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POLICY PAPER

International Trade in Textiles and Clothing and Development Policy Options

AFTER THE FULL IMPLEMENTATION OF THE WTO AGREEMENT ON TEXTILES AND CLOTHING (ATC) ON 1 JANUARY 2005

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This Policy Paper is part of a one-year-long effort of the UNDP Asia Trade Initiative (ATI) to learn more, for awareness and policy purposes, about the likely trade trends and development impact after the termination of the WTO Agreement on Textiles and Clothing (ATC) on 31 December 2004. This effort was launched through a Regional Orientation Meeting on Textiles and Clothing in Ha Noi on 26-27 October 2003. This Paper has benefited from the following case studies produced under the aegis of ATI: Post-ATC Scenario - Trade Projections and Multilateral Initiatives, by Munir Ahmad; T&C in the Philippines, by Maria Teresita Jocson-Agoncillo; T&C in Pakistan, by Zubair Khan; T&C in Vietnam, by Duong Phuong Thao; T&C in Cambodia, by David Van; U.S. Policy in Textile and Apparel Trade, by Craig VanGrasstek; and T&C in India, by Samar Verma.

Acronyms and Abbreviations

ACP	African, Caribbean and Pacific Group of States
ADB	Asian Development Bank
AGOA	African Growth and Opportunity Act
ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textiles and Clothing
ATI	Asia Trade Initiative
BOP	Balance of Payments
BTA	Bilateral Trade Agreement
CAFTA	Central American Free Trade Agreement
CBI	Caribbean Basin Initiative
CGE	Computable General Equilibrium
CMT	Cut-Make-Tear
CSI	Container Security Initiative
EBA	Everything But Arms
ECU	European Currency Unit
EIU	Economist Intelligence Unit
EU	European Union
ERS	Economic Research Service (USDA)
FIAS	Foreign Investment Advisory Service
FDI	Foreign Direct Investment
FEER	Far Eastern Economic Review
FTA	Free Trade Agreement
G-77	Group of Seventy-Seven Developing Countries at the UN
G-90	Group of Ninety Developing Countries
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
GSTP	Generalised System of Trade Preferences
GTAP	Global Trade Analysis Project
IFC	International Finance Corporation
IFI	International Financial Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
IPR	Intellectual Property Rights
ITCB	International Textiles and Clothing Bureau
JV	Joint Ventures
LAC	Latin America and the Caribbean
LTA	Long Term Arrangement
LDC	Least Developed Country
MDG	Millennium Development Goals
MFA	Multi Fibre Arrangement
MFN	Most Favoured Nation
MOC	Ministry of Commerce (Cambodia)
NAFTA	North American Free Trade Agreement
NAMA	Non-Agricultural Market Access
NIE	Newly Industrialising Economy

OECD	Organisation for Economic Cooperation and Development
PPP	Purchasing Power Parity
PPPs	Public-Private Partnerships
RO	Rules of Origin
SAR	Special Administrative Region
SARS	Severe Acute Respiratory Syndrome
SME	Small and Medium Enterprises
STA	Short Term Arrangement
T&C	Textiles and Clothing
TIFA	Trade and Investment Framework Agreement
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
UN	United Nations
US	United States
USDA	United States Department of Agriculture
USTR	United States Trade Representative
VAT	Value Added Tax
WTO	World Trade Organization

INTRODUCTION

This Policy Paper is not an independent research product. It is a considered synthesis of a diverse range of analysis presented in recent studies, assessments and projections from credible sources, both in-house and external, on the likely impact of changing trade flows in textiles and clothing on development outcomes of different sub-groups of countries within Asia and elsewhere. Written in a non-technical manner, this Paper aims to reach and inform a wide audience, especially policymakers in Governments and stakeholders in the private sector, civil society and international development agencies, on the range of likely outcomes and possible public policy responses for initiation at home and abroad. This Paper contains eight sets of broad messages structured in three sections:

A. **Textiles and Clothing Trade and Development**
B. **Renewed Issues in International Trade Policy**
C. **Implications for Domestic Economic Policy**

The concluding section on **Policy Proposals and Programmes** applies to all stakeholders and development partners, including the United Nations Development Programme (UNDP).

The Broader Development Context of the New Trade Regime

The purpose of this Paper is to situate likely socio-economic outcomes in the specific context of a momentous change in the way international trade of textiles and clothing (T&C) has been governed for more than 40 years: the elimination of quotas in T&C as of 1 January 2005. T&C production and exports have been instrumental in raising hundreds of thousands of Asians out of poverty by providing regular income to poor people, especially women. The evolution of trade patterns in this sector thus cannot but have a major impact on poverty eradication in Asia, where two-thirds of the world's poor live. The *potential* of trade in contributing to the attainment of the Millennium Development Goals on reduction of poverty, better education, reduction of mortality and disease burdens, and reversal of environmental degradation is direct and immense, but the connections are not automatic. This is where development partners like UNDP expect to play a catalytic role in helping their constituents in the Asia/Pacific region.

The Eighth Millennium Development Goal,[1] in particular, aims "to develop a global partnership for development." This goal includes two clear trade-related targets and four specific indicators. Target 12 calls for an "open, rule-based, predictable, non-discriminatory trading and financial system," while Target 13 draws attention to the "special needs of the LDCs, including tariff- and quota-free access for LDC exports." The specific indicators on trade also emphasise aspects of market access for developing-country exports, including T&C, as follows:

Indicator 38: Proportion of total developed-country imports (by value and excluding arms) from developing countries and from LDCs, admitted free of duties
Indicator 39: Average tariffs imposed by developed countries on T&C and agricultural products from developing countries

Issues of international market access need to be complemented by global trade rules that allow the policy space and flexibility to initiate home-grown domestic development strategies

Indicator 40: Agriculture support estimate for OECD countries as percentage of their GDP
Indicator 41: Proportion of ODA provided to help build trade capacity

Expansion of trade volumes, assisted by deepening market access as called for in MDG8 is, however, important only to the extent that it directly or indirectly enables a country to translate its resources into tangible results against poverty. As Rodrik (2004) argues, the issues of trade maximisation and promotion of development are closely related but not synonymous, and all rules of the trade regime ought to be oriented toward the question "How do we enable countries to grow out of poverty?" Further, issues of international market access need to be complemented by such global trade rules that allow the policy space and flexibility to initiate home-grown domestic development strategies.

In the specific context of trade in T&C, the termination of the WTO Agreement on Textiles and Clothing (ATC) is a landmark occasion. Although it was pledged by WTO members in 1994, it honours the spirit of the subsequently adopted MDGs, which called on developed countries to provide developing countries with greater opportunities for market access. How, then, will this welcome compliance by developed countries in accepting the elimination of quotas in T&C translate into specific development outcomes in the developing world? As the subsequent discussion in this Paper makes clear, the factors at play are numerous and the magnitude of positive as well as negative effects uncertain.

One recurring theme of this Paper, as the opening paragraph of Section 3 states, is that huge gains can be secured in the new regime. Nonetheless, these gains will be distributed unevenly, with some countries – especially smaller LDCs – possibly requiring assistance to face structural changes. For development practitioners in each Asian country, the issue is how to leverage the new regime in T&C for enhanced human development, primarily through decent employment opportunities. Often in trade in services or of certain merchandise, expanded export earnings do not necessarily translate into increased employment. While this kind of outcome is less frequent in labour-intensive exports like T&C, states need to ensure that expansion of export volumes manifests in an increasing number of jobs and rising per-capita incomes, especially for women. As the final section of the Paper suggests, specific policy advocacy channels should be pursued internationally, while a series of domestic public policies aim at enhancing competitiveness and export performance so that structural changes contribute to employment and economic growth.

More importantly in the immediate term, in countries where the effects are likely to be worsened poverty through increased unemployment, a package must be funded and implemented through 2005 and beyond, with international assistance in line with the spirit of MDG8. As suggested in the final section of this Paper, there could be three aspects to such a mitigation package: First, *structural* – involving job banks and mass training in alternative professions and skills; second, *policy and institutional* – involving establishment of dedicated bureaus in all concerned Ministries to track and document T&C trends, job losses and gains through 2005 and beyond, thereby feeding into Government public expenditure programmes; and third, *legislative* –involving implementation of decent work standards and adoption of multi-stakeholder guidelines for responsible practices on closure of plants.

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1 http://www.unmillenniumproject.org/html/dev_goals1.shtm#goal8

SECTION A

T&C Trade and Development

ONE

Textiles and Clothing industries in Asia have made a major contribution to alleviating poverty and enhancing livelihood prospects of millions in different countries at different periods of time. They also have served as a steppingstone for diversified industrialisation in many East Asian nations, and as major labour-absorbing light manufacturing bases in other, less industrialised countries.

Global export of textiles and clothing (T&C) exceeds US$ 350 billion per year, and Asian economies, excluding Japan, produce about half of that. The export industry employs more than 40 million people globally, and over the past two decades T&C, together with electrical and electronic goods, represent the two most dynamic sectors in global trade. Asia not only took the lead in both sectors, but a phenomenon of "graduation" of many countries in East Asia from one sector to the other also has occurred. Radelet (1999) notes that in 1980, the share of T&C and electronics in total exports of China, South Korea, Taiwan and Hong Kong SAR were more than 20 percent and less than 7 percent respectively. By 1996, the shares had almost reversed.[2] That most of East Asia, during two decades of industrialisation, leapt from producing T&C (proxy for capacity in light, labour-intensive low-tech manufactures) to exporting more sophisticated electronic equipment has a development lesson for less developed Asian neighbours. Following in the footsteps of Japan from the 1930s onward, first-tier NIEs like Hong Kong SAR, South Korea, and Taiwan together supplied one-third of the world's clothing at their peak in the early 1980s. That has fallen to 8 percent since.[3] Within T&C, these NIEs also succeeded in upgrading from labour-intensive clothing exports to more sophisticated textiles

It is particularly striking that the major gainers from the quota-based world trade in T&C were LDCs and tens of thousands of their women workers

The scale of expansion witnessed in the lower-income countries of Asia has usually been accompanied by widening of choices on the socio-economic front – employment, diffusion of technology, and generation of revenue that can be re-directed for human-development enhancing social expenditures

production. These overall processes of graduation by countries at different stages of development across the manufacturing spectrum also may have helped avert problems related to "fallacy of composition,"[4] with lower-income Asian and African economies now moving into low-skill, labour-intensive manufactures vacated by the NIEs (TDR 2002, p. 115).

