SYMPOSIUM ON

Trade in Textiles & Clothing; Beyond Quota Regime,

September 14, 2004

During the past two decades the textile industry overall in South Asia has grown at a rapid pace and has become one of the largest manufacturing sector in terms of its contribution to industrial production, foreign exchange earnings and employment generation.

The increasing significance and improved performance of the textile & apparel industry in the region could be attributed to a number of factors such as the continued steady demand due to availability of quotas, participation of foreign investors particularly from other quota receiving countries in the industry, adoption of liberalized market policies and the availability of low cost labor.

The abolition of quotas against exports of textiles and clothing from developing countries scheduled for January 1 2005 will have important implications for exporters of textiles and clothing in the SAARC region. The commitment by the major trading nations of the world to abolish the quotas on textiles and clothing is something that developing country exporters have sought for many years. Given SAARC region's strength in textiles and clothing there is every reason to expect SAARC to gain from its abolition in the longer term. However the increase in competition resulting from its abolition will likely require major adjustments in the SAARC region during the transition period. However, without detailed analysis, it is not clear what will be the direction and magnitude of its effects and what policy responses will be needed. Quota abolition could have major impacts for the overall performance of all the textile manufacturing economies. Much needs to be done to strengthen this key industry.

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Considering importance of the textile sector for South Asian economies, SAARC Chamber of Commerce and Industry (SCCI) organized a Symposium on "Trade in Textiles & Clothing in the Post-Quota Regime", in Mumbai on 14th September 2004.

Main objective of the symposium was to taking stock of the strengths and weaknesses of the region as well take inputs from industry gurus and provide guidelines to stakeholders. Furthermore, to explore the issues where the countries in the region can cooperate and collaborate to compete in the global market in a consolidated manner. Symposium was success in a way that it gathered participation form major stakeholders including industry, government and policy think tanks.

PHASING OUT OF MFA

The completion of the fourth stage of ATC on January 1, 2005, will be the most significant change in the world trade regime for textiles since the MFA forty years ago. The first three stages of the ATC in 1994, 1998 and 2002, while fulfilling the conditions of the ATC in letter, failed to achieve a commercially meaningful liberalization of trade in textiles and clothing. The ATC was in two parts: the progressive integration of products into the GATT 1994 and a progressive increase of quotas for products that remained under the ATC following each stage. The first part was diluted by including items in the agreement that were not restricted under the MFA, which served to inflate the basis from which liberalization was calculated. The ATC also measured integration by volume rather than value, thus allowing quota imposing countries to effectively backload the process and delay liberalization. Regarding the second part of ATC, quota growth rates were applied to increases in the annual quota increase carried over from the MFA. As a result, the accumulated aggregate increase of the quotas over the 10-year ATC period were just 17.8 per cent in the EU and 25 per cent in the United States, compared to what they would have been with the continuation of the MFA. As a result, progress has been very limited both in the integration process and improved market access.

FACTORS INFLUENCING TRADE FLOWS ON THE EVE OF END OF MFA

First, trade in textiles and clothing, despite the integration of 51% of items by volume, is still largely subject to binding quotas. The MFA exempted trade in these products from two fundamental principles of the GATT. One, it allowed the use of quantitative restrictions rather than tariffs and secondly it allowed restrictions to be country specific and discriminatory, in contrast to the MFN principle of equal treatment. As a result trade in textiles and clothing has been excessively distorted, and comparative advantage and cost competition are not the main factors determining trade flows. The sudden end of the quota system will naturally impact trade flows in, as yet, an undetermined manner.

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Secondly, the MFA and the ATC address quotas but do not specifically address tariffs. Trade in textiles and clothing are subject to each importing countries' standard MFN tariff rates for trade between WTO members, unless a country is entitled to preferential tariffs, such as available for LDC's or under RTAs and a GSP program. Currently there are scores of such arrangements in force. For example, NAFTA between the USA, Mexico and Canada; the United States under the Trade and Development Act (USTDA) 2000, provides tariff-free and quota-free access, under certain eligibility criteria, to 48 countries in Africa and 24 countries in the Caribbean Basin, covering garment exports. However the strict rules of origin diminish the value of the Act. Similarly, the EU's Everything But Arms (EBA) program provides

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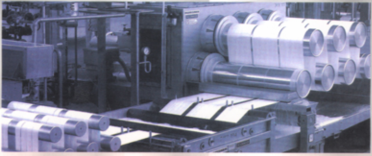
tariff-free and quota-free access to the EU for any LDC exports which meet certain rules of origin criteria. The EU has FTAs with a number of Central and East European countries, some of which became EU members in May 2004. Since the ATC has no impact on import tariffs for textiles and garments, tariffs will therefore become the main policy instrument to regulate world trade in textiles beginning in 2005.

Another development in recent years that has increasingly influenced trade flows are the structural changes in the textile and clothing industries. Increasingly the supply chain from sourcing of raw materials via design and production to distribution and marketing is being organized as an integrated production network where the production is sliced into specialized activities and each activity is located where it can contribute the most to the value of the end product. When the location decision of each activity is being taken, costs, quality, reliability of delivery, access to quality inputs and transport and transaction costs are important variables. The chain is driven by demand pull forces, which means that recent changes in the retail sector towards "lean retailing", requiring low inventories and quick responses to supply orders, have had a substantial influence on the industry.

