaluation, authorization and restriction for a large number of chemical substances. The European Union trading partners, including developed countries, are making efforts to convince the European Union to modify the rules before a formal announcement in order to reduce the potentially disruptive impact of REACH on international trade, and to improve its workability (United States Mission to the European Union, 2006).

The governmental barriers mentioned above would at least provide some element of predictability despite their protectionist undercurrent. Private standards, differing from firm to firm, can also pose costly barriers. Due to pressures from consumer groups, the environmental lobby and trade unions, some of the major buyers in developed countries have private “codes of conduct”, which they expect all suppliers to follow. These codes mainly correspond to environmental and labour standards, which can significantly raise suppliers’ costs (Adhikari and Weerantunge, forthcoming), especially where multiple codes with different monitoring and reporting requirements are involved.

It is desirable from a human development perspective to make a gradual but sustained effort aimed at reaching higher environmental and labour standards, since an abrupt switch to higher standards could erode the competitiveness of enterprises in developing countries. The necessity of ensuring compliance with multiple standards can further aggravate the problem. Due to the immense market power of the buyers, who can dictate their terms, T&C exporters are left with only two choices. Either they have to custom-tailor the working environment in the factory to fulfil different conditions imposed by their buyers, or they have to follow the most stringent buyer standards. Both these responses can affect the competitiveness of these enterprises.

2. Supply side constraints

Even if market access barriers are removed, most developing countries still face several supply-side constraints, which impede their competitiveness. The five most common constraints, some of which cut across the entire manufacturing sector, are discussed below.

(a) Poor human capital

The lack of skilled and/or trained human resources, which impedes productivity growth, is a major reason for the inability of most developing countries to take full advantage of trade liberalization, and for others the incapability of facing a threat to their survival. While the wages paid to T&C workers in several Asian countries are much lower than those paid in China, they are not as competitive as Chinese workers due to

poorer skills (notably among non-production workers) and other factors that have an impact on productivity. According to the United States International Trade Commission (2004), the average hourly compensation for Chinese garment workers in 2002 was US\$ 0.68, whereas the figures for Bangladesh, India, Indonesia, Pakistan and Sri Lanka were US\$ 0.39, US\$ 0.38, US\$ 0.27, US\$ 0.41 and US\$ 0.48, respectively. However, the report pointed out that the productivity levels of T&C workers in these Asian countries were significantly lower than that of their Chinese counterparts.

Due to the lack of technical skills, some countries are hiring expatriate staff. A survey conducted by the United States Agency for International Development (2005) found that 40 per cent of indirect personnel positions in the factories that responded in Cambodia were staffed by expatriates. Because using expatriate staff in technical and supervisory positions raises costs, this can have a significant impact on industry competitiveness (Adhikari and Yamamoto, 2006; Chan and Sok, 2006).

The problem of skill deficit can be improved by investments in increasing the general level of education (as has been done in several East Asian countries) and by providing training opportunities. Again, China offers an example for other developing countries; even a decade ago, a Chinese firm, on average, provided about 70 hours of training per year to its workers and managers compared with only 10 hours in India (Chandra, 1998, cited in Tewari, 2006).

Investments in training can help firms achieve considerable productivity improvements. For example, after realizing the virtue of training, garment firms in Lesotho have now started to invest in staff training. Some training programmes have had spectacular results (Bennet, 2006). A training programme implemented by the Lesotho National Development Corporation/ComMark has helped many apparel factories achieve sustainable increases in production line output, sometimes in excess of 25 per cent.¹⁹

(b) Poor quality of infrastructure

The poor quality of infrastructure, whether dilapidated roads or ports, antiquated telecommunications networks or power supplies, adds to the cost of doing business. Most developing countries face these problems, but the degree may differ from country to country. Infrastructure is a major constraint in some South-East Asian countries such as the Philippines and Indonesia, and the situation in African and South Asian countries is arguably worse.

The costs of inefficiency in two Asian countries, Bangladesh and India, are well documented. According to OECD (2004), Indian companies suffer a 37 per cent cost disadvantage in shipping containers of clothing products from Mumbai/Chennai to the east coast of the United States, relative to similar container shipments originating in Shanghai. This cost disadvantage arises from delays and inefficiencies in Indian ports. Similarly, according to the Asian Development Bank (2006), a technical assistance study in 2003 found that clothing producers in Bangladesh were likely to earn 30 per cent more if inefficiencies were removed at Chittagong port. Of the six major exporters from sub-Saharan Africa, South Africa and Mauritius are the only two countries with relatively good facilities in place; other countries such as Kenya, Lesotho, Madagascar and Swaziland are known for their relative weaknesses in infrastructure provisioning.

¹⁹ See ComMark Trust, 2006.

(c) *Limited trade facilitation measures*²⁰

Trade facilitation is defined as the simplification and harmonization of international trade procedures. These procedures encompass the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade. Procedural hurdles can be corrected with adjustments in customs rules and formalities as well as investment in computerization to speed up the process. However, efforts in that direction have been extremely limited, particularly in South Asia and sub-Saharan Africa where total time taken for import reaches 46.5 and 60.5 days, respectively, against the best performing country's (Denmark) average of five days (table 8).

South Asian countries are marginally better than sub-Saharan African countries in terms of trading across borders, although there are intercountry variations within regions. Hummels (2001) estimated that each day saved in shipping time was worth 0.8 per cent ad valorem duty for manufactured goods. While the time taken for export or import is influenced by several factors, including the quality of transportation and other infrastructure as discussed above, the lead-time can be reduced by doing away with the number of documents and signatures required for import and export, e.g., via automated customs and certification processing. This will provide a significant payoff not only for the T&C industry but also for the trading sector as a whole.

