The textile and clothing Industry: Adjusting to the post-quota world

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1. Introduction

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

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

Most analysts predict that the situation will not remain the same after the phasing-out of the safeguards measures, which will expire in 2008. At the same time, the entry of Vietnam into the WTO from 11 January 2007, which enables the country to compete in the global T&C market without any quantitative restrictions on T&C exports, means that the competitive pressure is likely to become intense for the small and marginal players. Therefore, the real adjustment challenge is yet to begin.

Textiles and clothing is a unique industry in the global economy mainly for three reasons. First, most developed countries of today and newly industrialized countries (NICs) used this industry as the springboard for their development journey and even some least developed countries (LDCs)

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were able to step onto the development ladder on the basis of their T&C industry. Millions of people, mostly women, are employed in this industry in these economies. Second, this industry has very low entry barriers; entry does not require huge capital outlay and factories can be set up with workers with relatively low skills. Therefore, this industry is characterized by high competition intensity. Third, this industry is the most protected of all manufacturing industries in the global economy, both in developed and developing countries. Protectionist interests have been extremely ingenious in creating new protectionist instruments in the past 50 years.

Taking as precedent the imposition in 1957 of voluntary export restraints (VER) on the exports of cotton textiles from Japan to appease the domestic textile industry in the United States, the regime of protection in this industry was institutionalized in 1974 with the introduction of the Multi-Fibre Arrangement (MFA). This governed international trade in textiles and clothing for almost two decades. This arrangement enabled developed countries to bilaterally negotiate quotas with supplier countries taking into account their competitiveness and the perceived threat to the domestic interests in the importing countries. During the Uruguay Round of multilateral trade negotiations (1986-93), the international community decided to integrate the MFA into the new Agreement on Textiles and Clothing (ATC), which featured a clear time table for phasing-out the quota system within a ten-year period starting on 1 January 1995 (Adhikari and Weeratunge, forthcoming).

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

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

The remainder of the paper is organized as follows. Section 2 summarizes the trade flows in the post-quota world and discusses the human devel-

opment implications of the quota phase-out. Section 3 discusses challenges facing developing countries and LDCs in using the T&C industry as a springboard for their development efforts. Section 4 deals with emerging issues in the areas of T&C trade at the global level, which offers various opportunities as well as challenges to the T&C industry in the developing countries. Section 5 analyzes the efforts made by various developing countries to overcome the emerging challenges and critically evaluates the sufficiency of such measures in addition to proposing some measures that could help these countries minimize the human development fallout of the phasing out of quotas. Section 6 concludes.

2. Trade flows in the post-ATC period and their human development implications

Textiles and clothing are among the first manufactured products an industrializing economy produces. They played a critical role in the early stage of industrialization in the United Kingdom, parts of North America and Japan, and more recently in the export-oriented growth of the East Asian economies (Yang and Zhong, 1998). Hong Kong (China), the Republic of Korea, and Taiwan (Province of China) relied heavily on T&C products for their exports from the 1950s to the mid-1980s. As these economies scaled up their industrial development toward more capital-intensive and high-tech manufacturing products, Southeast Asian and South Asian developing countries and LDCs started to join the race. For example, Bangladeshi clothing exports increased ten-fold over the last 15 years and the country is now one of the leading exporters of clothing in the world (table 2). As for Cambodia, clothing exports took off in the late 1990s (Adhikari and Yamamoto, 2006, p. 46). The T&C share in total exports exceeds 70 per cent in these two economies (UNDP RCC, 2005a, p. 6). As a result, the T&C exporters' group has diversified over time, and Asia has become a hub of manufacturing production. This transition period overlaps with the time when the latecomers introduced their liberalization policies under structural adjustment programmes, acceded to the WTO and/or undertook domestic reforms.

2.1 Trends in the global market

Table 1 shows exports of textiles from selected economies. Global textile exports reached a historical high of US$203 billion in 2005, and this value has nearly doubled from the 1990 level of US$104 billion. In broad terms, the immediate effect of the expiry of quotas in the textile industry was a gain for developing countries and a loss for developed and semi-developed economies in Asia and European Union (EU). The growth of Chinese textile exports is remarkable – increasing by 22.8 per cent from 2004 to 2005, so that more than 20 per cent of textiles traded in 2005 originated in China. Other developing countries in Asia also experienced a significant growth dur-

ing the first year post-ATC – e.g., exports from Bangladesh, India, Indonesia, Malaysia, Pakistan and Thailand grew at between 7 and 15 per cent. On the other hand, textile exports from the top producers in East Asia – Hong Kong, Japan, Republic of Korea, Taiwan – decreased by 3-4 per cent from 2004 to 2005. The EU, the largest textile exporter in the world, also experienced a loss of exports in both intra- and extra-EU markets, recording reductions of 7.2 and 3.3 per cent respectively. Textile exports from Asia to Africa, Europe and North America increased by 14-20 per cent after the expiry of quotas (WTO, 2006a, p. 166[1]).

Products from the top 15 economies account for more than 90 per cent of global textile exports while the top 15 economies account for 77-83 per cent of global clothing exports in 2004-05 (ibid., pp. 171 and 178[2]). Table 2 displays the exports of clothing in selected economies. The clothing export market grew at a faster rate than textiles; the total value of clothing exports reached US$276 billion in 2005, 150 per cent higher than the level of US$108 billion in 1990.

In 2005, Asia was supplying nearly half of the global T&C market; China's exports alone accounted for 27 per cent of world trade in clothing. During the first year of the post-ATC regime, the value of China's clothing exports went up from US$62 billion in 2004 to US$74 billion and recorded a growth rate of 20 per cent. Among the Asian economies listed in table 2, on the one hand, NICs[3] plus Macau (China) were hit hard, with a 14-24 per cent reduction from 2004 to 2005. On the other hand, the remaining developing countries from Southeast Asia and South Asia survived the first year of quota elimination, in spite of pessimistic predictions made before the expiry of ATC. The smaller clothing producers are not listed in table 2, however. As we discuss below, Fiji, Mongolia and Nepal are struggling to survive, while the Maldives has ceased to export T&C products.

Some developing countries in other regions, including the ones which have preferential market access to the United States, also recorded a negative growth in 2005. Examples are: Morocco (which has a bilateral trade agreement with the United States); Dominican Republic, El Salvador, Guatemala, Honduras (which are part of the U.S.-Caribbean Basin Trade Partnership Act – CBTPA); and Madagascar, Mauritius, South Africa (which receive preferential market access to the US market under the African Growth and Opportunity Act – AGOA). Exports from Mauritius and South Africa started to decline in 2004 (WTO, 2006a, p. 179) and even did so in the US market in spite of the preferential arrangement under AGOA (Morris, 2006, pp. 50-51). Negative export growth rates of clothing from Mauritius and South Africa in 2005 were 20.7 per cent and 32.7 per cent respectably. Exceptions are Peru and Colombia, which benefit from preferential arrangements with the United States under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) and experienced a continuous growth over time.

2.2 Two years after the expiry of quotas

The 2006 data will help us observe the impacts of quantitative restrictions on Chinese exports imposed by the EU and the United States in summer 2005. This section will summarize the growth of T&C exports from selected Asian and Pacific countries, based on the import data from two major markets – the EU and the United States.[4, 5] For the EU, data for the first 8 months of 2006 are available; for the United States, the first 9 months of 2006 data are available at the time of writing.

The main focus is on 12 selected Asian countries (hereafter, the 'Asian 12'): Bangladesh, Cambodia, China, India, Indonesia, Lao People's Democratic Republic (PDR), Nepal, Pakistan, the Philippines, Sri Lanka, Thailand, and Viet Nam. These countries can be grouped into four categories: (1) countries with a large production capability in both textile and apparel production (China, India); (2) countries that have limited production capability in both textiles and apparel (Indonesia, Pakistan, Thailand, Viet Nam); (3) middle-income countries that mainly have apparel production capability (Philippines, Sri Lanka); and (4) LDCs (Bangladesh, Cambodia, Lao PDR, Nepal). The cases of Fiji, Maldives and Mongolia, which were severely hit by the expiry of ATC, will be also discussed.

2.2.1 EU market

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

Asia's share of EU T&C imports continued to increase in the post-ATC period. In 2004, about 46 per cent of total EU imports were from the Asian 12; its share now accounts for more than half of EU imports of T&C products. In contrast, regions which have a trade agreement with the EU have lost their market shares in spite of their preferential market access. For example, the market shares of Morocco, Romania, Tunisia and Turkey declined, albeit slightly, in the post-ATC years.