It is particularly striking that the major gainers from the quota-based world trade in T&C were LDCs and tens of thousands of their women workers. In Bangladesh, the garment sector has contributed immensely to the country's total exports, from 3.9 percent in 1983 to around 86 percent in 2002. The number of units increased from a mere 70 in 1981 to some 3,000 two decades later, employing up to 2 million people directly, 80 percent of them women. During this period, the sector grew at an annual average of 20 percent, with export earnings reaching US$ 3.23bn in 2003. Although work in the garment industry provides low wages, it is cited in helping reduce poverty and empowering women (Khundker 2002). In Cambodia, another LDC, the growth rate also has been phenomenal: from export earnings of US$ 26m in 1995 to more than US$ 1.6bn in 2003. The industry is almost wholly foreign-owned but employs around 230,000 workers, at least 85 percent of them women (MOC, October 2004). In Nepal, meanwhile, where the clothing industry grew as a direct result of restraints on Indian exports, garments brought in US$ 162m in 2003, the country's largest exports, although this declined 18 percent in the first eight months of 2004 (EIU 2004); at its peak in the early 1990s, the Nepali sector employed more than 100,000 people (Shakya 2001). Lastly, T&C is a dominant source of foreign exchange in other Asian LDCs as well, such as Lao PDR, Maldives, and Myanmar.

In other low-income countries of Asia, too, T&C is significant. In Vietnam, the average annual growth rate of T&C between 1990 and 2002 was 38 percent. More than 1,000 firms (one-fifth state-owned, two-fifths joint ventures) employ close to 3 million people, mostly female migrants from rural areas. In Sri Lanka and the Philippines, the T&C sector contributes about US$ 2.5bn of exports and employs around 340,000 people each. In the Philippines, the industry grew from earning only US$ 36m in the early 1970s to US$ 2.6bn in 2003. In Indonesia, the share of T&C in the country's total exports is around 13 percent, employing more than 1m people.[5]

The scale of expansion witnessed in the low-income countries of Asia has usually been accompanied by a widening of choices on the socio-economic front – employment, diffusion of knowledge and

Table I: Importance of T&C in Asian Countries (circa 2003)

	B'desh	Cambodia	China	India	Indonesia	Nepal	Pakistan	Philippines	Sri Lanka	Thailand	Vietnam
Approx. Employed ('000s)	1,900	230	—	—	1,140*	50	2,000	340	320	800	3,000
Approx. Share in Exports	83%	74%	21%	27%	13%	42%	72%	8%	54%	8%	18%

Source: Author's reconciled estimates from ATI papers, IMF (2004), NY Times (2004) and World Bank (2003).
**Nordas (2004).*

technology, and generation of revenue that can be redirected for human development-enhancing expenditures aimed at empowerment, equity, productivity and sustainability.[6] While the magnitude of causal evidence linking expansion of the T&C sector with human development outcomes varies across countries, its growth has permitted the employment of hundreds of thousands of women in the LDCs, providing them with regular incomes. However, the broader question related to what extent women's participation in the labour force has contributed to sustained female empowerment – and that this is not a transient phenomenon – is yet to be seen across countries.

Unlike Bangladesh, which imports more than 70 percent of the total value of exported garments, the Indian T&C industry is notable for being the largest *net* foreign exchange earning sector – and the only industry that is self-reliant and almost complete in value chain. Import intensity is only 1.5 percent, with T&C's share of export earnings at 27 percent. Although recorded employment in the export-oriented T&C sector is only around 1.5m[7] in India, it has the world's largest installed capacity in weaving and shuttle-less looms, employing millions more for the domestic market, a notable share being women from Government-designated "backward" tribes and caste groups (Verma 2004).

A national strategy in Vietnam foresees upgrading its existing textile manufacturing capacity so that use of local content in apparel is 75 percent by 2010. Pakistan too expects to increasingly link its strong textile base with garment production. Although at present the Pakistani textile sector is dominant, with 1.6m people directly employed and about 2.6m in cotton cultivation, the country hopes to leverage its key resource of short- to medium-staple cotton for niche products like bed-wear. Since 1999, there has been an increase in investment worth up to US$ 4bn to upgrade the country's spinning and weaving capacities. Despite problems with infrastructure and utilities, and comparatively inefficient ginning technology, Pakistan expects to compete with the two other large producers with similarly integrated T&C industries, China and India. Khan (2003) states that the country expects to earn up to US$ 13bn by 2006.

2 T&C share of total exports in 1980 and 1996 respectively were: China (21.3% and 24.9%), HK (34.5% and 20.3%), South Korea (29.7% and 13.3%), Malaysia (2.6% and 4.8%), Taiwan (21.4% and 10.8%), and Thailand (9.4% and 7.3%). In comparison, electronics share of total exports in 1980 and 1996 respectively were: China (0.7% and 9.3%), HK (7% and 15.2%), South Korea (5.4% and 22.7%), Malaysia (9.2% and 33.7%), Taiwan (6.1% and 31.4%), and Thailand (5.1% and 24.5%), source: Radelet (1999).

3 The Economist, 13 Nov 2004.

4 A small developing country can expand its export volumes without leading to falling export prices. But if a group of such countries export identical or similar products in a scale that floods world markets and reduces prices, it could offset any gains a country expected from its own export expansion. This is known as "fallacy of composition."

5 Data from http://www.ers.usda.gov/data/fibertextiletrade, and Nordas (2004, p. 12)

6 UNDP ATI (2003) attempts to link specific trade measures and outcomes with broad concepts of human development.

7 Nordas (2004, p.12)

TWO

The global T&C regime of discriminatory quotas distorted production patterns for more than 40 years, creating a web of misaligned incentives for allocation of resources and allowing many countries to capture rents from negotiated export restrictions.

The MFA provoked a shift of investment to those countries less restrained by bilateral quotas, much of which came from investors in the older restrained suppliers. This might have had the effect of enabling some countries to increase exports without needing to improve their essential competitive strengths

One major outcome of the WTO Uruguay Round was the Agreement on Textiles and Clothing, which eliminated, over an extended transitional period, 40 years of discrimination in international trade in T&C. Trade in this sector has faced not only high levels of tariffs compared with other manufactures, but also was governed by the Multi Fibre Arrangement (MFA) in violation of the fundamental GATT principle of non-discrimination. This enabled developed importing countries to impose quotas, applied as negotiated "voluntary " export restraints against those imports from individual countries ("low cost suppliers") deemed to cause or threaten market disruption in the importing country. The MFA, renewed several times between 1974 and 1994, continued and expanded in terms of product and country coverage two earlier regimes of protection, the 1962 Long Term Arrangement Regarding International Trade in Cotton Textiles (LTA) and the 1961 Short Term Arrangement. The elimination of the quota system that effectively governed world trade in T&C for these four decades will inevitably restructure output, exports and prices globally during and after 2005.

While the purpose of the MFA was exclusively to restrain trade, it did result in what might be termed unintended "benign" outcomes, in that it served to create T&C industries in poorer countries, mainly LDCs. The MFA provoked a shift of investment to those countries less restrained by bilateral quotas. It is well documented, for example, that the vibrant T&C industries witnessed in the 1990s in South Asian countries like Nepal, Bangladesh and Sri Lanka would have been virtually non-existent if exports from major economies like India and Hong Kong SAR had not been restrained under the MFA. Investments into readymade garment production in Nepal, Bangladesh and Sri Lanka thus occurred after the 1980s, and continued even after 1995, when the adoption of the binding ATC made it explicit that all quotas were to be eliminated over a 10-year transitional period.

Small countries that leveraged their late-entry advantages into the global clothing markets to move up the value chain in specialised products are expected to continue competing and retaining their share of markets. However, those that stuck to the low-end segments of the internationally fragmented supply chain of clothing trade, without much diversification or technological upgrading, are likely to suffer in the absence of capacity assistance or international preferences. This expected adverse impact on smaller exporting countries notwithstanding, abolition of the MFA was a welcome achievement of the Uruguay Round, for which developing exporting countries had pressed hard. It also was acknowledged that the system of negotiated export restraints created vested interests for the continuation of quotas among both importers and exporters, with quota rents providing a perverse incentive for corruption. Some observers consider that developing countries accepted the negotiation of liberalised services and undertaking of binding intellectual protection commitments at the conclusion of the Uruguay Round because they foresaw trading these off with expected benefits from T&C liberalisation. However, the MFA was seen as a threat to the system as a whole, given that it served to provide legitimacy to the "management" of trade; its key mechanism, the "voluntary" export restraint, had been extended to other sectors such as footwear and electronics. Its elimination was viewed as necessary to preserve the integrity of the WTO system.

The Agreement on Textiles and Clothing (ATC) was crafted in 1994 to abolish the MFA by freezing the number of quotas in place at the time and setting an irrevocable schedule for their elimination. This schedule committed WTO Members to integrate the sector fully into multilateral rules over a 10-year transitional period (1995-2004). However, the approach adopted by the major importing countries to implement the ATC undermined the utility of the lengthy transitional period. Phases of integration (16 percent of products in 1995; 17 percent, 1998; 18 percent, 2002; 51 percent, 2004) were managed by restricting countries in a manner that "end-loaded" the process, with 80 percent of effective clothing quotas – in terms of value, not volume – removed only on 31 December 2004.[8] It also has to be noted that the ATC will not apply to non-WTO members in Asia like Vietnam and Lao PDR, where T&C remain major export industries. Such countries may continue to face quota restrictions until they accede to the WTO, and thus they are negotiating their accession under considerable duress.[9]

During the final year of the ATC in 2004, lobbies in both rich and poor countries pressed for the continuation of restraints on their larger competitors. In the Istanbul Declaration issued by trade associations from 50 countries in March 2004, followed up three months later in a Brussels Communiqué, it was advocated that the WTO ought to keep quotas in place for another three years, until 31 December 2007. On the other hand, another private sector group, the Group of 18, denounced such attempts, supporting the scheduled elimination of quotas on 31 December 2004. Efforts are under way to place the post-ATC adjustment issue on the WTO agenda, either directly, as a T&C-related adjustment issue, or as a crosscutting subject on adjustment under the Subcommittee on LDCs. Although in

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There are ongoing efforts to place post-ATC adjustment issue on the WTO agenda

theory the WTO can work on a new agreement, the extension of the ATC itself would not have been possible without undermining the legitimacy of the multilateral trading system. This was part of the single undertaking of the Uruguay Round, with Article 9 of the ATC explicitly stating: "This Agreement (on Textiles and Clothing) and all restrictions thereunder shall stand terminated on the first day of the 121st month that the WTO Agreement is in effect, on which date the textiles and clothing sector shall be fully integrated into GATT 1994. There shall be no extension of this Agreement."

8 At the end of 2004, the United States had to abolish 834 of 937 quotas, the EU its remaining 212 out of 303 quotas, and Canada its remaining 92 out of 368 quotas. The fourth restricting country, Norway, abolished all its 54 quotas in advance.

9 Canada decided on 3 December 2004 to end five bilateral and one unilateral restraint agreement on T&C with non-WTO members (including with Vietnam and Lao PDR) on 31 December 2004.
(http://www.dfait-maeci.gc.ca/trade/eicb/textile/indU.S.try-restraint-agree-en.asp)
The EU also decided to lift quota restrictions on Vietnamese T&C exports as of 1 January 2005
(http://www.emergingtextiles.com 3 December 2004)

THREE

Elimination of quotas is expected to lead to increased exports from Asia, but the spread of gains in terms of employment welfare and revenue is likely to be disproportionate across the diverse sub-groups of nations.