Vertical specialization is an important feature of the new worldwide industrial structure in textiles. Inputs embodied in the final product cross customs borders a few times, making trade very sensitive to the tariff level. Hence after the phasing out of quotas, prevailing tariff rates and the preference margins of countries will be important determinants of competitiveness. Second, time to màrket is important and increasingly so, particularly in the fashion clothing sector and where retailing has adopted lean inventory management procedures.

In view of these considerations, post-ATC, countries close to the major markets are likely to be less affected by competition from low cost producers like India, Pakistan and China. For instance, Mexico, the Caribbean, Eastern Europe and North Africa are therefore likely to remain important exporters to the US and EU, and possibly maintain their market shares. This is even more likely given the preferential access they have to the markets through regional trade agreements. Thus, having a common border with the importer and facing low or zero tariffs will continue to have a substantial impact on bilateral trade. The countries that are most likely to lose market shares are those located far from the major markets and which currently enjoy either tariff and quota-free access to the United States and EU markets, or which have had non-binding quotas. These countries will undoubtedly face adjustment challenges. Also local producers in EU, the United States and Canada are likely to lose market shares. These producers have enjoyed more than 40 years of "temporary" protection, but now face a long-term structural decline.



VIEWS SHARED AT SYMPOSIUM

Sushil Jiwarajka, Chairman, Western region, FICCI opened symposium with an encouraging remarks. He said "We expect the year 2005 will bring in huge opportunity for trade in textiles and clothing because the quotas that have resulted in developing countries export revenue loss of 22½ billion dollars per annum will be phased out completely from 1st of January next year. Although the exact quantitative gains from the elimination of these quotas are difficult to determine but all the studies foresee significant increase in global welfare, as a result of quota abolishing".

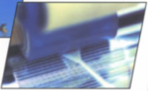
Premal Udani, Senior Vice Chairman, Apparel Export Promotion Council, Mumbai made SWOT analysis of the Indian textile industry, which he felt somehow share by other countries in the region with minor differences. He saw China threat as over hyped and see South Asia coming out as winner in post quota regime. However, showed unsatisfaction on passive government role as well lobbies within ranks of textile sector, which are hampering required growth targets to meet rising global market demands.

Dr. Zubair Khan, Industry consultant and former commerce Minister Pakistan argued that drawing lessons from recent developments in world textile trade, and analyzing the domestic textile industry of Pakistan, it would be fair to expect that post-ATC, Pakistan is likely to expand its market share both in the US and EU markets, especially in products in which Pakistan is now utilizing at least over 90% of quotas. It could also increase shares where the tariff disadvantage vis-à-vis competitors is reduced as a result of overall reduction in tariff under the Doha Round making the tariff preferences of competitors in RTAs and LDCs less.

Mrs. Sonali Wijeratne, Dy. Director of Commerce, Sri Lanka argued that while the textile industry girds itself to meet post quota era challenges, we see many opportunities in the new quota free market in promoting Sri Lanka as an integrated total service provider for the global apparel industry, as well as projecting ourselves as a socially responsible manufacturer of apparels and obtaining enhanced market access in major export destinations. After all as we reach the historical watershed of quota free trading environment, the continuity of a new liberalized scenario in the textiles and clothing sector has necessarily to be protected by ensuring that there are relatively no unfair advantages accruing to trading partners and that a level equitable basis for competition exists for all competing industries in these sectors.

Eng. Akbar Sheikh, Representative, All Pakistan Textiles Mills Associations (APTMA) emphasized on formation of SAARC textile council under the aegis of SAARC Chamber of Commerce and Industry. He praised SCCI efforts to organize an event of such relevance. This is an excellent initiative but this is the first interaction on this subject and ideas really start emerging, which certainly requires some follow up. Formation of a formal setup will answer many unattended queries and draw guidelines for the industry. Considering the intensity of China factor, he emphasized to initiate a SAARC China dialogue on textiles with China.

Dr. Ananya Raihan, Research fellow at Center for Policy Dialogue, Dhaka explored some common ground for SAARC countries with Bangladesh as an LDC to have cooperation and collaboration. Bangladesh as an LDC is enjoying duty free and quota free access in major markets and that is the advantage of Bangladesh from other SAARC countries like India, Pakistan and so one option might be to explore this preferential treatment through regional culmination by importing the raw materials from the neighboring countries and as mentioned earlier that the lead time is a major factor. To reduce the lead time, whether second option should be considered that there might be some investment in the country in the backward linkage and then the preferential treatment can be enjoyed both by the Bangladesh and industrialists of neighboring countries. So the two options can be explored but also the developing and LDC tie-up for EU market can be utilized and as we know that the rules of origin in EU market has been considered to be relaxed for the LDCs and the provision is that if an LDC notify the EU, the EU will consider the relaxation of the rule of origin, particularly in the textile and clothing area, so that can be also explored by the countries in the region.