Table 8. Trading across borders

Region/ economy	Document for exports (number)	Signatures for exports (number)	Time for exports (days)	Documents for imports (number)	Signatures for imports (number)	Time for imports (days)
East Asia and Pacific	7.1	7.2	25.8	10.3	9.0	28.6
Europe and Central Asia	7.7	10.9	31.6	11.7	15.0	43.0
Latin America and Caribbean	7.5	8.0	30.3	10.6	11.0	37.0
Middle East and North Africa	7.3	14.5	33.6	10.6	21.3	41.9
OECD	5.3	3.2	12.6	6.9	3.3	14.0
Denmark	3.0	2.0	5.0	3.0	1.0	5.0
South Asia	8.1	12.1	33.7	12.8	24.0	46.5
Bangladesh	7.0	15.0	35.0	16.0	38.0	57.0
India	10.0	22.0	36.0	15.0	27.0	43.0
Pakistan	8.0	10.0	33.0	12.0	15.0	39.0
Sub-Saharan Africa	8.5	18.9	48.6	12.8	29.9	60.5
Kenya	8.0	15.0	45.0	13.0	20.0	62.0
Madagascar	7.0	15.0	50.0	9.0	18.0	59.0
Malawi	9.0	12.0	41.0	6.0	20.0	61.0
Zambia	16.0	25.0	60.0	19.0	28.0	62.0

Sources: World Bank and IFC, 2006.

²⁰ See also chapter VII in this volume.

In the post-quota era, improved trade facilitation is even more critical for the survival of the T&C industry in those two regions, not least because it is one industry that involves both imports of inputs as well as exports of finished products. Given the move towards vertical specialization and the slicing up of the value chain, each day saved could provide enormous benefits in terms of enhancing the industry's competitiveness. This is important, as some RMG products are time-sensitive and delayed consignments could lead to the cancellation of orders (Adhikari and Weeratunge, forthcoming).

(d) High costs of inputs

Except for countries with vertically integrated production structures, most developing countries have to rely on imported fabrics and accessories in the process of production. The absence of a vertically integrated production structure may not be a major disadvantage provided the inputs can be obtained in a short time at international prices. However, due to the problems mentioned above in the section on infrastructure and trade facilitation, it is not possible for most South Asian and sub-Saharan African countries to access inputs on short order.

The high cost of inputs can be reduced by lowering tariffs on inputs across the board. However, this may not be a desirable option given the reliance of developing countries on customs for raising government revenue (Adhikari and Yamamoto, 2006). Therefore, many countries allow the import of inputs to be used for export processing at reduced or even zero duty rates. In order to ensure that the inputs are actually used for manufacturing exportable items, several governments have made use of bonded warehouse facilities.

This system can, however, be burdened with bureaucratic problems, as the example of Nepal shows. Exporters who have not exported for a year have faced administrative difficulties in benefiting from this facility. Even for regular exporters, refunds are not delivered in time, taking more than 30 days to process from the date of the claim. Moreover, it has become extremely difficult to get the bank guarantee released, particularly after the introduction of the value added tax -related regulation.²¹

(e) Limited access to finance

Access to credit, especially for small and medium-sized enterprises, including T&C ventures, is a major problem in many Asian and African countries that hinders the prospect of unleashing entrepreneurial potential. Due to the time and difficulties involved in recovering loans in the event of default, and generally the high level of non-performing assets, financial institutions exercise extra caution while lending. Accordingly, they do not consider small enterprises and/or those enterprises with limited ability to provide collateral security as creditworthy. Consequently, these enterprises have to finance the majority of their operations through internal resources or rely on informal sources of funding, which tend to be extremely costly (Adhikari and Yamamoto, 2006).

For example, as stated in a study conducted by International Business and Technical Consultants, Inc. (2003) for the Ministry of Commerce of Bangladesh, a large number of knitwear garment exporters with a capital of Tk 10 million to Tk 20 million (US\$ 170,000-US\$ 340,000), and a workforce of between 150 and 300, were forced to

²¹ See Dahal, 2006, for further details.

borrow from local moneylenders at a monthly interest rate close to 11 per cent. Exporters are compelled to take such loans when they fail to obtain timely bank financing (Adhikari and Yamamoto, 2006).

In the case of Nepal, the story is slightly different. While small entrepreneurs' access to credit as well as other banking facilities is severely restricted by discriminatory interest rates and the need for collateral, exporters are facing new problems after the phasing out of quotas. Nepalese commercial banks are increasingly becoming reluctant to make new investments in this sector and are initiating stricter action against debtors (Shakya, 2005).

C. Emerging issues

Apart from the conventional issues discussed above, trade in T&C products is going to be influenced by several others emerging issues, some of which are discussed below.

1. Changing buyers' behaviour

Textiles and clothing, and particularly clothing, is a classic example of a buyer-driven commodity chain that is characterized by decentralized, globally dispersed production networks, coordinated by lead firms who control design, marketing, and branding at the retail level. Many of the most powerful branded retailers such as Gap, Nike, Wal-Mart and Liz Claiborne own no factories and do not necessarily "make" in order to sell. Yet, by controlling design, input sourcing, branding and distribution, these powerful retailers capture the largest share of value added in apparel and textiles production (Gereffi, 1999).

The economic power of large retailers, predominantly in developed countries, has increased substantially over the past few years (World Trade Organization, 2005). In the United States, for example, the 29 biggest retailers account for 98 per cent of sales (UNDP RCC, 2005a). The trend now is toward greater product specialization and brand-name, and market segmentation. These large retailers collect market information about the latest trends in styles and tastes, and their integration of this information combined with the volume of their business gives them considerable leverage in dealing with suppliers (Kelegama and Weeraratne, 2005).