In recent years there has been a deluge of analytical and descriptive studies from various sources on the likely impact of the elimination of quotas in the global trade of textiles and apparel. The studies can be clustered as having followed three distinct methodologies: i) CGE models based on GTAP (Global Trade Analysis Project) database;[10] ii) interview-based analysis and anecdotes from private sector sources; and iii) projections based on trade flows, tariff margins and fill-rate of existing quotas. While all approaches have their strengths and deficiencies, a comprehensive research effort that draws on the three approaches collectively has been lacking. The absence of such an effort has led to only intelligent guesswork on likely post-ATC impacts, with direction known but magnitude not. Some analyses of likely trade trends have predicted extreme results bordering on doomsday situations; others have simply been cost-focused, ignoring the roles of trade preferences, geography, lean retailing, inventory risks, and characteristics of target markets.

Within the first approach, a recent and significant study by Nordas (2004) of the WTO Secretariat[11] projects, on the basis of the GTAP model and dataset from 1997, that after full implementation of the ATC China and India will emerge as the biggest gainers in terms of international market share: 50 percent and 15 percent respectively in the United States, 29 percent and 9 percent in the EU. Pre-ATC, the study states, Chinese and Indian shares stood at 16 percent and 4 percent respectively in the United States, 18 percent and 6 percent in the EU. Going beyond the conventional GTAP models that usually take into account only relative prices and cost competitiveness, this study factors in "vertical specialisation"[12] and time to markets. Because of these, countries that are not only close to key markets (Mexico, Caribbean and Andean countries in the U.S. market, Eastern Europe and North

The gamut of assertions and speculations on post-ATC outcomes is very wide, depending on the person asked, method used, and data analyzed

There are two likely groups of gainers: the first includes countries that are competitive by virtue of scale, cost, and capacities that are vertically integrated with the rest of the production chain, including ability to offer supplementary production services. The second group consists of countries that are moderately competitive, but are beneficiaries of tariff preferences, niche expertise, and shorter distance to markets

Africa in the EU) also receive preferential treatment to maintain their existing shares. The study implies that Asian LDCs whose existing advantage of unfilled quotas becomes irrelevant will be hard hit. The implication for countries like Cambodia, Nepal and Bangladesh thus is projected to be difficult. Several scenarios inferred from GTAP simulations by IMF (June 2004, p.29) for Bangladesh project employment to contract between 2.1 percent and 7.7 percent, and GDP to contract between 0.3 percent and 4.1 percent, under varying assumptions.

For Cambodia, a major ADB-assisted study (MOC, October 2004, p.75) projects that the baseline scenario of undertaking no reforms and improvements in the garment industry would see exports decline by US$ 110m and 11,000 jobs[13] lost by 2007. The alternative growth scenario, which assumes implementation of domestic reforms enabling exports to grow by 5 percent, would, however, bring an additional US$ 508m by 2007. In the overall economy, this study projects that the opportunity cost of not pursuing the growth scenario is forgoing 101,000 new jobs by 2007. Quantitative studies, especially using the GTAP database, have nonetheless been found wanting for some of the following reasons: They tend to wrongly categorise some important clothing items as textiles; the baseline used to analyse pre- and post-ATC effects dates back to 1997; and the definitive roles of Rules of Origin and tax/tariff regimes are often understated (Raghavan, 2004; Ahmad, 2004a).

The second approach, represented by the study of Birnbaum (2004), assesses country situations by scrutinising three forms of costs: direct costs (fabric, labour), indirect costs (facilities a factory can offer on pre-production, technology-aided design assists, sampling labs, efficient communication and sourcing information) and country costs (not having duty-free market access, proximity to customers, able human resources, business-friendly environment, and good logistics). It is argued that the combination of indirect and country costs is much more important than the popularly perceived direct cost advantages on labour and other items. The clear winners in studies by industry watchers are those that enjoy indirect or country cost advantages, or a combination of both (China, India, Turkey, Italy). Potential country cost winners also are those that enjoy preferential access to major markets (Mexico, CAFTA).

Potential indirect cost winners (Bangladesh, Cambodia, Morocco) are those that have a vibrant garment industry at present, but that will need to invest much more post-ATC to create the indirect cost facilities to compete better. Mixed signals exist from Bangladesh, where this may not be happening at the scale warranted: While a sizable number of workers who worked for less competitive firms that shut down have lost jobs over the past two years, the stronger ones expect to expand – and even claim growing sourcing orders as some large Western firms cut purchases from other regions.[14] The country's exports have not fallen as of mid-2004. To what extent curious scenarios in some countries of growing export volumes are accompanied by job losses and stagnating incomes through squeeze on wages is yet to be seen. Such effects, largely a result of attempts at technological upgrading and consolidation of production, remain ambiguous at this stage, given that they will evolve only gradually during and after 2005.

One indirect cost is the value that companies attach to assuring conscious consumers that the products they buy are manufactured by decently treated workers. More than 60 percent of buyers surveyed by FIAS, a joint facility of the

World Bank and IFC, indicated that they viewed compliance with labour standards as equally or more important than price, quality and lead time for contracted work.[15] In Cambodia a recent survey by FIAS of 15 major buyers that account for 45 percent of the country's annual garment exports sends a uniquely positive signal. According to The Financial Times,[16] of the 15 buyers surveyed, nine intended to increase their annual purchases from Cambodia during 2005, while the remaining six intended to maintain existing volumes. Cambodia's openness in allowing outside inspections of its factories was appreciated, with its labour standards found to be higher than elsewhere in the sub-region. In a 1999 bilateral trade deal with the United States, Cambodia had agreed to have its labour standards inspected and monitored regularly by the ILO, a United Nations body, in return for increased quotas. The ILO has since monitored aspects of forced labour, child labour, wage agreements and forced overtime work through spot checks in Cambodian firms.

The third approach, represented by Ahmad (2004), avoids modelling or simulations and presents actual figures of trade flows and tariffs to draw attention to stark trends caused by distinct anomalies in international trade policy, such as the role of preferences and trade remedy laws in multiplying or subduing trade and development outcomes. These studies refrain from rigorous quantitative assessment of impact and are useful for offering an informed set of practical policy pointers. The predictions of such studies tend to be moderate and generally optimistic in portraying a win-win scenario for most exporters, big and small, because of the growing size of the market and the highly differentiated nature of the trade. Potential exists for even small countries to orient their upgraded capacity towards niche markets, e.g., Sri Lanka and its world-class production of one such niche item, lingerie.[17] In fact, within textiles the fastest-growing sub-sector is the non-clothing applications of textiles, such as abrasive materials, furniture, thermal protection, seats and seatbelts, and so forth (OECD 2004, p.3).

The impact of the abolition of quotas in T&C trade is of interest to consumers in industrialised countries as well. A quantitative study for the EU, based on CGE modelling by Francois et al. (2000), argues that the delayed abolition of all quotas till 2005 had significant direct costs to consumers (ECU[18] 12.7bn) and indirect income losses to the economy (ECU 12.3bn). They submit that, had the ATC been fully implemented in 1997, EU consumers would have gained ECU 25bn, of which ECU 6.5bn was a mere recapturing of quota rents. An average EU family of four would have gained ECU 270 per annum with a speedier implementation of the ATC.

The gamut of assertions and speculations on post-ATC outcomes is thus very wide, depending on the person asked, method used and data analysed. Contentious issues where votes differ can broadly be summarised as relating to i) the scale of job losses; ii) degree to which proximity to markets will shape trade flows; iii) importance of domestic textile base and supply chain; iv) prospects of an unrestrained China; v) uncertainty about importer strategies; vi) role of free trade agreements; and vii) intensity of domestic public policy responses (Integrated Research Synthesis, November 2004). Despite the presence of this unpredictably complex web of factors, a general expectation is that following the removal of quotas, exports of textiles and clothing from Asian countries – led by China and India – will increase overall. In China particularly, abolition of quotas are expected to shift resources away from production of other goods to apparel and textiles. Post-ATC, an estimate from a

The effects that attempts at technological up-grading and consolidation of production would have on job losses also remain ambiguous at this stage, given that they will evolve only gradually during 2005

Late, small and the poorest entrants in the garments trade are projected to be adversely affected

model cited in World Bank (2003, p. 81) projects the volume of apparel exports from China to increase by 125.7 percent. Indicating that China found the quota system highly restrictive, its share of clothing exports to non-quota markets in 2001 was 79 percent. For India and Indonesia, the equivalent share also stood at more than 10 percent.[19]

Conditional on sustained competitiveness, however, most Asian developing countries potentially stand to claim a higher portion of this ever-growing sector by belonging to at least one of the two likely groups of gainers in the post-ATC era. The first includes countries that are competitive by virtue of scale, cost and capacities that are vertically integrated with the rest of the production chain, including the ability to offer supplementary production services. The second group consists of countries that are moderately competitive, but are beneficiaries of tariff preferences, niche expertise and shorter distance to major markets.

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10 For use and limitations of the GTAP database and model, see IMF (2004).

11 The paper, assessing some of the possibilities after 31 December 2004, is written by a member of the WTO Secretariat in a personal capacity. The WTO website requests readers to bear in mind the fluidity of the commercial and policy environments affecting trade in T&C and the consequent difficulty in assessing the impact of trade liberalisation.

12 Share of imported intermediate imports contained in exports (Nordas 2004, p.8).

13 The link between projected export earnings and the number of jobs created or lost in this model appears weak: in an optimistic 'growth scenario' it projects exports to reach US$ 2.6bn by 2010. This increase of 62.5 percent (over present levels) in exports is matched by employment growth in T&C of less than 28 percent.

14 "Bangladesh is Surviving to Export Another Day," by Keith Bradsher, The New York Times, 14 December 2004.

15 "Cambodia Holds Onto Buyers as Garment Quota System Winds Down," Asia-Pacific News, Ethical Corporation, 10 December 2004.

16 3 December 2004

17 One company, Victoria's Secret, alone sourced US$ 350m worth of merchandise from the island in 2003 (http://www.slembassyU.S.a.org/press_releases/winter_2003/amb_at_ashland_ohio_20jan04.html). Industry sources in Sri Lanka indicate that production of one ordinary brassiere could involve 31 components, 26 operations, and handling of the item by up to 120 people during the manufacturing process. This underscores how differentiated the process can be for "niche" apparel products, such as baby-wear or sportswear.

18 Predecessor of the currency Euro.

19 World Bank (2003, p.80). It must be cautioned, however, that such high shares of clothing exports to non-quota markets may not wholly reflect the degree of restriction they faced under the quota regime. The exported products, for example, could have been of quality not ordinarily shipped to the most lucrative markets.