Between 2004 and 2005, EU imports from the Asian 12 increased by 19.6 per cent; however, the gains were not distributed evenly in Asia. China was the leading contributor to this rapid growth with India a distant second. EU imports from China increased by US$6.1 billion – 42 per cent up – from US$14.7 billion to US$ 20.8 billion during the first year in the post-ATC while EU imports from India increased by US$800 million, from US$ 4.4 billion to US$5.2 billion, at the growth rate of 18.3 per cent. Other Asian 12 countries – except Viet Nam and Lao PDR – as well as the exporters in other regions – except Turkey – had a difficult start of the post-ATC regime, experi-

encing negative growth despite their benefits from several variants of Generalised System of Preferences (GSPs) and other preferential arrangements.

This trend changed noticeably in 2006 after the EU and China came to an agreement on restricting Chinese T&C imports to the EU in June 2005. Until 2008, the annual growth rate of 10 of the 35 categories of Chinese imports liberalized with the expiry of ATC is restricted to 8-12.5 per cent (European Commission, 2005). A comparison of the first 8 months' data in 2005 and 2006 reveals that EU imports from China slowed down to 5.5 per cent growth rate whereas the rest of the Asian 12 countries, except Nepal, revived their exports to the EU market at two-digit growth rates. Exporters in other regions ('Rest of the World' in table 3) also resumed their exports to the 2004 level by experiencing 10.8 per cent growth for the first 8 months of 2006.

2.2.2 US market

Table 4 shows the market share and growth rates of imports from selected Asian and Pacific countries including the Asian 12 and other major trading partners in US market from 2004-2006. The Asian 12's share of US T&C imports continued to rise. In 2004, the Asian 12's share of US T&C imports was 41.3 per cent; data for the first 9 months of 2006 show that 54.8 per cent of the total US imports are now from the Asian 12. In contrast, exporting countries from other regions, in fact, the majority of those countries which have preferential arrangements with the United States, continue to lose their market shares. For example, the share of Caribbean Basin Initiative (CBI) member nations plus Mexico declined from 21.6 per cent in 2004 to 17 per cent in 2006. The share of sub-Saharan African countries (in the category classified as AGOA) also declined from 2.1 per cent in 2004 to 1.4 per cent in 2006.

US imports from the Asian 12, like in the EU case, showed significant increase during the first year of the post-ATC regime. The growth rate of US T&C imports from the Asian 12 between 2004 and 2005 was 28.6 per cent. China is the leading contributor to this growth with a 50 per cent growth rate from 2004 to 2005. In contrast to the trend in the EU, other Asian 12 countries – except Nepal and Thailand – also showed steady growth even after the expiry of quotas. When US imports from China went down to a growth rate of 7.3 per cent for the first three quarters of 2006 as compared to the same period of 2005, the rest of the Asian 12 – except Nepal – succeeded either in exporting more or sustained their positive growth. As a result, US imports from the Asian 12 continued to grow at 11.8 per cent for the first 9 months of 2006, which is much higher than the growth rate of total US imports, 2.6 per cent.

The difference in the pattern observed between US and EU imports is that, in the US market, exports from other regions did not revive after quan-

titative restrictions imposed by the United States on Chinese T&C imports.[6] This was so for countries which have preferential arrangements with the United States. For example, US imports from CBI countries plus Mexico decreased by 4.9 per cent from 2004 to 2005 and 9.3 per cent from 2005 to 2006. As for Sub-Saharan African countries, the reduction rate of US imports was 16.5 per cent in 2005 and 13.2 per cent for the first 9 months of 2006.

Smaller exporters from the Asia-Pacific – e.g., Fiji, Maldives, Mongolia and Nepal – were hit hard by the elimination of quotas. As for Mongolia and Nepal, it was observed that some orders came back after the safeguards on Chinese imports. For Fiji and Maldives, US imports continued to decline in 2006.

2.3 Human development impact of the expiry of quotas

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

2.3.1 Fiji

Fiji's garment industry expanded rapidly in the late 1980s and the 1990s after obtaining preferential market access to Australia and New Zealand under the 1981 South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA), with the restriction of using 50 per cent locally manufactured fabric and granting a 13-year tax holiday and other benefits to companies exporting 70 per cent or more under the 1987 Tax Free Factories (TFF) scheme. The latter attracted foreign investors to open production facilities in Fiji. Moreover, the 1991 Import Credit Scheme (ICS) allows Australian fabrics to be shipped to Fiji at competitive prices for production of garments that will be re-exported to Australia. Furthermore, Fiji enjoyed quotas from the United States under the MFA. The number of tax-free garment factories rose from 27 in 1988 to 88 by the end of 1991 (Harrington, 2000). In 2000, the industry employed nearly 20,000 people, more than 70 per cent of them women. About two-thirds of manufacturing jobs were provided by the garment industry. Exports peaked at FJ$322 million (US$163 million) in 1999, and this accounted for more than 30 per cent of total exports and 11 per cent of GDP (Storey, 2004). The coup in 2000 triggered the downfall of Fiji's garment exports, leading to the closure of a dozen factories during 2002 and retrenchment of up to 6,000 people (Global

Education Centre and Family Planning International Development, 2004). T&C exports decreased by 28 per cent from FJ$312 million (US$137 million) to FJ$223 million (US$106 million) between 2000 and 2002, but the expiry of quotas in 2005 led to a negative growth of 47 per cent with respect to 2004 (Adhikari and Yamamoto, 2006), triggered by a decrease in US RMG imports of 78 per cent (Table 4).

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

2.3.2 Maldives

Exports of RMGs took off in 1997 in Maldives and peaked in 2002. Having "guest workers" from Asia is not unique to the clothing industry in island economies given lack of trained domestic workers. In its peak time, 2,478 expatriates were employed in the industry. The number of expatriates started to decline in 2004, by January 2005 it halved to 1,228, and by the end of the year it had declined to 431. During its peak time, more than 70 per cent of expatriate garment workers were sewing machine operators, with more than 90 per cent of these women. The majority of them were Sri Lankan women who were sent home as operations slowed down (Adhikari and Yamamoto, 2006, pp. 18-19).

Given the high dependence on expatriate labour, one analysis suggests that the effects of the elimination of quotas on the economy of Maldives are expected to be negligible (United States Department of State, 2006). Although detailed data for local employment are not available, the 2000 Census data shows that 2,699 men and 5,518 women were working as "craft and related trade workers" in manufacturing (Ministry of Planning and National Development, 2004a). Female production workers in manufacturing received the lowest pay among industries (Ministry of Planning and National Development, 2004b). Since many garment factories were located in the outer atolls, where alternative jobs for low-paid garment workers are hard to find, female workers with low skills are likely to face the loss of income and the fear of long-term unemployment. Income inequality between Malé and the atolls has increased, and so has gender inequality in the labour market. Unemployment among women aged 15-24 rose from 30 to 40 per cent during 1997-2004 as compared to the male unemployment rate of the same age cohort of 10 to 23 per cent (Ministry of Planning and National Development, 2005). The loss of foreign exchange may be another factor to consider. RMGs accounted for about one-third of total merchan-

dise exports and half of merchandise exports by the private sector in 2003 (Ministry of Planning and National Development, 2004a).

2.3.3 Mongolia

The T&C industry accounted for 11.3 per cent of 2004 total exports in Mongolia and employed an estimated 20,000, mostly women, as well as illegal migrants (ADB, 2006). With the elimination of quotas, US T&C imports from Mongolia recorded a 41.2 per cent decline from 2004 to 2005 (table 4). In March 2005, the number of workers reached 4,526 persons in textiles and 8,880 persons in wearing apparel, dressing and dyeing fur sectors, a 30 per cent decline from 6,401 and 12,725 persons respectively in March 2004 (National Statistical Office of Mongolia, 2005).

Products that faced severe declines in 2005 were the items in which quotas expired at the end of 2004 as well as the products that other countries are producing. Table 5 shows the top five US T&C imports from Mongolia, based on their value in 2004. Three out of the top five are knitted jerseys and pullovers of cotton, cashmere and man-made fibres, whose export value plunged by 35.1, 91.6 and 54.8 per cent respectively. Two other products, women's and girls' woven cotton trousers and knitted cotton T-shirts, are also common RMGs produced by many other countries. They recorded a negative growth of 9.7 and 56.0 per cent, respectively, during the first year of the post-ATC. Cotton is imported from China and Mongolia engages in the most labour-intensive parts of production, such as sewing.