Because of the sheer market power, it is the buyers' preference that is going to shape market response in the exporting countries. Although price and quality used to be the two dominant variables, buyer preferences these days represent the interplay of various factors, of which the following five are critically important.²²

(a) Price and cost factors

The price of final delivery of goods into the warehouse is still a factor that influences the sourcing decision of the majority of buyers.²³ While several Asian countries including Bangladesh, Pakistan, Indonesia and Viet Nam appear to have

²² See also Kelegama and Weeraratne, 2005.

²³ For example, Wal-Mart is well known for its "notorious practice of squeezing its suppliers' margin." See Tewari, 2006 (p. 16).

followed a low-cost strategy, the sustainability of this approach has been challenged on the basis that the focus on low costs makes them always vulnerable to competition from the next lower cost supplier (Tewari, 2006).

(b) Critical mass

Buyers will be reluctant to place orders with producers who have a small share in the world market. According to this view, countries with large production capacities and the ability to deliver huge quantities are likely to be preferred by buyers, as this keeps down the input costs of those suppliers, the transaction costs of dealing with multiple suppliers and the trading costs of shipping from those countries. This view is supported by the United States Department of Commerce, which estimates the number of countries from which major items would be sourced by United States buyers will drop to 25 per cent of current levels by 2010 (UNDP RCC, 2005a).

(c) Risk spreading

A possible scenario opposing the critical mass sentiment is the risk-spreading argument. Buyers, desirous of maintaining uninterrupted supply, would like to diversify the sources from which they import T&C products. For example, according to the United States International Trade Commission (2004): "To reduce the risk of sourcing from only one country, the United States importers also plan to expand trade relationships with other low-cost countries alternative to China".

For example, stores such as Wal-Mart and Dillards make spatial distinctions among the location of the suppliers from whom they source certain categories of apparel (Tewari, 2006). Indeed, because they were anticipating the re-imposition of quotas on China, several buyers continued to source products from countries such as Bangladesh and Cambodia during the first few months of phasing out of quotas, and this contributed to the continued success of those countries.

(d) Total solution providers

Buyers' preferences are likely to be tilted in favour of suppliers who can cover all stages of the value chain in production, ranging from product design to input sourcing, manufacturing, packaging and shipping of the final product (Adhikari and Yamamoto, 2005). Several East Asian manufacturers have now moved up from assembly of cut fabric into more complex operations that entail coordination, supply of machinery and finance, and management of subcontractors. They are now full-package suppliers for international buyers, and are operating as transnational intermediaries receiving orders from large retailers and subcontracting to their network of producers, which are located in Asia, Latin America and Africa (Hayashi, 2005). This issue is further discussed below under the subheading "value chain management".

(e) Ethical concerns

As discussed above, pressure from consumer groups in industrialized countries, including the boycotting of products manufactured in sweatshops or in an environmentally-unfriendly manner, has brought ethical concerns into the decision-making matrix of the buyers. Most buyers have themselves developed a "code of conduct" with which they want all their suppliers to comply. This includes issues such as working conditions, workers' health and safety, minimum wages, maximum working hours and overtime.

2. Graduation and loss of competitiveness

The history of the T&C industry suggests that as economies developed and workers' incomes increased, countries gradually moved up the technology ladder, and either started producing value-added T&C products or moved to other manufactures such as electronics and consumer durables. Even within the T&C sector, with textiles being more capital and often knowledge-intensive compared to clothing, countries continue producing textiles even after reaching a certain threshold in the development ladder. Mayer (2005) argued that the shift of labour-intensive activities in textiles and clothing away from the first-tier NICs towards other Asian countries had clearly reflected industrial upgrading associated with wage increases as well as a move in production and export patterns towards more technology-intensive goods.

Of late, China's changing comparative advantage has been a topic of general discussion as well as empirical studies. Based on a Heckscher-Ohlin-type trade model that concentrates on relative endowments of labour, land and human capital, Mayer and Wood (2001) showed that China's comparative advantage was not in low-skill, labour-intensive production, such as clothing, but in manufacturing sectors with a higher skill content. Compared to other countries including China, important clothing exporters from South Asia such as Bangladesh, India and Pakistan have an unusual combination of low levels of both skill per worker and land per worker. This gives those countries a strong comparative advantage in labour-intensive manufactures, which use little of either skill or land per unit of labour (Mayer, 2005).

Similarly, according to the International Labour Organization (2005a), China is in the process of outgrowing its comparative advantage for the most labour-intensive manufacturing industries. It is evolving towards higher value-added industries. During this process, China is developing not only as a manufacturing hub, but also as an important consumer market that is likely to absorb a larger share of its own production as well as total world imports. Rising income in China is likely to be associated with rising wages for low-skilled workers, so that the share of skill-intensive items in China's manufactured exports is likely to rise. It is interesting to note, in this context, that wages in China's export industries are indeed rising and that this may jeopardize the international competitiveness of Chinese exporters of labour-intensive manufactures, especially if productivity fails to keep pace (Harney, 2004, cited in Mayer, 2005).

3. Lean retailing

As yet another reflection of their market power, buyers are unwilling to maintain high levels of stock in their warehouses or stores. Moreover, taking advantage of the latest technology, they would like to respond promptly to consumer demand in line with rapidly changing fashions. With this trend toward "lean retailing", producers that can provide quick turnaround time enjoy an important competitive advantage. Most studies argue that proximity to large markets (e.g., Mexico, Central America and the Caribbean countries to the markets of the United States and Turkey, and Central and Eastern European countries to the European Union) is a key factor in ensuring a quick turnaround (World Trade Organization, 2005).