Table II: Summary of Post-ATC Projections

Projections			Methodological Notes	Response
I. CGE models based on GTAP	Substantial increase in market share of those most constrained by quotas; shift in resources to T&C production Preference receivers with closer distance to markets fare well Small Asian countries affected through possible contraction of employment	China, India, Indonesia LAC, North Africa LDCs	Focused on traditional factors: prices, cost competitiveness, and scale; ignores peculiar buyer criteria, effects of RO, tax and tariffs in customs valuation, etc Uses baseline from 1997 to analyse pre-/post-ATC effects Mixes categories of some apparel as textile	Enhance competitiveness. Target niche production in response to specific market needs Secure tariff preferences for LDCs and small suppliers Put in place comprehensive mitigation packages, including laws on decent work
II. Interview-based analysis and anecdotal reviews	Indirect costs most important (to provide supplementary services, from factory floor to markets) Country costs significant too (preferences, distance, political stability, FDI incentives) Direct costs (labour or fabric) less important; poor, late, small entrants affected	China, India, Turkey, Italy. Potentially B'desh, Vietnam and Cambodia LAC, Africa Nepal, Lao PDR, Myanmar	Highly subjective, small sample, reflect biases, and prone to conjectures Attributes that formal models cannot capture are raised, e.g., importance of compliance with labour standards, or roles of lean retailing, inventory risks, and fashion need	Domestic policies to help firms graduate from CMT to offer efficient, full-range services Invest in long-term infrastructure; trade facilitation; encourage export diversification Combine preferential access with investment incentives
III. Projection based on actual trade flows, fill rate, and tariffs	Win-win scenarios possible because of expanding and differentiated nature of the trade; robust growth rates; size of T&C industry to reach US$ 600bn by 2014 Tariff preferences, RO, trade remedy actions will greatly affect trade flows	China, India, Pakistan, Sri Lanka, Vietnam FTA partners, LDCs	Avoids modelling and lacks quantitative rigour, but offers practical policy pointers Draws attention to anomalies created by specific legislations and protectionist actions Highlights strategic and political factors at play	Seek niche production; be competitive; reduce cost of doing business Comply with international norms on labour, environment and IPR Attain tariff preferences, relaxed RO and use of trade remedy measures

Source: Informal compilation by the author

SECTION B

Renewed Issues in International Trade Policy

FOUR

Elimination of quotas could be followed by resort to trade remedy laws and alternative restrictive measures that can upset the export potential of Asian developing countries.

Even after integration of the T&C sector into GATT 1994, several trade instruments can potentially be invoked to restrict imports. These include trade remedy laws on anti-dumping and countervailing duties, and safeguards pursuant to Articles VI and XIX of GATT. Other provisions also exist that can be applied with restrictive intent, such as on intellectual property compliance, technical and safety requirements on use of certain dyes and "inflammable" fabric, and so forth. Of all the instruments, anti-dumping petitions are likely to be the most frequent and disruptive; textiles and clothing products are one of the most targeted items for anti-dumping investigations. The main concern is that parties that urge these investigations are strong protectionist industry groups that often launch back-to-back initiatives covering a large range of products over many years, which has the effect of severely disrupting export flows. Often the exporters affected are SMEs in poorer countries, whose ability to "dump" products is questionable in the first place. The tendency in rich countries to use anti-dumping action as a technique of forcing up low import prices is itself problematic, as the cause could often be competition or fall in input costs.[20] As quotas are abolished, the retail prices of apparel items are expected to come down further with so-called "scarcity rents" and transaction costs associated with the quota regime declining.

An illustration of this concern can be found in a series of anti-dumping actions against bed linen exports from India, Pakistan, Thailand and Turkey since 1995. By the time one of these disputes, on the imposition by the EU of anti-dumping duties in 1997 on Indian bed linen imports, was settled at the WTO in India's favour in 2001, the disruption was such that exports had fallen from US$ 127m in 1998 to US$ 91m. This led to job losses for 1,000 workers in the southern city of Pondicherry, where one of the targeted firms was based (Oxfam 2004, p. 14).

Similarly, while legal regulatory laws in the United States like the Fastener Quality Act bar products that contain fibres which do not meet inflammable standards from entering the market, there also exist laws (e.g., Continued Dumping and Subsidy Offset Act 2000) that allow

Anti-dumping petitions are likely to be the most frequent and disruptive

Although safety measures can be construed as a genuine security precaution, any attempt to exaggerate or over-prescribe requirements may hurt poorer countries' ability to trade

the distribution of funds raised from U.S. anti-dumping or anti-subsidy duties among producers. These laws, decreed illegal at the WTO, offer incentives to initiate false claims. Although in recent years textiles items have featured insignificantly in the U.S. list of anti-dumping and countervailing actions, the situation is now likely to change. The U.S. Department of Commerce appears to be encouraging resort to trade remedy measures to serve some protective function in the post-quota era.[21]

As stipulated in its protocol of accession to the WTO, the ATC will not fully apply to China until 31 December 2008, and transitional safeguards can be applied against Chinese textile and clothing exports until that date. According to the same Protocol of Accession, the "non-market economy" criteria may be used in anti-dumping cases against China until 2016. Furthermore, the Protocol permits WTO members until 2013 to take "selective" safeguards against any Chinese export that causes market disruption. At the end of 2003, the United States took action under the textile safeguard mechanism to restrain imports in three categories (knit fabrics, robes and gowns, bras).[22] In addition to these three items, the Bush Administration is already under renewed pressure from domestic manufacturers to re-impose quotas that expired with the end of the ATC. On 30 December 2004, however, a judge of the U.S. Court of International Trade in New York issued a preliminary injunction that temporarily bans the Government from considering petitions that seek to restrict Chinese T&C imports into the U.S. At the same time, China has argued that these safeguards were to apply to "actual" surges in imports, not to threats yet to materialise.[23]

While smaller countries could benefit from temporary restraints on China's exports in key markets, indications are that trade remedy laws would not be applied discriminately. Although China is currently the principal target of anti-dumping actions, other Asian exporting countries remain susceptible; it is this inference that has prompted calls for improving rules and disciplines on protective measures. One proposal submitted to the WTO in July 2003 by a group of exporting countries calls for "a grace period of two years during which no investigations in the context of anti-dumping remedies on imports of textile and clothing products from developing countries shall be initiated."[24] Keeping in view the extremely disruptive result these legal measures could have on smaller suppliers, there is a case for calling for at least a two-year moratorium on the initiation by importing countries of trade remedy measures against exports from LDCs and small, low-income countries.

New forms of restrictions also could emerge. In the aftermath of the terrorist attacks in the United States in 2001, shipping regulations and port safety issues have been scrutinised greatly, with interim requirements to meet stringent criteria at designated mega-ports. The Container Security Initiative (CSI) and the Customs Trade Partnership Against Terrorism require advance notification on the contents of containerised cargo. The choice of safe ports could imply diversion of trade flows, and additional costs of screening and inspection could affect exports from Asian countries that need to make an extra effort after 31 December 2004 to reduce lead time and to respond faster to fashion needs at low costs. Although these measures can be construed as a genuine security precaution, any attempt to exaggerate or over-prescribe requirements may hurt poorer countries' ability to trade.

20 WTO TN/RL/W/48/Rev.1
21 U.S. Department of Commerce, *Second Report to the Congressional Textile Caucus on the Administration's Efforts on Textiles Issues,* October 2003, p 14.
22 USTR (2003, p. 8)
23 The Economist, 13 November 2004, p. 77.
24 WTO communication: WT/GC/W/502, 14 July 2003.

FIVE

Tariffs remain a potent trade policy in T&C trade, as evidenced by contrasting experiences of countries that enjoy tariff preferences in key markets and those that do not. Tariff preferences will potentially provide the main mechanism for favouring the less competitive suppliers; in their absence, small Asian countries could be worst hit.

Elimination of quotas will accentuate the importance of real competitiveness, but tariffs will remain influential in shaping trade flows in T&C. While the average non-agricultural trade-weighted tariff is 3.2 percent in the United States, the average for T&C products is 11 percent, with clothing tariffs ranging from 14.9 percent to 32 percent. The EU tariff is 12 percent on clothing, 8 percent on fabrics and 4 percent in yarns (Ahmad 2004). These high tariff rates imply that those who enjoy tariff-free treatment are advantaged in terms of market access in key importing economies. Many developing countries enjoy tariff preferences in the T&C sector applied autonomously under GSP and under ACP preferences. In addition, this sector is covered by a number of reciprocal FTAs negotiated between developing exporting countries and developed importing countries, some of which "lock in" access for textiles exporters from the importing country. Overall, Asian exporting countries would benefit from any tariff liberalisation in this sector, either under GSP or through reduction of bound MFN tariffs in the WTO. In conformity with the commitments made by the international community in the Millennium Declaration (2000) and the Third United Nations Conference on LDCs (Brussels, 2001), there is evidence that Asian LDCs would be major beneficiaries of any special preferential duty-free treatment in

The shift that is occurring in trade in T&C from a quota-based regime to that of tariff preferences, in return for use of yarn and fabric from the importing market has serious implications for Asian countries their favour, as in the EU and Canada, as sought in the Doha Work Programme. Bangladesh was able to exploit its GSP treatment to greatly expand its clothing exports to the EU, where it fares better than in markets where its exports do not receive preferential tariff treatment.

In the most important market for Asian countries, the United States, the significance of preferential tariff treatment can be illustrated by data on the effective tariff rates on clothing. The average effective customs rate on clothing, applied on exports in 2002 from China, India, Bangladesh and Vietnam – all exceeding 11 percent – contrasts with rates applied to its hemispheric neighbours: Mexico, 0.9 percent; Costa Rica, 2 percent; Honduras, 3.3 percent; and El Salvador, 4.6 percent. In response, countries like Mexico and Honduras have seen their exports of T&C grow more then twelve-fold between 1990 and 2002. Also between 1990 and 2002, while the share of textile exports from Asian developing countries has risen in both the United States and EU, such countries' share of clothing exports to the United States dropped from 73.5 percent to 54.2 percent. This decline was observed in the EU as well, but was less stark. These shifts are fundamentally shaped by tariff preferences accorded to countries that compete with producers from Asia. The tariff advantage, combined with proximity and low shipping costs, has allowed Caribbean, Andean and Central American economies to increase their share of exports in the United States, while countries like Morocco, Tunisia and Romania have all had similarly privileged relations with the EU. The shift occurring in trade in textiles and clothing, from a quota-based regime to that of tariff preferences in return for the use of yarn and fabric from the importing market, thus has serious implications for the poorer countries of Asia. They might be penalized by tariff discrimination against their T&C exports, thus exacerbating their adjustment difficulties.

Asian LDCs are doubly hit. On the one hand, they cannot match the economies of scale and vertical integration of the T&C sector in large countries, and on the other, they do not enjoy the tariff preferences enjoyed by their smaller peers in Sub-Saharan Africa or the Americas

Before the 1990s, all U.S. imports in the fibre-fabric-apparel sector were conducted on an MFN basis, in which all partners cleared the same high walls of tariffs. While the United States has not extended GSP treatment to T&C imports, it has negotiated a series of FTAs – beginning with the U.S.-Canada FTA in 1989 – that provide free entry for textiles and clothing subject to strict Rules of Origin. This trend continues, and soon about 50 percent of T&C imports will enter the United States under these agreements.