Mongolia, which traditionally produces cashmere and wool clothing products, has not been successful in establishing vertical integration for export markets. For example, more than half of foreign exchange generated from cashmere-related trade consists of exports of raw cashmere to China. The price of raw cashmere is not stable while the price of manufactured cashmere products is; therefore, it is more profitable for Mongolia to process the raw cashmere for domestic manufactures and export the final products. However, Mongolia currently lacks a cashmere processing industry; thus, it often imports cashmere inputs back from China to produce the final products. Lecraw, Eddleston and McMahon (2005) report that if all raw cashmere produced in Mongolia were fully processed into finished knitted and woven products before export, such exports would generate about US$206 million, more than the 2005 level of the country's entire T&C exports, and employment in the processing industry would more than double. As for wool, Mongolia currently exports about US$6 million worth of uncombed sheep wool, while carpet exports generate only US$1 million. Mongolia committed to remove its export duty on raw cashmere by 2007 upon its accession to the WTO in 1997; however, Government of Mongolia has been studying the possibility of extending this period to discourage the exports of raw cashmere (GTZ, 2006).

With quantitative restrictions on Chinese T&C imports, it was hoped that foreign investors will reopen their factories and restart production in Mongolia. The first 8 months of the country's 2006 industrial production data show that the total textile output is 30.7 per cent higher compared to the previous year in real terms (ibid., p. 1). In December 2005, the EU granted Mongolia GSP-plus status for 2006-08. However, the US market accounts for more than 95 per cent of Mongolia's T&C exports; therefore, the positive impact from GSP-plus will be limited. Mongolia is currently negotiating a free trade agreement with the United States.

2.3.4 Nepal

The T&C industry in Nepal grew rapidly and became a major foreign currency earner after Indian exporters established an RMG industry in the early 1980s. Nepal also expanded its exports of carpets, a product in which the country traditionally has a competitive advantage. RMG exports peaked in 2000 and started to decline partly because of preferential market access granted by the United States to sub-Saharan African countries under AGOA. Uncertainties and apprehensions regarding the post-ATC scenario also seem to have contributed to the gradual decline in Nepalese garment exports between 2000 and 2004 (Dahal, 2006). Nepal's T&C exports were heavily concentrated in the US and EU markets, accounting for 98 per cent of total T&C exports. The United States alone accounted for more than 90 per cent of T&C exports in the early 1990s, but this share has been declining (Bhatt et al., 2006, p. 29).

In both the EU and US markets, Nepal's exports in 2005 and 2006 could not revive to their pre-ATC levels (tables 3 and 4). Table 6 displays the top five T&C export products to the EU and US markets, based on their value in 2004. Wool or fine animal hair carpets and other textile floor coverings (HS 570110) are the top exports of Nepal in both markets. In the EU, this commodity accounted for nearly 60 per cent of total Nepalese T&C exports in terms of value. Two other commodities that appear in both EU and US markets are woven cotton trousers for women or girls (HS 620462) and for men or boys (HS 620342). In 2004, they ranked second and fourth in the EU market and second and third in the US market. However, both the value of EU and US imports of these commodities dropped significantly in 2005 – in the EU, by 75.2 and 40.8 per cent respectively, and in the United States, by 39.4 and 33.9 per cent. The two other commodities in the top five US imports from Nepal are knitted cotton jerseys, pullovers, cardigans, waistcoats and similar articles (HS 611020) and knitted men's or boy's cotton shirts (HS 610510). The export value of these two products decreased by 57.5 and 59.7 per cent respectively in 2005. Similar to the Mongolian case described above, Nepal's loss of competitiveness in three out of the top five commodities in US market are explained by the fact that: (1) these faced

more competition after the eliminations of quotas; and (2) these are also produced by other countries in the region.

During its peak time the RMG industry in Nepal employed more than 50,000 persons; when production for exports declined the number of workers also went down. A recent study by Bhatt et al. (2006) found that the industry now employs less than 5,000 persons (p. 36). Several alarming findings regarding Nepali RMG workers reported in the study can be summarized as follows: 1) Nearly a quarter of employees reported a decrease in their salaries after 2005 while about 40 per cent saw no changes in salary and 36.1 per cent received better salaries; 2) Only 14.6 per cent of the RMG employees live above the poverty line with net earnings of more than 7,500 Nepali Rupees (US$100) per month; 3) Women on average earn only 60 per cent of men's monthly salary, and gender disparity in salary is observed among similar occupations even after working hours are taken into account; 4) Two-thirds of workers who were previously employed in the RMG industry became unemployed because of factory closures and about 82 per cent of former workers did not find other forms of employment immediately after leaving the industry; and 5) The loss of garment factory jobs has resulted in declining income for almost 20 per cent of the workers while the majority feel a rise in food and housing costs.

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

2.3.5 Trade gains but not in human terms

Even in countries where export growth has been robust, increased exports do not necessarily translate into more employment, better wages or better working conditions. In general, T&C workers receive relatively low wages. In Bangladesh, where the total number of workers in RMG sector is 2 million, of which 80 per cent are women, the legal minimum earnings of 930 Takas per month (US$16), fixed in 1994, has not been revised since, in spite of a rising trend in inflation (ADB, 2006, pp. 147-148). As for Sri Lanka, a recent report on apparel industry workers estimated that the total costs to cover the basic needs of the worker, excluding saving and remittance, are 7,000 and 8,800 Sri Lankan Rupees (LKRs) (US$70-85) for outside-free trade zone (FTZ) workers and FTZ workers respectively (Prasanna and Gowthaman, 2006). The minimum wage of US$36, however, does not allow meeting workers' basic needs; in fact, 86 per cent of workers surveyed receive a basic salary of less than LKR 6,000 per month (ibid.).

In Cambodia, in spite of a rise in RMG exports, workers' earnings decreased by 8.5 per cent in 2005 compared to 2004 (CDRI, 2006 cited in Chan and Sok, 2006, p. 30). A recent study by Chan and Sok (2006) also

found that 30 per cent of workers surveyed perceived that their real wage has decreased in the post-ATC years as opposed to 19 per cent who perceived that their salary is increasing. The report also found that about 60 per cent perceived that their health condition has worsened as compared to 2004 (i.e., prior to the quota expiry) and argues that longer working hours to meet an increase in orders in the post-ATC environment and less expenses on food in order to save money for other purposes such as remittances and savings might have affected workers' health conditions. Employment has become increasingly casual over time, with increasing prevalence of short-term contracts and piece-rate work. As we discuss later, Cambodia has adopted the industry-wide compliance monitoring system but the latest report shows that less than a quarter of the factories monitored comply with the overtime within the legal limit (ILO, 2006). In the case of Bangladesh, Ahmed, Rahman and Sobhan (2005) found that overtime for RMG workers has decreased in the post-ATC environment, because of buyer pressure to meet the legal limit of 60 hours a week, but this affected workers' well-being negatively because of reduced income and loss of nutritional supplements that are provided as snacks for overtime workers. The factories meet the increased orders by subcontracting some parts of the orders (ibid.). In short, even in the countries which performed well in the post-ATC period, there are a number of factors which need to be improved from a human development perspective.

3. Challenges Facing Developing Countries

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

3.1 Protectionist forces

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

Powerful and vocal protectionist lobbies have not only found ways to protect their industries in connivance with their government, but have also

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

3.1.1 Tariff barriers

On average, the tariffs imposed on T&C products are four times higher than the average industrial tariffs imposed by the developed countries. The average post-Uruguay Round tariffs on T&C products in three major industrial countries are 14.6 per cent in the United States; 9.1 per cent in the EU; and 7.6 per cent in Japan, while their average industrial tariffs are 3.5, 3.6 and 1.7 per cent respectively (Hayashi, 2005).

Disaggregated data reveal remarkably high tariffs imposed on some products. In the post-Uruguay Round era, the majority of T&C tariff lines face tariff peaks – 52 per cent of T&C imports in the United States have tariff rates of 15.7 to 35 per cent, 54 per cent of EU imports have duties of 10.1 to 15.0 per cent, and 55 per cent of Japanese imports have duties of 5.1 to 10.0 per cent (ibid.). The high tariff on T&C products has become an even more important trade policy tool in the hands of the developed countries and is not likely to come down significantly even if the stalled negotiations on non-agricultural market access (NAMA) are revived at the WTO.[7]

One of the ways to get around this barrier is to provide preferential market access – either through a GSP or a free trade agreement (FTA) – to a selected group of countries ostensibly with the objective of helping them in their developmental objectives. No doubt such preferences have helped some countries. However, the evidence shows that their impacts have been, at best, mixed as far as the export performance of the preference receiving countries is concerned. For example, Bangladesh has been able to use the duty-free-quota-free market access treatment to the EU provided under the "Everything but Arms (EBA)" initiative to the benefit of its knitted apparel exports, with the preference "take up" rate of 80 per cent. However, the country has not been able to register significant growth in the export of woven items,[8] the reason for which will be discussed below.