The importance of "timeliness" and fast delivery in lean retailing practices has significantly affected supplier location over and above consideration of price (Nordas, 2004; and Berger, 2006, cited in Tewari, 2006). Emphasizing promptness in delivery as a key factor in order to remain competitive in the post-quota era, Abernathy and Weil (2004) argued that the proximity advantage would become even greater as retailers raised the bar higher on the responsiveness and flexibility required of their suppliers.

However, it is necessary to see if this is the case even at a disaggregated level. For example, with high-fashion products such as women's clothing, which do not require replenishment after one season, the issue of proximity may not matter. On the other hand, for replenishment products such as men's jeans, it would appear that producers closely located to the world's major markets are at an advantage (Abernathy, Volpe and Weil, 2004). For example, replenishable products make up a greater share of United States apparel imports from Mexico than they do from Asian locations, despite the cost advantage associated with the sourcing from the latter. In 2003, United States buyers sourced over US\$ 4 billion-worth of replenishable products from Mexico and the Caribbean Basin (amounting to 22 per cent of all apparel sourced from these countries) compared with US\$ 1.3 billion of those products from China and other Asian countries (Abernathy, Volpe and Weil, 2004).

However, declining shares of Mexico, Caribbean and other South American countries in United States imports and declining shares of Eastern European, Mediterranean and North African countries in European Union imports of T&C products show that, on the whole, proximity has a limited role in shaping and influencing buyers' decisions. It may continue to be important in a limited range of products, but its overall significance is gradually declining due to decreasing communications costs and shipping transit time, and improved efficiency of trade-related services.

4. Value chain networks

Large retail chains such as Wal-Mart and "branded marketers" such as Nike and Reebok have been outsourcing their production to low-wage countries but have retained control, as noted above, over the major portion of the value chain. By keeping control over the design and marketing functions, they also maintain close control over the global T&C value chain through standard-setting, often sourcing raw materials themselves, distributing them globally and then importing the made-up garments.²⁴ However, it is difficult for these large-scale buyers to coordinate all these activities by themselves. As Abernathy, Volpe and Weil (2004) argued:

"Making sourcing decisions in the global apparel market is a daunting task. Due to factors including language and custom barriers, communications hurdles, and the sheer number of producers scattered across the world, United States retailers have had to change the way they approach the world market. Some large retailers have established their own buying offices overseas to administer the outsourcing of their private label products. Others work with large and sophisticated independent sourcing agents to handle this intricate task."

Buyers' inclination toward the second option mentioned has led to the emergence of intermediaries, which are essentially "subcontracted" by large buyers to perform critical tasks in the value chain. Drawing on tacit knowledge gained from years of immersion in the garment industry, their ability to master the process of fulfilling large orders to the exact specification of their buyers and to exacting delivery schedules as well as their specific knowledge about production management, many companies from East Asia (mainly Hong Kong, China, as well as the Republic of Korea and Taiwan Province of China) have been acting as intermediaries for global buyers since the 1980s

²⁴ See Morris, 2006.

and 1990s (Tewari, 2006). Their capacity to mobilize and coordinate full-package manufacturing in global T&C value chains led to what Gereffi (1999) termed “triangular production networks”. This implies production is done in one country (usually less developed), organized and coordinated by firms in another country (usually middle-income), and sold to a buyer in yet another country (usually developed).²⁵ Companies such as Li & Fung Ltd. are emerging as successful intermediaries of such triangular networks (see box).

Organizational skills in the changing landscape of T&C trade

A Hong Kong, China, based company, Li & Fung Ltd.,²⁶ founded in China in 1906, has evolved from an exporting agent of porcelain and silk from China to a professional manager of the entire supply chain – from product design and development, through raw material and factory sourcing, production planning and management, quality assurance and export documentation, to shipping consolidation. The company gained expertise in buying and selling quotas from Asian markets for shipment into the United States in the 1970s and 1980s as an important element of its garment exporting business.

As a buying agent and broker in quotas, it established backward links with more than 2,000 Asian suppliers and forward links to manufacturers and retailers. In the late 1980s and 1990s, the company took advantage of its network of Asian suppliers and its growing familiarity with logistics management to offer United States retailers an efficient means of sourcing products in Asian nations. Currently, the Group has more than 70 offices in more than 40 countries and employs 8,000 staff globally who operate a global network of more than 10,000 suppliers. It has achieved a turnover of US\$ 7 billion and aims to maintain the growth rate of 18 per cent achieved in 2005 to be able to achieve a turnover of US\$ 10 billion by 2010.

Perhaps indicative of the next step of evolution, the company has entered into a licensing agreement with Levi Strauss & Co. Under this agreement, the company will design, manufacture and market men's tops for United States market under various Levi's® labels including Levi Strauss Signature™ branded jeans that are sold to United States mass marketers (Abernathy, Volpe and Weil, 2004).

5. Adjusting to the post-quota world

The temporary safeguards imposed on China have changed the entire dynamics of the T&C trade, with several countries either holding on to their past gains or achieving remarkable export growth. However, many analysts believe that this situation is short-lived (Razzaque and Raihan, 2006; Bhatt and others, 2006; Sisouphanthong and others, 2006; and Chan and Sok, 2006). From this point of view, the real competition in the world T&C market will begin only after 2008 with the phasing out of these temporary quotas.

²⁵ See Morris, 2006.

²⁶ Figures are updated based on the company's website at www.lifung.com/eng/global/home.php (accessed on 14 December 2006).

Safeguard measures on Chinese imports can be seen as yet another breathing space for a number of countries that are expected to lose out in the post-2008 period. Efforts have already been made in several countries, even before the phasing out of ATC, either as a “preparedness strategy” or as a “survival strategy”. While some support measures have been taken only by governments, others were undertaken through public-private partnership or with the private sector reacting to incentives provided by the governments.