Mr Siddhartha Rajagopal, Executive Director, Cotton Textiles Export Promotion of India, Mumbai emphasized on Need for a dynamic implementing strategy, such a strategy should aim at creating a common South Asian hub. He had few suggestions which he shared with symposium. These include, evaluation of the policies relating to textiles and clothing in the member countries, developing a common understanding on the various issues emerging from globalization, identifying areas of greater cooperation and trading opportunities after making a careful cost benefit analysis. Assessing the supply-demand situation in each member country for selecting products in order to identify export potential and import requirements and bench-marking the capabilities and comparative advantage of each member State at the different stages of production in the entire textile value chain, skill and knowledge of existing manpower and to modernize level of technology in order to develop cross border production centers.

Ms Huma Fakhar, trade Lawyer from Lahore together with **Dr. Rajesh Mehta,** Research fellow, RIS New Delhi looked at challenges and opportunities provided by China's entry into WTO.

Chinese market, what is needed in the post-quota regime is how to get hold of the Chinese factor. South Asia's has a good market diversification in textiles but what it doesn't have is the product diversification. We need to have product diversification in addition to niches if we need to compete with China. South Asia can't compete China on the price model that they are pursuing so what our region need to be following non-price factor that is in niches and innovation and more deepening of relationships with our buyers.

Furthermore, looking at Chinese market as an opportunity most importantly, if we want to break-in, we will have to have our niches in yarns and fabrics. Niches in industrial yarn is one area where China has the most of demand. Industrial yarn is where the Chinese have no tariff duties at all and it is an area where not just China but Italy, Germany and others are also looking forward for import.

SYMPOSIUM RECOMMENDATIONS

Prem Malik, Vice Chairperson, Cotton Textiles Export Promotion of India, Mumbai chairing final session announced symposium recommendations based on the views shared by speakers and participants;

1. To enhance productivity, marketing skills, design development and the international image of the industry with key important focus on the developments of the SME sector.
2. Symposium suggested Technological Upgradation and Productivity Growth as "The Twin Magic Words of Doing Business in Post-MFA US Market"
3. Rapid growth in bilateral and multilateral arrangements perused by SAARC competitors, symposium strongly suggested governments to consider textile sector on FAST track under SAFTA negotiations.
4. Keeping in view the changes in market dynamics a regional perspective should be adopted;
   - Exploring Common South Asian Supply Hub
   - Regional Investment for maximizing Comparative and Competitive Advantages
   - DC-LDC tie up for EU Market
5. Non tariff barriers have emerged as one of the daunting challenges to the textile industry. In forms of audits for social and environmental compliance, NTBs are haunting our industry competitiveness. This issue requires collective response, which will certainly slow our growth in long run.
6. Symposium viewed China as a challenge as well a great market opportunity for the region exports. It is suggested to compete with China, we need to develop niches. More focus on forum shopping and above all for the time being, it also recommended, moving out of categories where China is absolutely going to swallow us, at least for the next ten years or so. In addition, SAARC has to be strengthened, if we want to look at it collectively and see how the price modeling can be fought on non-price factors. It was also felt to initiate SAARC-China dialogue with focus on textile sector to discus issues including dumping etc.
7. Opening of Indian market has been considered as great potential. Today, the Indian market in clothing is estimated to be about almost US $ 20 billion, so it is a huge market within the region which is of course, at this point in time, primarily being met by Indian manufacturers. Perhaps if the tariff barriers come down, India can also provide a viable market for SAARC countries. Presently, on consumption patterns, India per capita consumption of clothing continues to be still one of the lowest in the world at about six and a half garments per person, per annum but over the last two years and specially in the next five years, this per capita consumption is slated to grow to almost 8 to 10, so if that happens, the size of the market is going to go up by 30-40%, so there is a big enough market within the region.
8. Symposium supported SCCI initiative for strengthening government-industry partnership and suggested to enhance interaction among Geneva based trade diplomats and private sector for the effectiveness of trade policy instruments. Furthermore, it was also emphasized to seek cooperation among SAARC trade diplomats in Geneva for adding bargaining power of the region.
9. Lastly symposium strongly suggested SAARC Chamber of Commerce and Industry to immediately establish council to serve interest of textile sector in the region. Its key objective should seek cooperation and integration of textile sector across region to be better equipped it self for emerging challenges faced by the industry in post quota regime.

Symposium ended at a positive note that most importantly, world market developments suggest that all countries in the SAARC region could mutually benefit from a regional trade agreement over complete liberalization of trade in textiles if not garments, to take advantage of the vertical integration benefits in production of garments for export to the EU and US markets. After all these are the biggest importing markets, and their share in world imports has grown, and the main benefit of ATC has yet to come and it will be most significant in garments.

The fact is that South Asia with its huge raw material base and manufacturing capacity has immense potential and advantage in the post-quota period but the potentials could be realized only through a combination of well thought-out as well as implemented policy measures and result oriented quick industry initiatives to increase productivity and efficiency.

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