Similarly, Jordan, a country largely unknown regarding its prowess in textiles and clothing, has emerged as a significant player in this industry only

after its 2001 free trade agreement with the United States. It has been maintaining its growth momentum for the last four years. Jordan's clothing exports to the United States have increased from a mere $43 million in 2000 to $1.1 billion in 2005 (Ahmad, 2005). During the first six months of 2006, it has posted an increase of 18.3 per cent in the US market (International Textiles and Clothing Bureau, 2006). In contrast, the value of Jordanian exports to the EU, where it does not enjoy duty free market access, was only $8.8 million in 2005 (Ahmad, 2005).

A number of other countries that enjoy preferential market access to the US or EU market did not necessarily fare well in the post-quota era. Examples include: Lesotho, Malawi, Namibia and Swaziland in Southern Africa, which are beneficiaries of AGOA; Costa Rica, Dominican Republic, Jamaica, El Salvador, Honduras which are the beneficiaries of the CBPTA; and Mexico, which is a beneficiary of the North American Free Trade Agreement (NAFTA). Similarly, a number of countries that enjoy preferential market access to the EU, e.g., Morocco, Romania and Tunisia, did not achieve a significant export growth in the post-quota era as discussed above.

There are three major problems associated with countries having preferential trading arrangements. First, since they have had assured market access opportunities during the MFA and ATC periods, they never felt the competitive pressure and did not have any incentive to improve their performance. Complacency led to their lacklustre performance in the post-quota era. Second, due to strict rules of origin (ROO) requirements, they have to rely on imported materials from relatively high cost sources like the United States and the EU, which makes them uncompetitive. The "yarn forward" requirement included in most FTAs, which make it mandatory for the preference receiving countries to use US yarn and fabrics, as a condition for assembled textile or clothing products to enter duty-free, is a testimony to this.[9] While this scheme provides a captive market for US textile exporters, it also prevents the preference receiving countries from using textiles from other competitive sources such as China, which are seen as a threat to the survival of US textile firms.[10] The captive market hypothesis is corroborated by the export data from the United States and the EU. US exports of yarns and fabric to NAFTA, Central American and Caribbean Basin countries, which are the beneficiaries of duty free access to the United States, increased from less than 40 per cent in 1989 to 77 per cent in 2004. Since the EU also promotes a captive market strategy, 37 per cent of its textiles exports were destined to Eastern European, African and Mediterranean countries (Romania, Tunisia, Morocco, Bulgaria and Turkey in 2004).[11]

Third, again due to ROO requirements included in GSP preferences, most developing countries and LDCs that lack textile and other raw material producing capacities are handicapped because they cannot meet the minimum ROO threshold.[12] Among the existing ROO requirements imposed for preferential trading arrangement, the one being implemented by the EU

is considered the most restrictive because it requires at least two finishing operations – a process known as "double transformation" – to occur in the exporting country to qualify for preferential market access. Therefore, despite the EBA initiative, LDCs that are not able to meet the requirement continue to have a low level of preference utilization. For example, the utilization rates for clothing preferences of the Asian LDCs under the EBA in 2004 were 33.8 per cent for Bangladesh and 65.8 per cent for Nepal (WTO, 2005). This partly explains the reason behind Bangladesh's ability to achieve impressive export growth in the knitted garments in which domestic value addition is very high and not on woven garments where domestic value addition is extremely limited due to lack of vertical integration. Low utilization of preferences means that LDCs continue to pay Most Favoured Nation (MFN) tariffs on their exports to the EU market.[13]

Preferential market access has distorted the tariff structure. The distribution can be quite regressive in nature as it penalizes the poorer countries and rewards the rich countries. For example, Asian countries that are not beneficiaries of preferential market access in the US market pay much higher tariffs on T&C products than beneficiaries (table 7). Exporters from a poor country like Bangladesh pay 82 times higher tariffs than Canada for the exports of knitted apparels and 107 times higher tariffs for the exports of woven apparels. Similarly, its knitted apparel exports contribute almost the same share as that of Canada to the US customs revenue, and its woven apparel exports contribute 2.8 times more revenue than Canada's. Another comparison between two LDCs from two different regions, Cambodia and Lesotho, is quite striking. Cambodia pays 144 times higher tariffs to access the US market for its knitted apparel than Lesotho, and it pays 233 times higher tariffs for the export of its woven apparel.

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

3.1.2 Non-tariff barriers

Out of the several non-tariff barriers only two – namely trade remedy measures and regulatory/standard related barriers – will be discussed in this subsection. While the first one is a traditional barrier which is still being actively used by both developed and developing countries, the second one is an emerging barrier that reduces the competitiveness of the T&C exporters of

developing countries. A common element in these barriers is that they can be and have been abused for protectionist purposes.

Trade remedy measures

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

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

Based on a survey of anti-dumping actions initiated between 1994 and 2001, it was found that one major WTO member initiated 53 investigations into allegations of dumping, placing the T&C industry in the third position only after iron & steel and chemicals.[15] In several instances, investigations into the same products were revived back-to-back, extending over a long period (WTO, 2003). Commenting on the unfair nature of anti-dumping investigations, Oxfam International (2004) asserts, "[T]hey take a long time to resolve, impose heavy costs of arbitration, and can be prolonged by small changes to the case". Anti-dumping measures, unlike other trade remedy measures, can be applied to targeted firms in specific countries, almost with absolute impunity (Adhikari and Yamamoto, 2005).

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

gation. This margin inflates the dumping margin, subjecting the Chinese imports to a higher anti-dumping duty.[16]

Regulatory barriers

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

Since governments are ingenious in devising various ways to inhibit imports to protect domestic producers in sensitive industries where domestic pressure for protection persists, the list of possible regulatory barriers could be infinite. The risk is that the traditional barriers such as tariffs, quotas and VERs may be replaced by a new form of regulatory barrier.[18] Baldwin (2000, p.242) succinctly describes the political economy of regulatory and technical barriers:

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

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

The governmental barriers mentioned above would at least provide some element of predictability despite their protectionist undercurrent. Private standards, differing from firm to firm, can also pose costly barriers. Due to pressures from consumer groups, the environmental lobby and trade unions,

some of the major buyers in developed countries have private "codes of conduct", which they expect all suppliers to follow. These codes mainly correspond to environmental and labour standards, which can significantly raise suppliers' costs (Adhikari and Weerantunge, forthcoming), especially where multiple codes with different monitoring and reporting requirements are involved.

It is desirable from a human development perspective to make a gradual but sustained effort aimed at reaching higher environmental and labour standards, since an abrupt switch to higher standards could erode the competitiveness of enterprises in developing countries. The necessity of ensuring compliance with multiple standards can further aggravate the problem. Due to the immense market power of the buyers, who can dictate their terms, T&C exporters are left with only two choices. Either they have to custom-tailor the working environment in the factory to fulfil different conditions imposed by their buyers, or they have to follow the most stringent buyer's standards. Both these responses can affect the competitiveness of these enterprises.

3.2 Supply side constraints

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

3.2.1 Poor human capital

The lack of skilled and/or trained human resources, which impedes productivity growth, is a major reason for most developing countries' inability to take full advantage of trade liberalization and for others to face a threat to their survival. While the wages paid to T&C workers in several Asian countries are much lower than those paid in China, they are not as competitive as Chinese workers due to poorer skills, notably of non-production workers, and other factors impacting on productivity. According to USITC (2004), the average hourly compensation for Chinese garment workers in 2002 was US$0.68, whereas the figures for Bangladesh, India, Indonesia, Pakistan, and Sri Lanka were US$0.39, 0.38, 0.27, 0.41 and 0.48, respectively. However, the report points out that the productivity levels of T&C workers in these Asian countries are significantly lower than their Chinese counterparts.