Jordan further illustrates the importance of tariff preferences. In 2000 it exported US$ 42.4m worth of apparel to the United States; after signing an FTA with the United States in 2001, by March 2004 its apparel exports had reached US$ 669m, marking a growth of 1,477 percent. While it must be noted that such dramatic growth occurred when world trade in T&C was still quota-based, this nonetheless underscores the fact that countries enjoying preferences have a head start – and Asian countries that are nowhere near to enjoying comparable preferences are disadvantaged. Although Singapore has recently signed an FTA with the United States, its T&C industry is insignificant. The proposal Enterprise for ASEAN Initiative offers a road map for ASEAN countries to sign similar FTAs, but such agreements are conditional on WTO membership and signing of the Trade and Investment Framework Agreement (TIFA) with the United States. Because Vietnam and Lao PDR have yet to accede to the WTO, and Cambodia and Myanmar have yet to sign TIFA, the chances seem almost absent in the immediate future that these key low-income producers of T&C will benefit from preferential access to the United States.

The T&C-producing Least Developed Countries of Asia (Cambodia, Bangladesh, Lao PDR, Maldives, Myanmar, Nepal) are doubly hit compared to the benefits their counterparts from sub-Saharan Africa are enjoying through the African Growth and Opportunity Act (AGOA). On the one hand, they cannot match the economies of scale and vertical integration of the T&C sectors in large countries, while on the other, they do not enjoy the tariff preferences given to their smaller peers in sub-Saharan Africa or the Americas. While LDC exports to the United States constitute only 0.8 percent of total American imports, they comprise 6.8 percent of total apparel imports, ordinarily subject to high MFN rates. These high MFN rates for T&C items have actually produced a highly regressive outcome: A poor country like Cambodia paid US$ 152m in export duties to the United States in 2002, compared to Norway's US$ 24m on exports worth five times as much (Oxfam 2004, p. 12). Bangladesh too paid more than US$ 300m in duties to the United States, at a high average rate of 16 percent, on apparel exports worth US$1.7bn; U.S. foreign aid to Bangladesh, in comparison, is only around US$ 70m (NY Times, 14 December 2004). The need to redress these kinds of outcomes lies at the heart of honouring MDG8.

Any non-reciprocal preferences offered by the United States to the export of T&C from Asian LDCs could help their nascent development efforts. In the absence of a legally binding international agreement, however, extension of duty-free treatment for Asian LDCs would depend on the initiative of individual members of Congress.[25] With the help of inter-Governmental organisations like the United Nations and WTO, in whose fora the world has pledged repeatedly to provide duty-free/quota-free market access in industrialised countries, the LDCs as a bloc need to sustain their argument for the continued relevance of these commitments. Specifically, the LDCs could aim at a commitment to provide such duty-free treatment as an outcome of the Sixth WTO Ministerial Conference in Hong Kong in December 2005.

The LDCs as a bloc need to sustain their argument for the continued relevance of commitments to honor MDG-8

25 Senator Dianne Feinstein (D-California) had initiated such a bill for Nepal in 2003, but it was later withdrawn. Following the U.S. elections of November 2004, there are fresh attempts to introduce the Least Developed Economies Economic Development Act (LDEED) in the 109th Congress, which could benefit countries like Cambodia and Nepal.

SIX

Erosion of tariff preferences through eventual outcomes of the NAMA negotiations could pave the way for the T&C trade to be dominated by large exporting countries. This consolidation would be in addition to any immediate shift in trade and investment flows to integrated production sites, as purchasers and investors adjust their outsourcing behaviour in response to elimination of all quotas.

The pace of consolidation of production sites across fewer countries will be gradual and not rushed, especially in China which remains vulnerable to safeguard mechanisms and quota restraints at least until 31 December 2008, as per its Protocol of WTO accession

Although the Fifth WTO Ministerial Conference in Cancun reached no agreement on modalities for tariff negotiations on non-agricultural products (NAMA negotiations), the WTO General Council Decision of 1 August 2004 has revived the stalled trade talks by adopting frameworks for future negotiations. A reduction of MFN tariff rates on T&C would assist all Asian exporters by eroding the preferential margins of non-Asian competitors. Overall, this could provide more secure access to markets and weaken the position of importing countries seeking to lock in fabric and yarn exports through Rules of Origin in free trade and preferential agreements. The Rules of Origin in FTAs could nullify the tariff advantages of U.S. FTA partners and improve the competitive position of Asian suppliers now that quotas have been removed. However, the same tariff reductions also could erode the benefits actually or potentially enjoyed by Asian LDCs.

Although T&C is only one part of the broader negotiations for tariff reduction in industrialised goods, the eventual formula[26] that will be adopted will aim at bringing down high tariff walls. Parallel proposals also exist to negotiate free trade in individual sectors through the "zero-for-zero" method. If the sectoral track is initiated in the T&C sector so as to bring rates down to zero, this could in theory render the tariff preferences to non-Asian competitors irrelevant. Some Asian countries fear, however, that such a radical reciprocal elimination of tariffs on T&C would hurt their indigenous industries. They advocate voluntary participation in sectoral negotiations.

The outcomes of these negotiations are not likely to be immediate, and any results from trade negotiations will be analysed by importing firms in tandem with trends in general business practices. In this regard, the U.S. Department of Commerce estimates the number of countries from where major items will be sourced will drop by 50 percent in 2005, and to 25 percent of current levels by 2010. Nonetheless, this is expected, to the extent that the current pattern of sourcing in a range of countries was affected by quota limits; 71 percent of U.S. and EU manufacturers, wholesalers and retailers acknowledge that they currently base one-fifth of their sourcing decisions on quotas.[27]

However, entrepreneurs predict in general that the pace of consolidation of production sites across fewer countries will be gradual and not rushed, especially in China, which as noted remains vulnerable to safeguard mechanisms and quota restraints at least until 31 December 2008. Alluding to elements of "voluntary export restraint," China announced on 13 December 2004 it would impose export taxes on its own T&C exports. The size of the levy was not disclosed initially, but just before the end of 2004, the Government published that six broad categories of apparel would face taxes ranging from 1.8 to 4.5 European cents per item. The Chinese Government has announced that its policies, by taxing volumes and not quality, are aimed at encouraging its T&C industry to move toward high-value-added products.[28]

For core competitiveness, skilled labour costs remain consequential.[29] But increasingly, so are value-added services that offer online inventory to support lean retailing practices, long-term relationships with customers, and rapid response to fashion demands (style, colour, weight of material, waist size, length), when some clothing items are deemed almost as "perishable" as agricultural products. Research and development also is of emerging importance in T&C. Successful firms are not only focusing on production but also innovation, eyeing patent claims on clothing characteristics such as types of buttons or pucker-free seams.[30] Generally, however, although T&C industries are mature, they are greatly influenced by technological innovations made in other industries, such as chemicals for man-made fibres and machinery for computer-aided designs (OECD 2004, p.6).

Thus, the speed of consolidation or shift to fewer production sites in a small number of countries of choice will be determined by how the biggest importers of apparel alter their buying preferences and patterns in the immediate future. These big firms dominate apparel trade in the key markets: In the United States, for example, the 29 biggest retailers[31] account for 98 percent of sales (UNIDO, 2003, p.6). Where apparel items are sourced also will depend on the type of product. The element of fashion further is linked to issues of replenishment and decisions made by sourcing agents; in the case of single-season products with limited prospect of replenishment, such as women's dresses, traditional costs and tariffs would be influential, whereas for items requiring continued

Buyers seem keen on maintaining a steady supply chain by diversifying their portfolio of production sites in several important countries, not just one or two

T&C production is greatly influenced by innovations made in other industries

replenishment, such as men's trousers, issues related to lead time, inventory and shorter distance could be influential.[32] One thing is certain, however: Stung by outbreaks like that of SARS in East Asia in 2003, and by the 2001 terrorist attacks in the United States – both of which disrupted trade flows and supplies[33] – buyers seem keen on maintaining a steady supply chain by diversifying their portfolio of production sites in several important countries, not just one or two.

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26 There are two widely used formulae; one is the simple formula where a percentage cut is applied to the base tariff. The other is a non-linear ("Swiss") approach, where a coefficient is used such that the difference of the reciprocal of the final and initial tariffs is equal to the reciprocal of the coefficient. Smaller coefficients lead to big reductions in tariffs (Das 2004).

27 The Economist, November 13, 2004, p. 78

28 "U.S. Quiet on China Trade Tax," by Elizabeth Becker, The New York Times, 14 December 2004.

29 Jocson-Agoncillo (2004, p. 30) cites indicative wages per day in certain ASEAN countries as follows: U.S.$ 3.39 to $4.28 in Thailand, U.S.$ 1.54 in Indonesia, U.S.$ 0.90 in Vietnam and U.S.$ 3.54 to $5.09 in the Philippines. Average T&C wages in Hong Kong per month could exceed U.S. $ 890; in China, it is around U.S.$ 90, according to the Far Eastern Economic Review, 4 November, 2004, p. 74

30 FEER, 4 November 2004.

31 By 1995, the five largest retailers, Wal-Mart, Sears, Kmart, Dayton Hudson, and JC Penney accounted for 68 percent of all apparel sales in the U.S.

32 Abernathy et al. (2004).

33 Latest in such incidents is the devastation wrought by a tsunami in December 2004 in Southern Asia.

SEVEN

Relaxed Rules of Origin requirements are crucial in determining the extent to which the poorest countries avail of unfettered access to quota-free markets.

Rules of Origin requirements are used to ensure that the benefits of preferential access are not shared with third countries. In post-quota trade in T&C, ROs are expected to become a very important mechanism by which the poorest countries can be assisted, as existing difficulties in meeting origin rules have frustrated the benefits of preferential access available to developing countries under the GSP, and to LDCs through the Everything But Arms (EBA) Initiative in the EU. When RO requirements are tighter than deemed necessary, LDCs are not able to take advantage of concessions in their favour, because they usually do not have the capacity to conduct substantial processing operations. Although in principle the EU's EBA initiative permits duty-free/quota-free entry of most LDC products, including T&C, its arduous RO requirements mean that LDCs have yet to reap the full benefits.

A standard requirement under preferential or non-preferential RO is that a product must undergo a "substantial transformation" in its declared place of origin. Under the EU's GSP, this means that at least two finishing operations (or a "double transformation") must occur in the country of export for it to qualify for duty-free concessions; in cases where fabric is sourced from another country in the region (*regional cumulation*), the final product must embody more value-addition than any country that contributed inputs. These conditions resulted in Bangladesh, the most capable of the Asian LDCs, having only 57.2 percent of its key export items (knit and women's clothing, and "made-up" articles) receive GSP in 2002 (Ahmad 2004). For Lao PDR and Cambodia, their EBA utilisation rates in 2001 were only 49.9 percent and 64 percent respectively (Oxfam 2004, p. 21). In October 2004, however, the EU proposed a new system of preferences for 2006-2008, targeting countries most in need. This could eventually pave the way for much simpler RO requirements.