(a) Efforts made so far

(i) Government support for the T&C industry

Governments all over the world are known for providing targeted support to priority sectors, including protection from outside competition, in order for them to grow, prosper and face global competition. A recent study by Adhikari (2006b) on the magnitude and type of government support provided in seven Asian countries (Bangladesh, China, India, Indonesia, Pakistan, Sri Lanka and Viet Nam) suggests the emergence of the following pattern.

First, support is a function of the ability as well as the willingness of governments to provide assistance. Therefore, better resourced countries such as China appear to have provided more assistance compared to, say, Indonesia. Government of China has heavily supported the modernization of its factories²⁷ and provided “tax forgiveness” to the state-owned enterprises (SOEs),²⁸ in addition to creating textile cities and providing export credit insurance to the T&C enterprises. Governments that pursue active industrial policies tend to provide higher levels of support, which can also be seen from the examples of China and India vis-à-vis Indonesia or Sri Lanka.

Second, since maintaining and improving competitiveness is the key to survival in the post-quota world, investment in technological upgrading or modernization of the T&C sector has been the most widely utilized form of support in all the countries reviewed. While some countries have reduced tariffs on imports of machinery and equipment, others have provided preferential credit or cash support to help their firms modernize themselves. Apart from China, as mentioned above, examples include Bangladesh, India, Indonesia, Pakistan and Viet Nam.

Third, a reduction in the prices of infrastructure, such as rebates/reductions in utility charges, was found to be the least used (or least reported) form of government support. Even in the case of Bangladesh, where this facility is provided to export-oriented enterprises, the scheme appears to have only been introduced into its industrial policy of 2005.

Fourth, income tax exemption for the exporting sectors, an extensively used form of government support in the past, is not the norm anymore, with some governments not providing such a facility and some recently discontinuing it. For example, income tax

²⁷ During 1997 and 2000, more than US\$ 30 billion of state-of-the-art textile machinery was imported by China. See Ministry of Commerce, 2005, cited in World Trade Organization, 2006b.

²⁸ Grants or tax forgiveness totalled Y 3.1 billion in 1997 and 1998. See World Trade Organization, 2001.

exemption is not provided by Indonesia while India has recently discontinued it. Others charge income tax at reduced rates for export oriented enterprises.

Fifth, the operation of special economic zones (SEZs) or export processing zones (EPZs), which are not only targeted at the T&C industry, is common in all the seven countries reviewed. A separate discussion on this special measure is included below. Moreover, refunds of, and reductions in excise duty, sales tax and VAT for the inputs – goods and/or services – used in export processing, which is provided in all the countries reviewed, is another general support measure not confined to the T&C sector. Similarly, duty reduction on the imports of inputs also figures as one prominent means of supporting export-oriented industries in the majority of the countries reviewed.

Sixth, although all the countries studied have achieved export growth in the post-quota period, no systematic study has been conducted to establish any casual link between the magnitude of government support and its contribution to export growth. Moreover, much of the support appears to have resulted from a “demonstration effect”, with countries trying to replicate a successful model without conducting a proper cost-benefit analysis. Government support to the industry has important fiscal implications, and its sustainability can be questioned.

Seventh, most governments appear to have provided such support in a WTO-compliant manner. This has been made easier by the fact that LDCs and developing countries with less than US\$ 1,000 per capita gross national product are exempted from rules on subsidies under the Agreement on Subsidies and Countervailing Measures. Moreover, general subsidies, i.e., the subsidies given for production across the board to the entire industrial sector, based on some generally applied criteria can be provided, as can subsidies for research and development and/or environmental conservation (Das, 2006). The fact that these subsidies have not been challenged so far is also a testimony to the fact that they do not fall foul of WTO provisions.

(ii) Export processing zones

One of the major supply-side constraints faced by most least developed and low-income countries is the lack of ability to enhance competitiveness, resulting from poor infrastructure, inability to obtain inputs at international prices with the shortest possible lead-time, inability to meet the deadline for orders because of frequent interruptions in operation from labour unrest or political disturbances, and other regulatory barriers. Because these barriers severely constrain the ability of the private sector to earn an attractive return on investment, the private sector, in turn, is reluctant to invest in sectors such as light manufacturing of T&C and electronic products despite their export potential. Foreign investors are even more hesitant (Adhikari and Yamamoto, 2006). Therefore, in order to attract investments²⁹ in these sectors, many governments in developing countries have established various EPZs and SEZs. Within these zones, governments provide incentives to enterprises that mimic – and go beyond – the free trade scenario. For example:

²⁹ In several countries, foreign investors are the main beneficiary of the positive environment created by export processing zones, whereas governments could provide incentives to local investors in order to benefit equally from the favourable setting. See World Trade Organization, 2005.

- Enterprises within EPZs can obtain inputs such as equipment and raw materials duty-free; a certain level of regulatory relief is assured;³⁰
- Foreign exchange controls are not applied;
- Profit repatriation is guaranteed;
- Strikes and other labour actions are prohibited; and
- In some cases, freedom of trade unions is also restricted.

Moreover, trade services and infrastructure facilities available within an EPZ are higher than national average standards. However, certain conditions are also imposed on EPZ enterprises including, among others, either not being allowed, or severely restricted from making domestic sales.

The primary goals of EPZs are to create conducive business environments and to enhance earnings by promoting non-traditional exports, direct investment, technology transfer and knowledge spillover. The greatest EPZ contribution appears to be job creation and income generation. EPZs can also contribute to building human capital through their demonstration and catalyst effects on the country entrepreneur pool (Madani, 1999).