Due to the lack of technical skills, some countries are hiring expatriate staff. A survey conducted by USAID (2005, p.22) found that 40 per cent of indirect personnel positions in the factories that responded in Cambodia were staffed by expatriates. Because using expatriate staff in technical and supervisory positions raises costs, this can have a significant impact on industry competitiveness (Adhikari and Yamamoto, 2006; Chan and Sok, 2006).

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

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

3.2.2 Poor quality of infrastructure

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

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

3.2.3 Limited trade facilitation measures

Trade facilitation is defined as the simplification and harmonization of international trade procedures. These procedures encompass the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade.

Procedural hurdles can be corrected with adjustments in customs rules and formalities and investment in computerization to speed up the process. However, efforts in this direction have been extremely limited, particularly in South Asia and Sub-Saharan Africa where total time taken for import reaches 46.5 and 60.5 days, respectively, against the best performing country's (Denmark) average of five days (table 8).

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

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

3.2.4 High costs of inputs

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

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

This system can, however, be burdened with bureaucratic problems, as the example of Nepal shows. The exporters who have not exported for a year

have faced administrative hassles to benefit from this facility. Even for regular exporters, refunds are not delivered in time and take more than 30 days to process from the date of the claim. Moreover, it has become extremely difficult to get the bank guarantee released, particularly after the introduction of value added tax (VAT)-related regulation.[20]

3.2.5 Limited access to finance

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

For example, as stated in a study conducted by International Business and Technical Consultants, Inc. (2003) for the Ministry of Commerce, Bangladesh, a large number of knitwear garment exporters with a capital of Taka 10 to 20 million (US$0.17-0.34 million), and a workforce of 150-300, were forced to borrow from local moneylenders at a monthly interest rate close to 11 per cent. Exporters are compelled to take such loans when they fail to obtain timely bank financing (Adhikari and Yamamoto, 2006).

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

4. Emerging issues

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

4.1 Changing buyers' behaviour

Textiles and clothing, particularly clothing, is a classic example of a buyer-driven commodity chain, which is characterized by decentralized, globally dispersed production networks, coordinated by lead firms who control design, marketing, and branding at the retail level. Many of the most powerful branded retailers such as Gap, Nike, Wal-Mart and Liz Claiborne own no factories and do not necessarily "make" in order to sell. Yet, by controlling

design, input sourcing, branding and distribution these powerful retailers capture the largest share of value added in apparel and textiles production (Gereffi, 1999). The economic power of large retailers, predominantly in developed countries, has increased substantially over the last few years (WTO, 2005). In the United States, for example, the 29 biggest retailers account for 98 per cent of sales (UNDP RCC, 2005a). The trend now is toward greater product specialization and brand-name and market segmentation. These large retailers collect market information about the latest trends in styles and tastes, and their integration of this information combined with the volume of their business gives them considerable leverage in dealing with suppliers (Kelegama and Weeraratne, 2005).

Because of the sheer market power, it is the buyers' preference that is going to shape market response in the exporting countries. Although price and quality used to be the two dominant variables, buyer preferences these days represent an interplay of various factors, of which five are critically important.[21]

Price and cost factors: The price of final delivery of goods into the warehouse is still a factor that influences the sourcing decision of the majority of buyers.[22] While several Asian countries including Bangladesh, Pakistan, Indonesia and Vietnam seem to have followed a low-cost strategy, the sustainability of this approach has been challenged on the ground that the focus on low costs makes them always vulnerable to competition from the next lower cost supplier (Tewari, 2006).

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

Risk spreading: A possible scenario opposing the critical mass sentiment is the risk-spreading argument. Buyers, desirous to maintain uninterrupted supply, would like to diversify the sources from which they import T&C products. For example, according to the US International Trade Commission: "To reduce the risk of sourcing from only one country, the US importers also plan to expand trade relationships with other low-cost countries alternative to China (USITC, 2004)". For example, stores such as Wal-Mart and Dillards make spatial distinctions among the location of the suppliers from whom they source certain categories of apparel (Tewari, 2006). Indeed, because they were anticipating the re-imposition of quotas on China, several buyers continued to source products from countries like

Bangladesh and Cambodia during the first few months of phasing out of quotas, and this contributed to the continued success of these countries.

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

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

4.2 Graduation and loss of competitiveness

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

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

a strong comparative advantage in labour-intensive manufactures, which use little of either skill or land per unit of labour (Mayer, 2005).

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

4.3 Lean retailing

As yet another reflection of their market power, buyers are unwilling to maintain high levels of stock in their warehouses or stores. Moreover, taking advantage of the latest technology, they would like to respond promptly to consumer demand in line with rapidly changing fashions. With this trend toward "lean retailing," producers that can provide quick turnaround time enjoy an important competitive advantage. Most studies argue that proximity to large markets, e.g., Mexico, Central America and the Caribbean countries to the United States and Turkey, and Central and Eastern European Countries to the EU, is a key factor to ensure quick turnaround (WTO, 2005). The importance of "timeliness" and speedy delivery in lean retailing practices has significantly affected supplier location over and above consideration of price (Nordas, 2004; Berger, 2006 cited in Tewari, 2006). Emphasizing the promptness in delivery as a key factor to remain competitive in the post-quota era, Abernathy and Weil (2004) argue that the proximity advantage will become even greater as retailers raise the bar higher on the responsiveness and flexibility required of their suppliers.

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

as compared to US$1.3 billion of those products from China and other Asian countries (ibid.).

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

4.4 Value chain networks

Large retail chains such as Wal-Mart and "branded marketers" such as Nike and Reebok have been outsourcing their production to low-wage countries but have retained control, as noted above, over the major portion of the value chain. By keeping control over the design and marketing functions, they also maintain close control over the global T&C value chain through standard-setting, often sourcing raw materials themselves, distributing them globally and then importing the made-up garments.[23] However, it is difficult for these large-scale buyers to coordinate all these activities by themselves. As Abernathy, Volpe and Weil (2004) argue:

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

Buyers' inclination toward the second option mentioned has led to the emergence of intermediaries, which are essentially "sub-contracted" by large buyers to perform critical tasks in the value chain. Drawing on tacit knowledge gained from years of immersion in the garment industry, their ability to master the process of fulfilling large orders to the exact specification of their buyers and to exacting delivery schedules, as well as their specific knowledge about production management, many companies from East Asia (mainly Hong Kong, Korea and Taiwan) have been acting as intermediaries for global buyers since the 1980s and 1990s (Tewari, 2006, p. 29). Their capacity to mobilize and coordinate full-package manufacturing in global T&C value chains led to what Gereffi (1999) terms "triangular production networks". This implies production is done in one country (usually less developed), organized and coordinated by firms in another country (usually middle-income), and sold to a buyer in yet another country (usually developed).[24]

Box 1: Organizational skills in the changing landscape of T&C trade

A Hong Kong based company, Li & Fung Ltd[25] – founded in China in 1906 – has evolved from an exporting agent of porcelain and silk from China to a professional manager of the entire supply chain – from product design and development, through raw material and factory sourcing, production planning and management, quality assurance and export documentation, to shipping consolidation. The company gained expertise in buying and selling quotas from Asian markets for shipment into the United States in the 1970s and 1980s as an important element of its garment exporting business. As a buying agent and broker in quotas, it established backward links with more than 2,000 Asian suppliers and forward links to manufacturers and retailers. In the late 1980s and 1990s, the company took advantage of its network of Asian suppliers and its growing familiarity with logistics management to offer US retailers an efficient means of sourcing products in Asian nations. Currently, the Group has more than 70 offices in over 40 countries and employs 8,000 staff globally to cover a global network of over 10,000 suppliers. It has achieved a turnover of US$7 billion and aims to maintain the growth rate of 18 per cent achieved in 2005 to be able to achieve a turnover of US$10 billion by 2010.

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

Companies such as Li & Fung Ltd. are emerging as successful intermediaries of such triangular networks (Box 1).

5. Adjusting to the post-quota world

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

Safeguard measures on Chinese imports can be seen as yet another breathing space for a number of countries who are expected to lose out in the post-2008 period. Efforts have already been made in several countries, even before the phasing-out of ATC either as a "preparedness strategy" or as a "survival strategy". While some support measures have been taken only by the

government, others were undertaken through public-private partnership or with the private sector reacting to incentives provided by the government.