The WTO Agreement on RO does not discipline rules of origin used in the granting of preferences, and thus there

That a slight relaxing of the Rules of Origin can produce encouraging results is substantiated by recent experiences under Canada's Market Access Initiative for LDCs

Difficulties in meeting origin rules can frustrate the benefits of preferential access available to developing countries

exist no binding multilateral rules governing their use. ROs also are technically complex[34] and administratively burdensome. It has been pointed out that these strict ROs could play some role in deterring both upstream investments in textile production, by distorting incentives to use imported yarn, as well as raising the input costs of apparel production by mandating usage of U.S. or EU yarn and fabric. The African Growth and Opportunity Act (AGOA) 2002 of the United States also initially had tight RO. Subsequently, these were relaxed through a "third country" fabric rule for the AGOA LDCs to permit use of yarn and fabric from anywhere, subject to a quota limit after a certain threshold. While only 24 of 37 AGOA-eligible countries receive preferential treatment on T&C because of customs and visa requirements to prevent unlawful transhipment, those who availed of the "third country" fabric rule (with the exception of Zambia) have witnessed healthy apparel export growth in recent years. Hayashi (2004) argues that the special RO of third-country rule, now extended until 30 September 2007, has made AGOA user-friendly and flexible. The key T&C-producing Asian LDCs stand to benefit if these tariff and RO concessions currently available to their counterparts in sub-Saharan Africa also are extended to them.

The United States does not grant GSP to textiles and clothing imports, and applies strict Rules of Origin to its preferential trading partners in FTAs, which generally help textile manufacturers readjust and realign with production bases deemed more competitive in the hemisphere, by locking garment manufactures to yarns and fabrics supplied by the Americans. Thirteen percent of all U.S. T&C imports are from CBI countries, with a huge share of U.S. components. In all FTAs with the United States, except Jordan, NAFTA's "Yarn Forward" rule has guided RO (duty-free concession conditional on the product being made in the free trade area from yarn onward, which benefits U.S. textile producers).

That a slight relaxing of the Rules of Origin can produce encouraging results for LDCs is substantiated by recent experiences under Canada's Market Access Initiative for LDCs. This initiative allows most apparel products to qualify for duty-free treatment with as little as 25 percent value added in its country of export,[36] and without "double transformation" being mandatory; under it, Asian LDCs have performed instantly well. Comparing the year-on-year import figures from January-September 2003 and 2004, Bangladesh's export of T&C items HS 61 (knitted or crocheted clothing) and HS 62 (woven clothing and apparel) into

Table III: Imported Value of HS 61 and HS 62 into Canada[35]
(from four Asian LDCs, in Can$)

	2002	2001-02 (Average)	2003	Jan-Sep 2003	Jan-Sep 2004	Change ('03-'04)	Change ('01/'02 -'04)
Bangladesh	134.5	146.5	296.9	222.7	339.5	52%	132%
Cambodia	19.3	18.9	82.3	62.4	105.6	69%	458%
Lao PDR	3.2	2.5	5.9	4.6	6.5	40%	157%
Nepal	3.5	5.1	4.8	3.2	7.3	127%	44%

Source: http://strategis.gc.ca

Canada grew by 52 percent, to C$ 339.5m, while Cambodia's grew by 69 percent, to C$ 105.6m; Lao PDR's by 40 percent, to C$ 6.5m, and Nepal's by 127 percent, to C$7.3m.

This evidence from Canada provides a stark policy choice for the international community. While there exists a longstanding global commitment, including an MDG target, to grant all LDC products duty-free/quota-free treatment in all major markets, in order to be meaningful such pledges must be accompanied by flexible Rules of Origin requirements.

34 As examples, the recent U.S.-Singapore FTA has a 284-page-long Annex 3A only on "product-specific Rules of Origin." Similarly, the annex on RO in the U.S.-Chile FTA is 95 pages.

35 HS 61 and HS 62 include knitted, crocheted, or woven clothing

36 The proviso is that another 15 percent of value added come from another LDC, a GPT beneficiary, or Canada.

SECTION C

Implications for Domestic Economic Policy

EIGHT

To enhance competitiveness, countries can pursue a range of domestic trade and complementary (fiscal, monetary, exchange rate, industrial) policies, as well as trade facilitation measures. While growth prospects for the clothing industry are healthy, less efficient producers are better placed to compete in niche markets.

With continued increases in global incomes, population and diversification of consumer choices, the global clothing and textiles industries are expected to grow at healthy rates of at least 5.3 percent and 3.2 percent respectively over the next decade. If these rates of growth are maintained, T&C would be a formidable US$ 600bn global industry by 2014 (estimates based on 1990-2002 trend by ITCB). This growth promises a potential share for all efficient producers, including smaller countries that have built reliable, long-term relationships with their intermediaries and purchasers for differentiated niche products. Overall, however, the most important attributes for competitiveness will have to be secured through domestic public policies and incentive regimes. While many resource-poor countries did little to use the 1995-2004 transition period of the ATC to upgrade their T&C capabilities, there remains a menu of short- and medium-term, within-the-border policy options that countries can pursue. In fact, given that most medium-term investment decisions on T&C will unfold gradually during and after 2005, this year could be used by countries that are serious about sustaining their vulnerable T&C sectors to send the right signals to buyers and investors. The year 2005 is thus still not too late in which to initiate structural changes within and outside the T&C sector.

In the short term, there should be an overhaul of trade and industrial policies that affect firms' competitiveness so that they are not obliged to shed jobs. Two short-term measures could relate to duty drawback and exemption mechanisms, as well as to export financing schemes. In countries where fully export-oriented firms are granted 100 percent duty

The most important attributes for competitiveness will have to be secured through domestic public policies and incentive regimes drawbacks and import tax exemptions on capital machinery, a policy measure could extend such a concession to firms that do not export all output, or provide simply for tariff liberalisation in all inputs, possibly in the context of regional integration schemes. In cases where firms are allowed to sell export-rejected products in the local market upon payment of applicable taxes (in Bangladesh, 20 percent), such rates could be revised downward. Processes for disbursement of duty drawback, refunds on VAT, and income tax rebates on export earning must be made simpler and faster.

Ideally, low-wage developing countries should pursue strategies that promote domestic value-added content of exports, creating backward linkages with home production and investment. In market-dynamic sectors such as T&C, however, a lesson from Pakistan and China[37] is that states should allow garment exporters an undistorted choice between using local and imported fabric. China, which produces both cotton and textiles, uses only 45 percent of domestic fabric for its clothing exports. A country endowed with an efficient textile industry that allows free import and export of textiles may be a sign of appropriate specialisation, rather than failure. Noting that the early graduates in T&C in East Asia relied on imported raw material, the IMF (2004, p. 7) also stresses that lack of domestic inputs in a sector like T&C need not always disadvantage the apparel trade, so long as inputs can be accessed at world prices with short lead times. Some countries have traditionally adopted policies that disadvantaged import of synthetic fibres, which could also be removed.

Countries need to be vigilant that the policy space required by each nation for its development efforts is pursued and preserved, not compromised in binding international commitments

Countries that have Export Promotion Boards should extend credit at lower rates of interest to export-oriented T&C firms. There also is room to reform export credit guarantee schemes covering pre- and post-shipment risks and financing needs. As a start, the time limit for repayment of export credit could be extended. Given the high import content in T&C exports from LDCs, where applicable, re-evaluation of exchange rate policies could be further considered. In cases where imported intermediate inputs face high tariffs, reduction of applied rates should also be considered. On industrial policy, options encompass considering accelerated depreciation allowances and subsidised credit to T&C and ancillary SMEs, in tandem with complementary fiscal and monetary measures on WTO-compliant export financing and facilitation schemes.

Over the medium term, the relevant issues concern institution building and creation of infrastructures that help reduce the cost of doing business, while promoting employment and facilitating growth. These second-generation reforms are necessary to consolidate immediate gains secured from short-term policy reforms of trade-related processes and institutions. Most Asian countries require a national strategy to overhaul their transport networks and trade facilitation systems. Measures could include establishing, through internal or external borrowing and PPPs, an ambitious medium-term Roads and Ports Fund to invest in transport infrastructure.[38] Efforts to reduce electricity costs are also necessary. Because of irregular services, many T&C firms in South Asia arrange for their own source of electricity through private generators, which add heavily to their operating costs. Public investment systems that expedite customs clearance could include components on computerised documentation; streamlining of bureaucratic procedures; reduction of opportunities for rent seeking; rationalisation of fees, taxes, and inspection requirements; and enhancement of delivery logistics, lead times, and "virtual" proximity to key markets.

Against a backdrop of this menu of domestic policy options, countries also

Table IV: Sample Menu of Domestic Economic Measures
(with relevance to T&C and beyond)

Short-term trade measures	Medium-term institutional measures	Long-term investment measures
• Reduction of applied tariffs on intermediate inputs • Swift duty drawback and import tax exemption mechanisms • Effective export financing schemes – preferential credit, export credit guarantees • Quicker VAT refunds and income tax rebates on export earnings • Removal of bias against use of man-made fibres • Promotion of undistorted choice between local and imported fabric (for fully exporting firms) • Development of garment associations into info centres on market trends, sourcing options, as well as skills retraining • Lobbying for deeper market access on preferential terms • Monitoring of employment losses and gains during 2005 • Assessment and maintenance of competitive exchange rate.	• Overhauling of trade facilitation systems, beginning with the customs apparatus • Improvement or building of infrastructure (roads, ports, electricity, telecom) through PPPs to reduce time and costs • Greater inter-Ministerial coordination esp. among trade, commerce and industry • Enhanced domestic capacity in trade policy formulation re. WTO and FTA negotiations, levels of protection, and solutions to within-the-border constraints • Reduction of corruption, through procedural reforms • Improved provisioning of basic services with social obligations attached on access and affordability by the poor • Adoption of labour and environmental standards, and laws on decent work.	• Macroeconomic policy stability and appropriate regimes for promotion of jobs-creating domestic and foreign direct investment • Creation of Technology Upgrading Funds to modernise strategic sectors with long-term competitive edge • Regulatory and fiscal incentives to promote SMEs; JVs with focus on technology transfer • Skills and productivity enhancement schemes through a network of vocational institutes • Reformed structure of the cost of borrowing through financial and capital markets reforms • Undertaking of comprehensive studies to identify and promote new export diversification and employment opportunities • Investment in creation of brands and images of national products and processes.

need to be vigilant that the policy space required by each nation for its development efforts is pursued and preserved, not compromised in binding international commitments. The terms of accession that countries accept to become WTO Members, for example, could impact their ability to adapt to more competitive conditions in the textile and clothing trade. In one case, Mongolia was obliged to eliminate its export restrictions and phase out its export taxes on raw cashmere. This has undermined the competitive position of the clothing industry, upon which Mongolia is highly dependent, since its main competitors in China are now able to legally purchase high-quality inputs that are incorporated into their clothing exports. Despite having a per-capita GDP of less than US$ 1,000, Mongolia was not permitted to maintain export subsidies, a provision WTO Members at similar levels of development enjoy. In another case, two LDCs that recently acceded to the WTO, Nepal and Cambodia, have not been able to benefit from export subsidy privileges in agriculture and have made concessions in the form of bound duties, which are relatively lower than those of other LDCs. They also undertook to eliminate other duties and charges (ODCs) that could erode their fiscal base, although Nepal was granted a 10-year transition period for phasing out ODCs.