Although EPZs have attracted considerable attention in the empirical literature, studies focusing on the efficiency of the T&C sector within an EPZ are rare. According to one analysis conducted by WTO (2005), which focused exclusively on LDCs, EPZs in some cases not only offered beneficial business to domestic and foreign firms, but also boosted economic development by helping countries enhance their competitiveness. However, the report cautioned: "In the majority of cases, success of the EPZ was limited and contributed only to a minor extent to an improvement of LDC competitiveness in the T&C sector" (Madani, 1999).

One reason for this could be the very limited backward or forward linkages between the EPZ and the local economy. Because of the incentive structure, together with the quality and reliability of inputs demanded by EPZ-based exporting firms, most prefer not to purchase inputs from local industries. This acts as a barrier to creating a reliable backward linkage. Moreover, because firms located in the EPZ are prevented from making domestic sales, their forward linkage with the local economy is severely constrained (Adhikari and Yamamoto, 2006).

Another important consideration is whether the incremental net value of the expected benefits justifies the huge investment to be made, at least initially, by the public sector³¹ as well as the costs to be incurred in the form of foregone revenue. Research by Jayanthakumaran (2003) on the performance of EPZs, using a benefit-cost analytical framework, found that zones in China, Indonesia, Malaysia, the Republic of Korea and Sri Lanka were economically efficient and generated returns well above

³⁰ For example, in Sri Lanka, the Board of Investment (BOI) encourages investors to locate their factories in BOI-managed industrial processing zones to avoid land allocation problems. See United States Trade Representative, 2004.

³¹ The assumption is that the private sector also will be made to participate in the export processing zone by contributing both financial and managerial inputs.

estimated opportunity costs. On the other hand, the heavy infrastructure costs involved in setting up the zone in the Philippines resulted in a negative net present value.

In some countries, EPZs can become controversial mainly because of the tug of war between the Ministry of Finance, which is concerned with revenue foregone, and the Ministry of Industry, which wants to create industries as well as employment opportunities. For example, two ministries in India are currently at loggerheads over a proposed plan to upscale the creation of SEZs. According to an estimate prepared by the Finance Ministry, the country would have to forego about US\$ 22 billion, on account of the SEZ-granted tax rebates, by 2009/10. According to the estimate by the Commerce and Industry Ministry, one million new direct jobs will be created on account of SEZs in the next five years, with corresponding impacts on incomes and potential tax revenue as well as spillovers in the economy, including the creation of indirect employment.³²

(iii) Case studies

Building on an earlier study (Adhikari and Yamamoto, 2005), this subsection discusses case studies of three Asian countries that have achieved success in maintaining or even increasing their exports in the face of phasing-out of quotas. These case studies (Cambodia, Sri Lanka and Thailand) were initially prepared when the impact of safeguards imposed on China had yet to be felt. However, even after the imposition of safeguards on China, the contributions of these strategies have not diminished.

- *Cambodia – improved labour standards*

Cambodia's access to the United States market from 1999 to 2004 was contingent on its record of compliance with labour standards, with quota rates increased every year based on successful compliance. In order to satisfy this requirement, Cambodia adopted a corporate social responsibility programme in collaboration with the International Labour Organization (ILO), known as Better Factories Cambodia (formerly the ILO Garment Sector Project).

Started in 2001 to help Cambodia's garment sector achieve and maintain improvements in working conditions, the project (a) monitors and reports on working conditions in Cambodian garment factories measured against national and international standards, (b) helps factories to improve their productivity, and (c) works with the Government and international buyers to ensure a rigorous and transparent cycle of improvement. The main objective of the programme is to help Cambodian garment factories constantly improve the conditions of labour by strictly adhering to national labour legislation as well as international Conventions that Cambodia has signed as a member of ILO. The programme aims at setting minimum standards as agreed by the decision of a tripartite body (Government, private sector and trade union), monitoring compliance and providing advisory support and capacity-building training to stakeholders to support compliance (International Labour Organization, 2005a and 2005b).

According to a buyers' survey conducted by the Foreign Investment Advisory Services (2004) of the World Bank Group, more than 60 per cent of buyers interviewed

³² See Mehta, 2006, for further details.

said compliance with labour standards was of equal or more importance compared to considerations of price, quality and lead times. The survey also found that Cambodia's labour standards were seen as higher than other Asian countries (Bangladesh, China, Thailand and Viet Nam). It also revealed that 60 per cent of the buyers planned to increase their garment purchases from Cambodia, while none said they would cut back.

Cambodia's ability to achieve an overall export value of US\$ 2.2 billion in 2005, an increase of 11.7 per cent over the 2004 figure,³³ lends credence to the findings of the study. Based on the import figures of the European Union and the United States for the first eight and nine months of 2006, respectively, Cambodia has done extremely well in both markets. While improved labour standards could have partly contributed to this, safeguards against China's exports may have played a greater role in this regard. Although Cambodia's bilateral agreement with the United States has expired and securing increased quotas is no longer an incentive for Cambodia, the programme of labour standards is to be continued by the Government of Cambodia in all likelihood (Chan and Sok, 2006).

However, there are four clear problems associated with this programme. First, as expressed by the Garment Manufacturers Association of Cambodia, compliance with labour standards has led to increased costs for exporting enterprises, thereby eroding their competitiveness. Second, greater freedom of association has led to an increase in strikes and other disruptive activities that are detrimental to the interests of the industry (Chan and Sok, 2006). Third, despite the success of this model in the garment industry, it has not been replicated in other industries in the country and certainly not in other LDCs having similar socio-economic conditions and export profiles. Fourth, this scheme covers only the formal sector, not the informal sector (Adhikari and Yamamoto, 2005).