5.1 Efforts made so far

5.1.1 Government support to the T&C industry

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

First, support is a function of the ability as well as the willingness of governments to provide assistance. Therefore, better resourced countries like China seem to have provided more assistance compared to, say, Indonesia. The Chinese government supported heavily the modernization of its factories[26] and provided tax forgiveness to the state owned enterprise (SOEs),[27] apart from creating textile cities and providing export credit insurance to the T&C enterprises. Governments that pursue active industrial policies tend to provide higher levels of support, which can also be seen from the examples of China and India vis-à-vis Indonesia or Sri Lanka.

Second, maintaining and improving competitiveness being the key to survive in the post-quota world, investment in technological upgrading or modernization of the T&C sector has been the most widely utilized form of support for all the countries reviewed. While some countries reduced tariffs on imports of machinery and equipment, others provided preferential credit or cash support to help their firms modernize themselves. Examples include, besides China as mentioned above, countries like Bangladesh, India, Indonesia, Pakistan and Vietnam.

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

Fourth, income tax exemption for the exporting sectors, an extensively used form of government support in the past, is not the norm anymore with some governments not providing such a facility and some recently discontinuing the same. For example, income tax exemption is not provided by Indonesia, and India has recently discontinued it. Others charge income tax at reduced rates for export oriented enterprises.

Fifth, the operation of special economic zones (SEZs) or export processing zones (EPZs), which is not only targeted at the T&C industry, is common in all the seven countries reviewed. A separate discussion on this special measure has been included below. Moreover, the refund of and reduction in excise

duty, sales tax and VAT for the inputs – goods and/or services – used in export processing, which is provided in all the countries reviewed, is another general support measure not confined to the T&C sector. Similarly, duty reduction on the imports of inputs also figures as one of the prominent means to support export-oriented industries in a majority of countries reviewed.

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

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

5.1.2 Export processing zones

One of the major supply-side constraints faced by most least developed and low-income countries is the lack of ability to enhance competitiveness, resulting, among others, from poor infrastructure, inability to obtain inputs at international prices with the shortest possible lead time, inability to meet the deadline for orders because of frequent interruptions in operation from labour unrest or political disturbances, and other regulatory barriers. Because these barriers severely constrain the ability of the private sector to earn an attractive return on investment, the private sector in turn is reluctant to invest in sectors like light manufacturing such as T&C and electronics, despite their export potential. Foreign investors are even more hesitant (Adhikari and Yamamoto, 2006). Therefore, in order to attract investments[28] in these sectors, many governments in developing countries have established various EPZs and SEZs. Within these Zones, governments provide incentives to enterprises that mimic – and go beyond – the free trade scenario. For example, enterprises within the EPZ can obtain inputs such as equipment and raw materials duty-free; a certain level of regulatory relief is assured;[29] foreign exchange controls are not applied; profit repatriation is guaranteed; strikes and other labour actions are prohibited; and, in some cases, freedom of trade unions is also

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

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

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

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

Another important consideration is whether the incremental net value of the expected benefits justifies the huge investment to be made, at least initially, by the public sector,[30] as well as the costs to be incurred in the form of foregone revenue. Jayanthakumaran's (2003) research on the performance of EPZs, using a benefit-cost analytical framework, finds that zones in China, Indonesia, Malaysia, Republic of Korea, and Sri Lanka are economically efficient and generate returns well above estimated opportunity costs. On the other hand, the heavy infrastructure costs involved in setting up such zones in the Philippines resulted in a negative net present value.

In some countries, EPZs can become controversial mainly because of the tug of war between the Ministry of Finance, which is concerned over revenue foregone, and the Ministry of Industry, which wants to create industries as well as employment opportunities. For example, currently two ministries are at loggerheads in India over the proposed plan to upscale the creation of SEZs. According to an estimate prepared by the Finance Ministry, the country will have to forego about US$22 billion, on account of the SEZ-granted tax rebates, by the year 2009-10. According to the estimate by the Commerce

and Industry Ministry, one million new direct jobs will be created on account of SEZs in the next five years, with corresponding impacts on incomes and potential tax revenue as well as spillovers on the economy, including creation of indirect employment.[31]

5.1.3 Case studies

This sub-section, building on an earlier study (Adhikari and Yamamoto, 2005), discusses three case studies from Asian countries which have achieved success in maintaining or even increasing their exports in the face of phasing-out of quotas. These case studies were initially prepared when the impact of safeguards imposed on China was yet to be felt. However, even after the imposition of safeguards on China, the contributions of these strategies have not diminished.

Improved labour standards: The case of Cambodia

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

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

As per a buyers' survey conducted by the Foreign Investment Advisory Services (2004) of the World Bank Group, more than 60 per cent of buyers interviewed said compliance with labour standards was of equal or more importance compared to considerations of price, quality and lead times. The survey also found that Cambodia's labour standards were seen as higher than other Asian countries (Bangladesh, China, Thailand and Viet Nam). It also revealed that 60 per cent of the buyers planned to increase their garment purchases from Cambodia, while none said they would cut back.

Cambodia's ability to achieve an overall export of US$2.2 billion in 2005, an increase of 11.7 per cent over the 2004 figure,[32] lends credence to

the findings of the study. Based on the import figures of the EU and the United States for the first eight and nine months of 2006, respectively, Cambodia has done extremely well in both markets. While improved labour standards could have partly contributed to this, safeguards against China's exports may have had a greater role to play in this regard. Although Cambodia's bilateral agreement with the United States has expired and securing increased quotas is no more an incentive for Cambodia, the programme of labour standards is to be continued by the government of Cambodia in all likelihood (Chan and Sok, 2006).

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

Focus on a niche product: The case of Sri Lanka

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

Taking advantage of the relatively high level of education of its workers,[33] coupled with fast learning aptitude, Sri Lanka started focusing on a distinct segment of apparel, i.e., women's undergarments. Another distinct advantage of Sri Lanka is that some of the manufacturers in the country were already concentrating on this segment for a relatively long period and have established reputation in the export market. Table 9 provides growth rates for this sector since 2004. According to the figures, the category in which fastest export growth was attained in the US market between 2004 and 2006 was cotton briefs and panties: growth reached 910 per cent in the first nine months of 2005 compared to the corresponding period in 2004, and 58.7 per cent in same period of 2006. In the case of the EU market, brassieres

showed consistently strong import growth, at 18.6 per cent in first eight months of 2005 and 52.2 in same period of 2006.

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

For a country that has recognized its limitations in terms of competing with other low-cost economies and that has a pool of skilled and educated human resources, focus on a niche product may be an option for survival. This sector is not likely to face increased competitive pressure in the immediate future because other developing countries with limited skills may not be able to replicate this model easily, mainly because of the lack of educated and skilled human resources.

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

Focus on regional trade: The case of Thailand

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

The EU's policy of allowing for ASEAN cumulation to achieve ROO requirements under the EBA seems also to have indirectly helped Thailand. Since its immediate LDC neighbours such as Cambodia and Lao PDR do not have well-developed textile and other accessories manufacturing, the EU's requirement to use fabrics from ASEAN to qualify for ROO requirements provides a captive market for Thai textiles. Likewise, export diversification in the case of garments is quite impressive, and there are lessons to be learned for other Asian developing countries.[34]

It might be possible for other ASEAN developing countries like Indonesia and Viet Nam to follow the same trajectory, and LDCs like

Cambodia and Lao PDR probably will have to wait for several years to make this happen. Due to a relatively liberal and hassle-free preferential trade regime within ASEAN, increasing intra-regional trade to make up for losses in multilateral trade seems feasible. However, it might not be possible in the South Asia region not only because the intra-regional trade in the region is very low but also because most member-countries have included a majority of T&C products under the "sensitive list" negotiated under the Agreement on South Asian Free Trade Area (SAFTA).[35]

5.2 Efforts required

Developing countries have designed and implemented a variety of survival strategies to keep themselves afloat in the post-quota era. While some of them have paid off as well as provided a sustained advantage to the T&C industry, others may not be sustainable. For example, Sri Lanka's continuous search for identifying niche products and product diversification and the Thai model of South-South trade look more sustainable than the Cambodian strategy, which can be replicated by other countries. Since the competition in this industry is bound to be intense post-2008, there is no substitute for enhanced competitiveness. However, achieving cost competitiveness alone is not enough. It might be possible to replicate one of the above models by fine tuning them to suit the national conditions. Developing countries should consider a broader range of policy responses to be able to survive in a fiercely competitive post-2008 market.