General economic policies on privatisation of basic services could have a direct impact on T&C and other export-based industries. If managed non-transparently, without appropriate social obligations on access and affordability attached, they could lead

There should be an overhaul of trade and industrial policies that affect firms' competitiveness so that they are not obliged to shed jobs to adverse results. Jocson-Agoncillo (2004, p.50) says that in the Philippines, the privatisation of electricity in the early 1990s influenced access, price and reliability of these key inputs, adversely affecting T&C exports directly; growth fell to 1.5 percent circa 1993.

A general criticism of Asian developing nations is that they did little to create sustainable backward linkages with the apparel industry during its quota-propelled boom in the 1990s. In countries like Cambodia, where as noted almost 100 percent of apparel producing units are foreign-owned, the question asked by the Government itself is, "Why are there not more domestic investors?" (MOC, October 2004) This requires an understanding of the structure of the cost of borrowing. In the absence of functioning capital markets, strategic channeling of domestic or IFI concessionary loans to SMEs would be necessary. These funds could be leveraged for physical and human investment, including training schemes for entrepreneurs and workers, especially in cases where foreign managers dominate the T&C sector; in turn, these managers could be offered incentives to train nationals. Policymakers have to cautiously assess, however, whether excessive fiscal and regulatory advantages in favour of certain SMEs over-encourage investment in lower-productivity activities. A recent OECD study of SME policies reaffirmed that education and training remain the most effective channels to promote entrepreneurship (OECD 2004, p. 7).

Asian developing nations did little to create sustainable backward linkages with the apparel industry during its quota-propelled boom in the 1990s

Undertaking of systematic Human Development Impact Assessments (HDIA) is important to identify alternative sectors of employment and export diversification, especially to absorb displaced women workers. In low-income countries, such sectors could include agro-based vocations, leather and footwear, assembling and packaging, jewellery, tailoring, shrimps and poultry, mushrooms, flowers, and so forth. States could introduce comprehensive training programmes in the new areas, including services, that they identify as alternatives to T&C in their national context. For landlocked countries in Asia, it is imperative that the alternative sectors to T&C be characterised by high-value/low-volume exports, to avoid high freight costs. Carefully assessed export diversification strategies could not only offer specific incentives (such as import of capital at preferential rates, availability of credit) to firms willing to invest in these alternative sub-sectors, but they could also remove existing disincentives that have hindered the creation of a more balanced export structure because of measures (such as duty-exemption) available to only certain sectors.

In countries where labour markets are rigid and a deterrent to FDI inflows, states could assess the merits of amending labour laws. But labour flexibility should not mean an inappropriate compromise on working conditions. As Cambodia has demonstrated, a reputation for adhering to decent labour standards is appreciated by conscious corporations and consumers. [40] States should aim at complying with ILO recommendations on decent work conditions, including capping the maximum number of weekly working hours. Bangladesh recently passed a law allowing a 72-hour workweek. These provisions are best preceded by a careful analysis of policy options. Could, for example, a reduction in such workweek hours allow an increased number of people to be employed in different shifts, if accompanying facilities on power and transport are provided?

While poorer Asian countries are right to eye the U.S. and EU markets, for reasons of their combined economic size, Asia has lagged in exploring alternative export destinations. Within Asia, to identify and build relationships in established markets like Japan and emerging ones like China, Governments should aid their private sector leverage tools of economic diplomacy through trade fairs and publicity of national image.

Over the medium term, domestic institutional capacities to undertake trade policy evaluations; to analyse techniques for measuring levels and impacts of trade protection and taxation; and to assess export controls; and implications of lowering bound tariff lines as part of NAMA negotiations also are necessary if dependence on external advice is to be progressively reduced, as in India, Malaysia and China. Generating a Foreign Direct Investment climate by lessening the burden of bureaucracy on T&C exporters remains a priority for all developing countries, especially in South Asia, whose FDI inflow figures compare dismally with those of East Asia. Trade facilitation and corruption, together with the pursuit of sound macroeconomic policies, affect such investment choices. Countries thus should signal investors through binding commitments to domestic reforms that, among others, reduce opportunities for rent seeking through increased transparency and improved staff motivation incentives. For a start, the abolition of the quota system is itself expected to serve to reduce rent seeking opportunities. Post-2004, other medium-term reforms could ideally build on this default achievement.

During the next few quarters, as clearer trends in trade flows and patterns of importer behaviour in T&C emerge, one serious area that should be monitored is whether a possible contraction of the T&C sector in some countries will lead to economy-wide spill-over effects. Deprived of both competitive advantages and preferential access to markets, adjustment costs that some low-income Asian countries would have to bear might be significant. In Bangladesh, the T&C industry supports about US$ 2bn worth of supplemental activity in banking, transport, insurance, packaging, real estate, utilities, consumer goods and tourism (Hiller and Olfames 2003). This kind of interdependence needs to be carefully explored, necessitating a dedicated tracking and monitoring of T&C trends and effects on employment on a monthly basis during 2005, by the state, private sector, and external development partners.

Many smaller Asian economies are also dependent on the import of crude oil, whose world prices have risen in the past few years.[40] The increasing import bills – complicated by a possible decline in export earnings in T&C and associated industries – could exert adverse pressure on the balance of payments. Countries unable to finance rising import volumes with dwindling foreign reserves may then be forced to take measures such as import restraints or devaluation of currency to stave off a financial crisis. However, signals for such sudden balance-of-payments crises as a result of an unexpected contraction of the T&C industry have not been seen in Asia yet. Should the balance of payments worsen, policymakers must assess if their exchange rate permits greater flexibility in macroeconomic formulation. Many Asian currencies appreciated[41] in 2003-04, especially in comparison to the Chinese Renminbi, whose peg with the depreciating U.S. dollar has advantaged its exports.

Because smaller Asian economies are dependent on the import of crude oil, the increasing import bills – complicated by a possible decline in export earnings in T&C and associated industries – could exert adverse pressure on the balance of payments

37 Please consult Thoburn (2004), and Khan (2003)

38 An ongoing example is India's National Highways Development Project, aimed at building four- to six-lane highways of a total 13,146 kilometres. See http://www.nhai.org

39 "Cambodia Favoured in Asian Labour Survey," by Amy Kazmin, The Financial Times, 3 December 2004.

40 Although oil price per barrel rose by 32 percent in 2004, price in the first half of December 2004 stabilised at around US$ 38 per barrel, falling from a peak of almost US$ 50 in October (ADB 2004, p. 26).

41 In Indonesia, the home currency appreciated by 11 percent; in India, 6 percent; and Bangladesh by 4 percent

SECTION D

Policy Proposals and Programmes

Each country, supported by the international community, can pursue one or more options from the following menu of policies to: i) enhance international market access, ii) improve domestic competitiveness, export performance and trade facilitation, and iii) mitigate adverse human development consequences during and after 2005.

Based on the situation analysis of a range of politico-economic issues affecting trade and development outcomes in the preceding sections of the Paper, this section regroups and reiterates the policy inferences stated or implied in the earlier pages along three fronts. The *first* group of suggestions concerns the international sphere, particularly what the developed countries (United States, EU, Japan, other OECD countries) and the large developing countries (China, India, Brazil, South Africa) can do to help T&C producers and employers in low-income (Philippines, Sri Lanka, Vietnam) and less developed countries (Afghanistan, Bhutan, Bangladesh, Cambodia, Lao PDR, Myanmar, Nepal). The emphasis here is on renewing a set of market access commitments in the context of meeting certain specific targets of the Millennium Development Goals. The *second* group of suggestions concerns the domestic policy sphere, on what countries can do to improve their competitiveness in the short and medium term. The emphasis is on instituting immediate policy reforms and upgrading the capacity of low-income Asian countries to trade in all development-promoting sectors, including T&C. And the *third* group of suggestions is aimed at mitigating the adverse impact of possible unemployment and income losses as an immediate result of structural changes triggered by elimination of T&C quotas. This group of suggestions advocates a proactive role on the part of the state, domestic actors and development partners (United Nations, IFIs), as well as large importing firms in the developed countries, to collectively address the multi-faced socio-economic and human costs of adjustment.

I. Measures to deepen international market access

Provide duty-free/quota-free access for all exports, including T&C, with harmonised Rules of Origin, from all Least Developed Countries.

As pledged in three important international fora – the United Nations Millennium Summit, the Third UN Conference on LDCs in Brussels, and the Fourth WTO Ministerial Conference in Doha – all developed countries should permit imports, including T&C, from all LDCs on a duty-free basis. The United States currently has such provisions for LDCs in sub-Saharan Africa under the AGOA, but T&C-producing Asian LDCs such as Bangladesh, Cambodia, Lao PDR, Maldives, and Nepal do not receive such treatment. The European Union provides duty-free access to exports from LDCs under its EBA initiative. There is, however, a need to harmonise the Rules of Origin so that beneficiaries are not burdened with different criteria in different preferential schemes, and so that they are better equipped to fully utilise the preferences in their favour. In this regard, the encouraging lessons (relaxing of cumulation and value-addition requirements) from Canada's Market Access Initiative for LDCs are worth emulating. In addition to the full implementation of these market access commitments by developed countries, large developing countries that are in a position to do so (China, India) also should consider extending such preferences to Asian LDCs. The LDCs as a bloc could advance the implementation of such commitments at the Sixth WTO Ministerial Conference in Hong Kong in December 2005, with support from other WTO members.

Pursue tighter disciplines on the use of anti-dumping and countervailing duties

Now that quotas have been eliminated, recourse to trade remedy measures such as anti-dumping and anti-subsidy petitions is expected to intensify. Textiles and clothing products are one of the most targeted items for anti-dumping investigations, which severely disrupt exports and affect livelihoods of workers in exporting SMEs. The current negotiations on the WTO Rules should aim at improved disciplines to reduce the scope for measures of protectionist intent, and include a moratorium of such actions against LDCs.

Include the T&C sector in all GSP schemes

Several T&C-producing economies exist that are not LDCs but are small and characterised by low per-capita income. Not qualifying for some of the concessions available to the LDCs, and subject to competitive pressures from larger suppliers, these non-LDC economies like Sri Lanka and Vietnam could benefit if textiles and clothing were included in all GSP schemes, which should contain mechanisms to secure market access while they build up their competitive strength.