- *Sri Lanka: Focus on a niche product*

The growth of the Sri Lankan garment industry, like that of many other developing countries, can be mainly ascribed to the existence of the quota system. Several studies predicted that Sri Lanka would be one of the losers in the post-quota regime. This almost came true in 2005, when Sri Lanka's export to the European Union market declined by 1.3 per cent in value terms. Fortunately, due to a 5.9 per cent growth in the United States market, Sri Lanka still managed to post a positive growth of 3 per cent in United States dollar terms at the end of 2005 (Adhikari and Yamamoto, 2005). Since the Sri Lankan T&C sector is not considered highly competitive due to several factors – higher wages, low productivity of workers, high cost of utilities and a lack of backward linkages – private entrepreneurs realized that they should focus on niche products in order to create an opportunity for themselves.

Taking advantage of the relatively high level of education of its workers,³⁴ coupled with their aptitude for learning quickly, Sri Lanka started focusing on a distinct segment of apparel, i.e., women's undergarments. Another distinct advantage of Sri

³³ See Chan and Sok, 2006.

³⁴ The literacy as well as education level of Sri Lanka is considered "one of the best" in South Asia. In 2004, the literary rate (ages 15 and above) was 90.7 per cent, compared to 61 per cent in India, 48.6 per cent in Nepal and 49.9 per cent in Pakistan. The only South Asian country to have a higher literacy rate comparable with Sri Lanka is Maldives (96.3 per cent). See UNDP, 2006.

Lanka is that some of the manufacturers in the country had already been concentrating on this segment for a relatively long period and had established a reputation in the export market. Table 9 provides growth rates for this sector since 2004. According to the figures, the category in which the fastest export growth was attained in the United States market was cotton briefs and panties, between 2004 and 2006: growth reached 910 per cent in the first nine months of 2005 compared with the corresponding period in 2004, and 58.7 per cent in same period of 2006. In the case of the European Union market, brassieres showed consistently strong import growth, at 18.6 per cent in first eight months of 2005 and 52.2 in same period of 2006.

The figures suggest that there is tremendous potential for expansion in the United States market. With combined exports of US\$ 240 million to the United States and European Union markets, these items represented 11 per cent of the total Sri Lankan export of T&C products in 2005. In 2006, these exports, which increased to US\$ 321 million, represented 15 per cent of all T&C exports by Sri Lanka to these two major markets.

For a country that has recognized its limitations in terms of competing with other low-cost economies, and which has a pool of skilled and educated human resources, focus on a niche product may be an option for survival. This sector is not likely to face

Table 9. Sri Lankan exports of women's undergarments

Imports into US market (US\$ million)						
HS	Product description	Jan.- Sept. 2004	Jan.- Sept. 2005	Jan.- Sept. 2005	Change (%) 2004-2005	Change (%) 2005-2006
610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	5	53	84	909.9	58.7
610822	Women's or girls' briefs and panties of manmade fibres, knitted or crocheted	18	22	35	22.1	60.7
621210	Brassieres, all types of textile materials	64	89	79	38.9	11.5
Imports into European Union market (Millions of Euros)						
HS	Product description	Jan.- Aug. 2004	Jan.- Aug. 2005	Jan.- Aug. 2005	Change (%) 2004-2005	Change (%) 2005-2006
610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	17	13	20	22.4	53.4
610822	Women's or girls' briefs and panties of manmade fibres, knitted or crocheted	11	9	22	19.5	143.3
621210	Brassieres, all types of textile materials	28	33	51	18.6	52.2

Source: Authors' calculations based on data from USITC interactive tariff, Trade DataWeb and Eurostat (COMTEXT).

increased competitive pressure in the immediate future because other developing countries with limited skills may not be able to replicate this model easily, mainly because of the lack of educated and skilled human resources.

The Sri Lankan private sector's continuous search for niche products was also demonstrated by the recent success of a single firm in carving a global niche by penetrating an even more lucrative market – body armour, flak jackets and bullet-proof vests for troops in Saudi Arabia as well as for the United Nations (Daily Mirror, 2006). Therefore, it is not surprising that Sri Lanka has the second lowest export concentration of T&C products in South Asia, second only to India (Adhikari, 2006c).

- *Thailand: Focus on regional trade*

While Thailand has been able to increase its exports of garment products to the United States, its exports to the European Union market declined in 2005. This may be due in part to competition from players that are more efficient, such as China and India after the quotas were eliminated. However, Thailand, as a member of the ASEAN Free Trade Agreement, was able to export to its immediate neighbours to make up for the losses it incurred in other large markets. It has become a major supplier of fabrics to all other ASEAN countries, as seen by the profile of its fabric exports. Except for Singapore and Brunei Darussalam, which do not have strong T&C sectors, all other member countries of ASEAN have increased their imports from Thailand.

The European Union's policy of allowing for ASEAN cumulation to achieve rules of origin requirements under EBA appears also to have indirectly helped Thailand. Since its immediate LDC neighbours such as Cambodia and the Lao People's Democratic Republic do not have well-developed textile and other accessories manufacturing, the European Union's requirement for using fabrics from ASEAN to qualify for rules of origin requirements provides a captive market for Thai textiles. Likewise, export diversification in the case of garments is quite impressive, and there are lessons to be learnt for other Asian developing countries.³⁵

It might be possible for other ASEAN developing countries such as Indonesia and Viet Nam to follow the same trajectory, while LDCs such as Cambodia and the Lao People's Democratic Republic probably will have to wait for several years to make this happen. Due to a relatively liberal and problem-free preferential trade regime within ASEAN, increasing intraregional trade to make up for losses in multilateral trade appears feasible. However, it might not be possible in the South Asian region not only because intraregional trade in the area is very low but also because most member countries have included a majority of T&C products under the "sensitive list" negotiated under the Agreement on South Asian Free Trade Area (SAFTA).³⁶

(b) Efforts required

Developing countries have designed and implemented a variety of survival strategies to keep themselves afloat in the post-quota era. While some of them have paid off as well as provided a sustained advantage to the T&C industry, others may not

³⁵ See Adhikari and Yamamoto, 2005, for a detailed account of Thailand's success story.