5.2.1 Market access

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

5.2.2 Human capital

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

5.2.3 Value chain management

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

5.2.4 Sustainability of government support

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

5.2.5 Access to credit

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

5.2.6 South-South cooperation

While the starting point for South-South cooperation is trade, it should go much beyond that. Areas of South-South cooperation for the development of the T&C sector may include the flow of investment not only in the rather "footloose" RMG sector, but also in helping create vertically integrated facil-

ities by making investments in textiles or accessories industries and the south-south transfer of technology. Countries like China and India could take the lead in these initiatives. Another possible area of cooperation could be to encourage training institutions in relatively better-off developing countries to partner with such institutions in countries with limited capacities.

6. Conclusion

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

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

Despite protectionist barriers, the T&C industry has not remained static over the past five decades or so. It keeps evolving due to changing demand of the buyers, sourcing patterns, availability of and access to technology, shifting levels of economic growth and increased consciousness as well as sensitivity towards corporate social responsibility and ethical procurement. While some of these emerging issues offer opportunities for developing countries, others pose challenges. In order to survive in the present T&C market characterized by rapidly changing consumer demand and retailer market power, organizational skills and flexibility become more important than merely achieving cost competitiveness.

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

Table 1.
Textile exports of selected economies, 1990, 2004-05

Region/ economies (ranked by value in 2004)	Value (million dollars) 1990	2004	2005	Change (%) 2004-05	Share in world exports (%) 2005
World	**104,354**	**195,378**	**202,966**	**3.9**	
Asia					
China [a]	7,219	33,428	41,050	22.8	20.2
Hong Kong, SAR, China	8,213	14,296	13,830	-3.3	6.8
Korea, Republic of	6,076	10,839	10,391	-4.1	5.1
Taiwan, Province of China	6,128	10,038	9,706	-3.3	4.8
Japan	5,871	7,138	6,905	-3.3	3.4
India [b]	2,180	7,009	7,850	12.0	3.9
Pakistan	2,663	6,125	7,087	15.7	3.5
Indonesia	1,241	3,152	3,447	9.4	1.7
Thailand	928	2,563	2,764	7.8	1.4
Malaysia [a]	343	1,227	1,356	10.4	0.7
Singapore	903	977	916	-6.3	0.5
Iran, Islamic Rep. of [b]	510	817	848	3.8	0.4
Macao, SAR, China	136	313	275	-12.2	0.1
Philippines [a]	132	257	265	3.1	0.1
Bangladesh	343	204	221	8.4	0.1
Sri Lanka [b]	25	149	136	-8.8	0.1
EU and North America					
European Union (25)	--	72,196	67,977	-5.8	33.5
intra-EU (25) exports	--	47,889	44,464	-7.2	21.9
extra-EU (25) exports	--	24,307	23,513	-3.3	11.6
United States	5,039	11,989	12,379	3.3	6.1
Canada	687	2,431	2,464	1.4	1.2
Mexico [a]	713	2,071	2,133	3.0	1.1
Other Regions					
Turkey	1,440	6,428	7,068	9.9	3.5
Brazil	--	1,244	1,326	6.5	0.7

Source: WTO (2006a).
Obs.: [a] Includes significant exports from processing zones ; [b] Includes Secretariat estimates.

Table 2.
Clothing exports of selected economies, 1990, 2004-05

Region/ economies (ranked by value in 2004)	Value (million dollars) 1990	2004	2005	Change (%) 2004-05	Share in world exports (%) 2005
World	**108,129**	**259,147**	**275,639**	**6.4**	**--**
Asia					
China [a]	9,669	61,856	74,163	19.9	26.9
Hong Kong, SAR, China	15,406	25,097	27,292	8.7	9.9
India [b]	2,530	6,632	8,290	25.0	3.0
Bangladesh	643	5,686	6,418	12.9	2.3
Indonesia	1,646	4,454	5,106	14.6	1.9
Viet Nam [b]	--	4,441	4,805	8.2	1.7
Thailand	2,817	3,985	4,085	2.5	1.5
Korea, Republic of	7,879	3,391	2,581	-23.9	0.9
Pakistan	1,014	3,026	3,604	19.1	1.3
Sri Lanka [b]	638	2,776	2,877	3.6	1.0
Malaysia [a]	1,315	2,326	2,479	6.6	0.9
Philippines [a]	1,733	2,157	2,276	5.5	0.8
Cambodia [b]	--	1,981	2,199	11.0	0.8
Singapore	1,588	1,972	1,696	-14.0	0.6
Macao, SAR, China	1,111	1,952	1,654	-15.3	0.6
Taiwan, Province of China	3,987	1,951	1,561	-20.0	0.6
Myanmar	12	568	331	-41.7	0.1
Iran, Islamic Rep. of [b]	--	222	273	22.6	0.1
EU and North America					
European Union (25)	--	76,887	80,354	4.5	29.2
intra-EU (25) exports	--	57,759	57,737	0.0	20.9
extra-EU (25) exports	--	19,128	22,617	18.2	8.2
Mexico [a]	587	7,490	7,271	-2.9	2.6
United States	2,565	5,059	4,998	-1.2	1.8
Other Regions					
Turkey	3,331	11,193	11,818	5.6	4.3
Romania	363	4,717	4,627	-1.9	1.7
Tunisia [b]	1,126	3,289	3,332	1.3	1.2
Morocco [a]	722	3,023	2,783	-7.9	1.0
Honduras [b]	64	2,680	2,626	-2.0	1.0
Dominican Republic [a, b]	782	2,121	1,908	-10.0	1.0
El Salvador [a, b]	184	1,815	1,702	-6.3	1.0

continued

Region/ economies (ranked by value in 2004)	Value (million dollars) 1990	2004	2005	Change (%) 2004-05	Share in world exports (%) 2005
Guatemala	24	1,651	1,506	-8.8	0.5
Mauritius [a, b]	607	939	745	-20.7	0.3
Peru	120	883	1,057	19.7	0.4
Colombia	460	853	904	6.0	0.4
Madagascar [b]	7	552	530	-4.0	0.2
South Africa	85	258	173	-32.7	0.1

Source: WTO (2006a).
Obs.: [a] Includes significant exports from processing zones ; [b] Includes Secretariat estimates.

Table 3.
Share in the value of EU imports of textiles and clothing products, 2004-06 (percentage)

EU (25) Imports Country/region		Market Share (%)			Growth Rate (%)	
		2004	2005	Jan-Aug 2006	2004-05	Jan-Aug 2005-06
Extra-EU Trade (ranked by 2004 value of imports)		**100**	**100**	**100**	**6.4**	**12.4**
Asian 12		**45.9**	**51.5**	**52.8**	**19.6**	**13.9**
1	China	21.8	29	28	41.9	5.5
3	India	6.6	7.3	8.1	18.3	18.4
5	Bangladesh	5.8	5.2	6.1	-5	34.8
8	Pakistan	3.4	2.8	2.9	-13.2	14.9
10	Indonesia	2.6	2.2	2.3	-9.6	30.8
15	Thailand	1.7	1.5	1.5	-8	16.9
16	Sri Lanka	1.2	1.2	1.2	-1.3	26
18	Vietnam	1.1	1.1	1.4	6.2	56.9
22	Cambodia	0.8	0.7	0.6	-8.3	22.7
29	Philippines	0.5	0.3	0.4	-33.1	36.2
46	Lao PDR	0.2	0.2	0.2	0.7	10.8
53	Nepal	0.1	0.1	0.1	-6.1	-6.2
Rest of the World		**54.1**	**48.5**	**47.2**	**-4.7**	**10.8**
2	Turkey	15.5	15.2	14.5	4.1	5.1
4	Romania	6.3	5.6	5	-5.1	-0.6
6	Tunisia	4.2	3.7	3.5	-5.5	-1.5
7	Morocco	3.8	3.3	3.2	-6.9	2.6
9	Hong Kong, SAR	3	2.5	3.7	-13.4	221.8

Source: Eurostat external trade database (COMTEXT).