Remove quota restraints on countries currently in the process of acceding to the WTO

The ATC will not apply to non-WTO Members in Asia like Vietnam and Lao PDR. They will continue to face quota restraints on their exports unless the developed countries declare that they do not intend to apply such restraints henceforth. Canada, for one, announced on 3 December 2004 its decision to not apply quota restraints on T&C imports from six countries. The EU also decided to lift quota restrictions on Vietnam as of 1 January 2005. Similar action by the United States would allay concerns in Vietnam and Lao PDR, which are at present pursuing negotiations for WTO accession.

Pursue development-friendly tariff reductions in Non-Agricultural Market Access (NAMA) negotiations

Any multilaterally negotiated reduction in tariffs on T&C products could benefit Asian developing countries that at present compete with non-Asian countries that receive preferential tariff treatment. Positions adopted by countries in favour of a certain formula for tariff cuts, or the nature of participation in the sectoral negotiations will differ (the G-90 fears that sectoral negotiations could contribute to de-industrialisation in its territories). The objective should be to seek greater market access for T&C exports, while maintaining margins of preference for LDCs and GSP beneficiaries, and without requiring reciprocal reductions in areas that would undermine indigenous manufacturing capabilities, especially traditional handloom and handicraft sectors, which employ a substantial share of women. An overarching goal for all developing countries must be to fully take into account poverty and human development considerations in trade negotiating positions and in the ensuing trade agreements they accept.

Engage in balanced regional integration efforts

Regional free trade agreements among Asian countries should present an opportunity for increased opportunities for T&C trade. If Rules of Origin are accompanied by lax regional *cumulation* requirements, Asian countries could gain in the form of a stronger supply chain, from regional integration efforts among SAARC, ASEAN, Japan and China. There is a need to reduce dependence on Northern markets, and promote South-South trade. In this regard, the recently re-launched Agreement on GSTP,[42] administered by UNCTAD, could contribute to deepen the scope of tariff preferences amongst the G-77. Such schemes should provide low-income countries with special treatment to enable them to build up competitive enterprises and safeguard clauses to protect against import surges.

II. Measures to foster domestic competitiveness and export performance

Adopt national strategies to overhaul trade facilitation systems

Public and private investments in trade facilitation systems are a medium- to long-term option that would benefit not just T&C but all export-oriented sectors. An entry point in the short run, however, must concern customs efficiency. Excessive paper work, corruption and delay in customs affect T&C because they make shipments costly, and the delays affect lead times and delivery of items that require fast fashion response. Now that quotas are eliminated, lead times and quick fashion response will be important criteria for sourcing decisions by importers. Governments thus should immediately work toward making customs and transit procedures cost- and time-efficient. Faster customs clearance; computerised documentation; streamlining of bureaucratic procedures; reduction of opportunities for rent seeking; rationalisation of fees, taxes, and inspection requirements; and enhancement of delivery logistics would all contribute to enhancing lead times and "virtual" proximity to key markets.

Expedite fiscal processes on duty drawback as well as export financing; and allow prompt delivery of imported inputs at undistorted prices

In countries where fully export-oriented firms are granted full duty drawback and import tax exemptions, a policy measure could extend such a concession to firms that do not export all or even most of their output. In fact, in the case of important intermediate inputs, reduction or elimination of tariffs could be considered. In market-dynamic sectors such as T&C, a policy lesson from Pakistan and China is that states should allow garment exporters an undistorted choice between using local and imported fabric. In cases where firms are allowed to sell export-rejected T&C products in the local market upon payment of applicable taxes, such rates could be revised downward. Processes for disbursement of duty drawback, refunds on VAT and income tax rebates on export earnings must be simplified. Export Promotion Boards should extend credit at lower rates of interest to export-oriented T&C firms. There is also room to reform export credit guarantee schemes covering pre- and post-shipment risks and financing needs; the time limit for repayment of export credit could be extended.

Adopt measures to reduce input costs on power, transport and key raw materials

High electricity and telecommunication costs, poor roads and irregular shipment of containers in ports, together with bureaucratic processes in the customs apparatus, impose a high burden of time and costs on exporters of T&C and other items. These costs are akin to imposing stiff tariffs in the importing markets. For T&C firms facing difficulties in 2005 after quota elimination, Governments should consider temporary reprieves in the form of tax waivers on utilities, and should fast-track processing of T&C cargo.

Promote in-country resources on knowledge about markets and skills development

For an enhanced ability to lean retail, develop a quick fashion response, and supply full-package services, states should encourage garment associations to evolve from being mere lobbies into data banks on international market trends and sourcing options. With state help, they could also develop into skills development centres in partnership with non-profit groups, training T&C workers as well as displaced garment workers for alternative labour-intensive industries.

Create investment funds and consolidate credit support for SMEs

Special funds can be set up or consolidated to promote investment in the T&C sector through the provision of credit at reasonable interest rates and the reduction of mandatory thresholds. This could assist in increasing backward linkages with domestic industries and investors, especially in the SME sector. Targeted initiatives as in India, through the 1999 Technology Upgradation Fund Scheme (TUFS), 2000 Technology Mission on Cotton and sustained excise reforms, have facilitated increased investment by US$ 5.3bn.[43] Pooling of marketing and logistical resources in special export zones and bonded warehouses also could reduce industry fragmentation.

Enhance labour productivity

Only the most competitive T&C firms will survive in the post-ATC era, and labour productivity is key to improving competitiveness. Training at entry, especially for women, and transfer of managerial responsibilities to nationals in cases where T&C is characterised by foreign supervision are important policy choices. In countries where a long-term link between textile and apparel bases exists, human resource development must include creation of a pool of engineers and technical professionals relevant to labour-intensive industries, as in China and India. With increased competition post-ATC, states also should ensure that the pressures for short lead times do not translate into lower wages and longer working hours. Competitiveness should be attained through improved labour productivity, which requires upgrading of skills.

Invest in nurturing reputation, brands and images

Smaller suppliers of T&C must make an extra effort to be known for distinctive products or traits, by the production of quality niche products such as baby-wear, or a record of verifiable compliance with international labour and environmental standards, as in Cambodia. Through marketing efforts, reputations must be earned for quality, reliability, and compliance with product and process standards. These could be intensified through trade fairs and export promotion strategies. Given the dominance of a few large retailers in global apparel trade, groups of domestic exporters must develop contacts and long-term relationships with them. The large retailers, in turn, could do more to share the costs of improving working conditions, and rewarding instances of sustained compliance by firms with international labour standards.

Offer technical and financial assistance in accordance with MDG8

Developing countries need technical and financial assistance from the United Nations, bilateral donors and IFIs to upgrade their capacities to comply with international standards on intellectual property protection, marks of origin, and labour and environmental concerns. In the spirit of MDG8 (indicator 41), increased international trade-related assistance should help enhance country capacities in meeting these standards, alleviating supply-side bottlenecks and funding social safety schemes.

III. Measures to mitigate adverse impact on human development

Implement a comprehensive labour restructuring programme

Domestic labour restructuring programmes could include job banks and mass training in alternative skills for employment in sectors comparable to T&C. Recognising structural rigidities on mobility, employment priority should be given to the displaced workers, especially women. While estimates vary on how many job losses have occurred or will occur post-ATC, Governments concerned about mass layoffs in T&C should set up dedicated units in related Ministries, such as Labour or Finance, to track the scale of losses. This should then feed into a Government's annual public expenditure (fiscal) programmes. An example: Bangladesh has plans to train 40,000 garment workers in 2005 to improve their skills by partnering with BRAC, a non-profit group; it also is eliminating taxes on electricity and utilities used by garment factories.[44]

Adopt legislation on decent work

For workers who are able to retain their jobs, the promotion of decent work throughout the textile and garment industry can be enforced through labour laws that guarantee full respect for the rights of workers in line with International Labor Organization recommendations. Because an increase in global competition could intensify the labour process and exert downward pressure on wages, such guidelines should cap the maximum number of weekly working hours while offering firms incentives to attain competitiveness through labour productivity. International retailers and sourcing agents also should increase their interest and involvement, through financial assistance, in ensuring that working conditions in firms they source from comply with international standards.

Implement guidelines for responsible practices on closure of plants

When factory closure is inevitable, national laws should require that firms – including large retailers in the major economies that source production in Asia – ensure prioritised payment of social security or other social safety nets to laid-off workers. National laws must allow for laid-off workers to be paid before other creditors. Credit schemes should be considered for retrenched workers to help them start their own small businesses. Firms should be required to adopt responsible closure guidelines, including notification requirements and phased implementation of closure. Through a Memorandum of Understanding struck among stakeholders – state, unions, manufacturers and importers – no effort should be spared to ensure that consolidation of production minimises costs on livelihoods.

Conduct Human Development Impact Assessments to explore employment options

Governments should consider conducting systematic Human Development Impact Assessments (HDIA) to identify trade policy recommendations derived from participatory quantitative and qualitative techniques. These are encouraged by UNDP[45] in its work on trade policy in Asia. A post-ATC HDIA could include employment-centred assessments and identification of T&C niches and alternative export sectors that have potential for absorbing surplus labour, especially women. Such assessments could formally make the case for mechanisms of social protection and establishment of a dedicated unit within the Ministry of Commerce (or Export Promotion Boards) with a mandate to locate and promote job-creating export sectors, in coordination with other Ministries such as Industry and Agriculture.

Identify and analyse opportunities for export diversification within and outside of T&C

If and when some countries find that they are no longer able to sustain segments of their T&C industry, an effort must be made to see if those firms could diversify the range of apparel production or move into niches of apparel categories, as in Sri Lanka, that are either more labour-intensive or draw on distinct non-cost attributes. Overall, however, because export baskets of low-income countries are typically dominated by a handful of products, a medium-term national strategy must endeavour to encourage export diversification. Preceded by sub-sector studies, it can do so by offering incentives (import of capital at preferential rates, availability of credit) to firms willing to invest in these alternative sub-sectors. These studies could also examine existing disincentives for a balanced export structure because of measures (such as duty-exemption) available to only certain sectors.

Assess trends in balance of payments and exchange rates in the context of potential economy-wide contractions of income and jobs

Likely spillover effects on other sectors of the economy that are dependent on apparel firms should be monitored during the year. States should prepare to respond with facilitation of access to credit for firms hit by dependence on a contracting T&C sector. Many Asian economies, already facing rising bills in the import of crude oil, might face balance of payments problems if T&C and associated industries contract as a result of quota elimination. A worsening balance of payments should nudge policymakers to reassess the relative competitiveness of home currency in the region, especially in comparison to the Chinese Renminbi, whose peg with the depreciating U.S. dollar has advantaged China's exports.

42 http://www.unctadxi.org/templates/Press____897.aspx; 10 Asian countries have ratified the Agreement on GSTP.
43 Nair (2004)
44 The New York Times, 14 December, 2004
45 The UNDP Regional Centre in Colombo, for example, has been supporting a project on Employment Implications of T&C Quota Elimination and Options for Sustainable Social Protection in Bangladesh.

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