³⁶ See Adhikari and Weeratunge, 2006, for a detailed account of regional cooperation on T&C trade in South Asia.

be sustainable. For example, Sri Lanka's continuous search for identifying niche products and product diversification, and the Thai model of South-South trade look more sustainable than the Cambodian strategy, which can be replicated by other countries. Since the competition in this industry is bound to be intense post-2008, there is no substitute for enhanced competitiveness. However, achieving cost competitiveness alone is not enough. It might be possible to replicate one of the above models by fine-tuning them to suit the national conditions. Developing countries should consider a broader range of policy responses to be able to survive in a fiercely competitive post-2008 market.

(i) Market access

Improved market access is necessary for overcoming trade barriers. It is in the interest of most developed countries to promote a rules-based, multilateral trading system rather than promoting a "spaghetti bowl" of frequently overlapping rules of origin. However, in the context of Asian LDCs that have been deprived of market access opportunities in the United States market, a campaign for unconditional duty-free market access with flexible rules of origin, taking account of the stage of industrialization of such LDCs, should continue. Other non-tariff barriers should also be addressed as a part of the Doha Round of negotiations, when revived.

(ii) Human capital

Increased productivity is a major tool for improving competitiveness at the enterprise level. However, in order to enhance the productivity of the country as a whole, investments in health and nutrition are as important as investments in education and skills development. A combination of public-private partnerships and mobilization of donor support could be an effective way to create better human capital critical for survival in the post-quota world.

(iii) Value chain management

Given the increased importance of full-package service delivery, timeliness and consistency in delivery, quality assurance and adaptability, developing country suppliers should try to learn these techniques. Constant improvement and upgrading of trade facilitation measures is a must for achieving these objectives. Such efforts will not only help to improve competitiveness of the T&C sector, but will also provide economy-wide benefits.

(iv) Sustainability of government support

In order to reduce the burden on budgetary resources, due both to support provided and revenue foregone, governments could usefully explore several approaches to sector support. First, the potential of public-private partnerships between government and consortia of exporters should be utilized to the extent possible in developing this sector. Cost sharing should be encouraged in every support programme. Second, it may be possible to charge nominal user fees for various services provided by governments to the industry, with a gradual increase of the fees over time. Third, governments should try to obtain technical assistance from various multilateral and bilateral donors to support some of these initiatives. Subject to the outcomes of cost-benefit analysis, this type of support can be a perfect candidate for utilizing the benefits of "Aid for Trade" – a proposal currently being discussed at WTO.

(v) Access to credit

Reforms aimed at infusing more competition, including encouraging FDI and joint ventures, can help unlock the potential of the financial sector. This can be achieved through enactment/implementation of competition laws in developing countries. Another option is to empower the regulatory institutions to play a more active role in promoting competition in the financial sector. Moreover, legal reform to improve the loan recovery system could go a long way towards building the confidence of the banking system and providing it with incentives to treat small and medium-sized enterprises more or less at par with other borrowers. If it is not possible to implement either, or both of the instruments mentioned above, a government may have to resort to directed lending. However, this should be conditional on performance requirements and should have a credible "sunset" clause to prevent the same from being captured by vested interests.

(vi) South-South cooperation

While the starting point for South-South cooperation is trade, it should go much beyond that. Areas of South-South cooperation for the development of the T&C sector may include the flow of investment not only in the rather "footloose" RMG sector, but also in helping to create vertically integrated facilities by making investments in textiles or accessories industries and the south-south transfer of technology. Countries such as China and India could take the lead in these initiatives. Another possible area of cooperation could be to encourage training institutions in relatively better-off developing countries to partner with such institutions in countries with limited capacities.

E. Conclusion

The post-quota world has not brought about a dramatic transformation in the T&C market or in sourcing patterns. Among the losers of the post-quota era, not all are on the same footing. While some have graduated into the production of higher-value products, others have lost out because of their lack of competitiveness and their inability to adapt. The current status quo is the result of the re-imposition of quotas on China as a part of the temporary safeguard measures agreed by the country at the time of its accession to WTO. Countries that did not manage to withstand competition in the first six months after the phasing out of quotas need to be extremely cautious and make every possible effort to enhance their competitiveness before the expiry of this temporary measure in 2008.

Given the history of protection in this industry and rather strong political economy factors, market access remains the largest single problem for the developing countries. However, this can be resolved mainly through international and regional cooperation. There are several supply-side issues that are impeding the growth prospects of several developing countries. These problems need to be addressed first at the domestic level. International support in the form of "aid for trade" can, however, be instrumental in supplementing the domestic reforms initiatives.

Despite protectionist barriers, the T&C industry has not remained static over the past five decades or so. It keeps evolving due to changing demand of the buyers, sourcing patterns, availability of and access to technology, shifting levels of economic growth and increased consciousness as well as sensitivity towards corporate social responsibility and ethical procurement. While some of these emerging issues offer opportunities for developing countries, others pose challenges. In order to survive in the

present T&C market that is characterized by rapidly changing consumer demand and retailer market power, organizational skills and flexibility become more important than merely achieving cost competitiveness.

Some of the efforts made by governments as well as the private sector to help the T&C exporters survive the phasing out of quotas have produced encouraging results. However, some other endeavours have either not been successful or could yet prove unsustainable. Therefore, concerted efforts should be made by various stakeholders aimed at addressing the market access anomalies and supply side constraints, keeping in view the emerging challenges and the future evolution of the T&C industry and trade.

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