Table 4.
Share in the value of US imports of textiles and clothing products, 2004-06 (percentage)

US Imports Country/ region	Market Share (%)			Growth Rate (%)	
	2004	2005	Jan-Sept 2006	2004-05	Jan-Sept 2005-06
World	**100**	**100**	**100**	**6.8**	**2.6**
Asian 12 (ranked by 2004 value of imports)	**41.3**	**49.8**	**54.8**	**28.6**	**11.8**
China	17.2	24.2	26.4	50.2	7.3
India	4.6	5.4	5.8	26	11.7
Indonesia	3	3.3	4.1	18.9	27.2
Vietnam	3	2.9	3.5	5.9	24.1
Pakistan	2.9	3.1	3.4	13.2	16.2
Thailand	2.5	2.4	2.3	-1.3	1.5
Bangladesh	2.3	2.6	3.1	19.8	24.4
Philippines	2.1	2	2.2	1	11.8
Sri Lanka	1.8	1.8	1.8	5.9	1.2
Cambodia	1.7	1.9	2.2	19.9	26.8
Nepal	0.2	0.1	0.1	-25.8	-9.2
Lao PDR	0	0	0	34.3	303.2
CBI+Mexico	21.6	19.2	17	-4.9	-9.3
AGOA1	2.1	1.6	1.4	-16.5	-13.2
Rest of the World	**35**	**29.4**	**26.9**	**-10.3**	**-4.6**
Fiji	0.1	0	0	-77.7	-81.5
Maldives	0.1	0	0	-94.2	-100
Mongolia	0.3	0.1	0.1	-41.2	-15

Source: USITC Interactive Tariff and Trade Data Web.

Table 5.
Top 5 T&C products of US imports from Mongolia, 2004-05

Top 5 Commodity (HS code)	2004	2005	% change 2004-05
Knitted cotton jerseys, pullovers, cardigans waistcoats and similar articles (611020)	53,072,983	34,443,733	-35.1
Women's or girl's woven cotton trousers (620462)	38,832,389	35,084,568	-9.7
Knitted cashmere jerseys, pullovers, cardigans waistcoats and similar articles (611012)	34,369,618	2,887,544	-91.6
Knitted man-made fibres jerseys, pullovers, cardigans waistcoats and similar articles (611030)	21,323,058	9,637,070	-54.8
Knitted cotton T-shirts, singlets and other vests (610910)	5,860,528	2,580,009	-56

Source: USITC, Interactive Tariff and Trade Data Web.

Table 6.
Nepalese top five export products to the EU and US markets, 2004-2005

EU (in 1,000 euro)				US (in US dollars)				
	HS	2005	Change (%)		HS	2004	2005	Change (%)
1	570110	41,890,749	-9	1	570110	28,489,601	32,257,750	13.2
2	620462	1,386,703	-75.2	2	620342	21,200,101	12,844,170	-39.4
3	621420	5,597,784	10.7	3	620462	18,489,193	12,214,687	-33.9
4	620342	1,194,459	-40.8	4	611020	14,159,360	6,022,073	-57.5
5	621410	1,457,607	-18.9	5	610510	4,663,232	1,879,954	-59.7

Source: Eurostat and USITC.

Table 7.
Discriminatory tariffs charged by the United States on imports of apparels (based on Jan-May 2006 figures)

Countries/Groups/ product categories	Calculated duties as a percentage of customs value		Customs value share in percentage	
	Knit (HS chapter 61)	Woven (HS chapter 62)	Knit (HS chapter 61)	Woven (HS chapter 62)
Non-beneficiaries Asian exporters				
Bangladesh	17.96	17.12	2.04	5.38
Cambodia	17.29	16.36	3.47	2.43
China	13.2	11.58	14.5	27.04
India	16.62	13.38	4.22	7.34
Indonesia	19.33	17.4	3.9	6.32
Sri Lanka	15.86	16.54	2.12	2.9
Vietnam	18.4	16.92	4.47	4.56
NAFTA beneficiaries				
Canada	0.22	0.16	2.09	1.94
Mexico	0.34	0.24	7.78	8.62
CBTPA beneficiary				
Honduras	3.13	1.9	6.06	1.58
AGOA beneficiaries				
Kenya	n/a	0.68	n/a	0.52
Lesotho	0.12	0.07	0.68	0.38
Madagascar	n/a	0.38	n/a	0.33
Bilateral FTA beneficiary				
Jordan	0.19	0.41	2.5	1.27

Source: EmergingTextiles.com (2006).

Table 8.
Trading across borders

Region /Economy	Documents for export (number)	Signatures for export (number)	Time for export (days)	Documents for import (number)	Signatures for import (number)	Time for import (days)
East Asia & Pacific	7.1	7.2	25.8	10.3	9	28.6
Europe & Central Asia	7.7	10.9	31.6	11.7	15	43
Latin America & Caribbean	7.5	8	30.3	10.6	11	37
Middle East & North Africa	7.3	14.5	33.6	10.6	21.3	41.9
OECD	5.3	3.2	12.6	6.9	3.3	14
South Asia	8.1	12.1	33.7	12.8	24	46.5
Bangladesh	7	15	35	16	38	57
India	10	22	36	15	27	43
Pakistan	8	10	33	12	15	39
Sub-Saharan Africa	8.5	18.9	48.6	12.8	29.9	60.5
Kenya	8	15	45	13	20	62
Madagascar	7	15	50	9	18	59
Malawi	9	12	41	6	20	61
Zambia	16	25	60	19	28	62
Denmark	3	2	5	3	1	5

Source: World Bank and IFC (2006).

Table 9:
Sri Lankan exports of women's undergarments

HS	Product description	Jan-Sep 2004	Jan-Sep 2005	Jan-Sep 2005	Change (%) 2004-05	Change (%) 2005-06
Imports into US market (in million US$)						
610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	5	53	84	909.9	58.7
610822	Women's or girls' briefs and panties of man-made fibres, knitted or crocheted	18	22	35	22.1	60.7
621210	Brassieres of all types of textile materials	64	89	79	38.9	-11.5
Imports into EU market (in million euro)						
610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	17	13	20	-22.4	53.4
610822	Women's or girls' briefs and panties of man-made fibres, knitted or crocheted	11	9	22	-19.5	143.3
621210	Brassieres of all types of textile materials	28	33	51	18.6	52.2

Source: Authors' calculation based on data from USITC Interactive Tariff and Trade DataWeb and Eurostat (COMTEXT).

Notes

1 Table IV. 70

2 Table IV. 74 and Table IV. 82.

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

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

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

6 For an example of quantitative restrictions by the United States, see USTR (2005).

7 Although the major demanders of the NAMA negotiations are the developed countries, developing countries' major interest lies in the possibility of being able to reduce tariff peaks on products of their export interests to the developed countries such as textiles, apparel and footwear. However, due to a call made by several powerful textiles lobby to have a "sectoral" negotiation on T&C tariffs with the average tariff capped to 15 per cent (which in itself is a very high figure), the chances of a substantial reduction in tariffs on these products are very slim. Moreover, On 13 June 2006, 44 members of Congress sent USTR Ambassador Susan Schwab a letter demanding that textiles be negotiated in separate sectoral negotiations in the Doha Round of trade talks. See National Council of Textiles Organizations (NCTO) (2006).

8 See Razzaque and Raihan (2006).

9 See UNDP RCC (2005b).

10 See NCTO and AMTAC (2005).

11 See Ahmad (2005).

12 For a detailed discussion on Rules of Origin, see Adhikari and Yamamoto (2005) and Adhikari (2005).

13 Inama (2002) asserts that at least one-third of all LDC exports pay MFN tariffs due to restrictive ROO.

14 See Adhikari and Weeratunge (forthcoming) for a detailed discussion.

15 See WTO (2003).

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

17 See Sanitary and Phytosanitary Measures and Technical Barriers to Trade (Summary), Center for International Development at Harvard University, http://www.cid.harvard.edu/cidtrade/issues/spstbt.html

18 See Maskus and Wilson (2000).

19 See ComMark Trust (2006).

20 See Dahal (2006) for further details.

21 See also Kelegama and Weeraratne (2005)

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

23 See Morris (2006).

24 See Morris (2006).

25 Figures in Box 1 are updated based on the company's website, http://www.lifung.com/eng/global/home.php, accessed on 14 December 2006.

26 During 1997 and 2000, over US$30 billion of state-of-the-art textiles machinery was imported in China. See Ministry of Commerce (2005) cited in WTO (2006b).

27 Grants or tax forgiveness totaled Yuan 3.1 billion in 1997 and 1998. See WTO 2001.

28 In several countries, foreign investors are the main beneficiary of the positive environment created by EPZ, whereas Governments could provide incentives to local investors to benefit equally from the favorable setting. See WTO (2005).

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

30 The assumption is that the private sector will also be made participate in the EPZ investment both by contributing financial as well as managerial inputs.

31 See Mehta (2006) for further details.

32 See Chan and Sok (2006).

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

34 See Adhikari and Yamamoto (2005) for a detailed account of Thailand's success story.

35 See Adhikari and Weeratunge (forthcoming) for a detailed account of regional cooperation on T&C trade in South Asia.

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