UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE IN TEXTILES AND CLOTHING:
ASSURING DEVELOPMENT GAINS IN A RAPIDLY CHANGING ENVIRONMENT

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UNITED NATIONS

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ASSURING DEVELOPMENT GAINS IN A RAPIDLY CHANGING ENVIRONMENT

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PREFACE

As the focal point of the United Nations for the integrated treatment of trade and development and interrelated issues, and in accordance with the São Paulo Consensus adopted at the eleventh session of UNCTAD, the UNCTAD secretariat supports member States in assuring development gains from international trade, the trading system and trade negotiations, with a view to their beneficial and fuller integration into the world economy and to the achievement of the United Nations Millennium Development Goals. Through intergovernmental deliberations and consensus-building, policy research and analysis, and technical cooperation and capacity-building support, UNCTAD's work on trade negotiations and commercial diplomacy aims at enhancing human, institutional and regulatory capacities of developing countries to analyse, formulate and implement appropriate trade policies and strategies in multilateral, interregional and regional trade negotiations.

This paper is part of a new series on "Assuring Development Gains from the International Trading System and Trade Negotiations". It builds on the previous series on "Selected Issues in International Trade Negotiations". The targeted readership is Government officials involved in trade negotiations, trade and trade-related policymakers, and other stakeholders involved in trade negotiations and policymaking, including non-governmental organizations, private sector representatives and the research community.

The objective of the series is to improve understanding and appreciation of key and emerging trade policy and negotiating issues facing developing countries in international trade, the trading system and trade negotiations. The series seeks to do so by providing a balanced, objective and sound analysis of technical issues involved, drawing implications for development and poverty reduction objectives, and exploring and assessing policy options and approaches to international trade negotiations in goods, services and trade-related issues. It seeks to contribute to the international policy debate on innovative ideas to realize a development dimension for the international trading system with a view to the achievement of the Millennium Development Goals.

The series is produced by a team led by Mina Mashayekhi, Head, Trade Negotiations and Commercial Diplomacy Branch, DITC.

ABSTRACT

This paper discusses developments in the textiles and clothing trade since the expiry of the Agreement on Textiles and Clothing (ATC). It reviews post-ATC performances of developing countries and least developed countries (LDCs) and discusses post-ATC developments in the area of international trade policy. The paper also highlights new challenges and opportunities in analysing the implications of the non-agricultural products market access (NAMA) negotiations for the textiles and clothing sector in developing countries and LDCs. In this context, it addresses the issue of "non-preferred" and "preferred" countries that divides them in the NAMA negotiations pertaining to the non-reciprocal preferences issue.

Liberalization of market access for textiles and clothing generates significant welfare gains for both developed and developing countries; at the same time, however, countries that are vulnerable to competition need to increase efficiency and added value in their textiles and clothing industries, as well as to diversify out of the sector. In the light of the post-ATC competition environment and continuing international efforts to eliminate trade barriers, industrial reform is a high priority. Also, improvement of non-reciprocal preference programmes, as pledged at the 6th WTO Ministerial Conference held at Hong Kong, and technical assistance for adjustments and capacity-building, are necessary to help vulnerable countries undertake industrial reforms and to ensure that they realize development gains from the evolving international trading system.

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TRADE IN TEXTILES AND CLOTHING: ASSURING DEVELOPMENT GAINS IN A RAPIDLY CHANGING ENVIRONMENT

Introduction

The recent expiry of the Agreement on Textiles and Clothing (ATC) has provided developing countries with new opportunities and challenges. Large welfare gains for both developed and developing nations are expected to emerge from the ATC expiry. At the same time, because of the distorting effects of the quota restrictions on the international trade and production of textiles and clothing, it is expected that some adjustments will take place during the first few years of the post-ATC phase.

Meanwhile, further efforts to increase market access for textiles and clothing are under way at WTO. The non-agricultural products market access (NAMA) negotiations under the Doha multilateral trade negotiations aim at the reduction or elimination of tariff and non-tariff barriers for industrial goods, and have a direct bearing on the textiles and clothing sectors in developing countries and LDCs. Due to stumbling blocks in the field of agriculture, Doha negotiations in all areas were suspended in 24 July 2006, but the negotiations resumed in early 2007. New opportunities and challenges for textiles and clothing exporters will emerge from the results of the NAMA negotiations.

Despite the fact that exports of textiles and clothing from developing countries were restricted for over 40 years, developing countries contributed significantly to the dynamic growth of textiles and clothing trade on account of inherent and evolving comparative advantage. For many developing countries and LDCs, the textiles and clothing sector is of major importance to their economies. The sector plays a vital role in these countries, offering the possibility of absorbing large pools of labour, generating foreign exchange and diversifying economic activities and exports. Moreover, the sector has important implications for socio-economic issues such as employment opportunities for women, development of small and medium-sized enterprises, integration of remote regions into the global economy, promotion of rural development, and poverty alleviation.

The international trading system continues to evolve, and developing countries and LDCs that have high stakes in the textiles and clothing sector need to be prepared for significant changes. In this light, this paper discusses post-ATC trends in the textiles and clothing trade, the implications of the NAMA negotiations, and other current issues that have impacted the textiles and clothing exports of developing countries and LDCs. The paper makes policy recommendations addressing Governments and the international community in light of the aim of the Sao Paulo Consensus, adopted at UNCTAD XI, to ensure that development gains from the international trading system and trade negotiations accrue to developing countries. Also, the recommendations support the Millennium Development Goals and the Monterrey Consensus objectives of ensuring that trade serves as an engine of growth and development.

The Tables referred to in the analysis may be found in the Annex to this paper.

I. Post-ATC textiles and clothing exports of developing countries and LDCs

This section examines trends for the textiles and clothing exports of developing countries and LDCs since the ATC expiry. For the analysis, countries that earn substantial foreign exchange from such exports have been selected.

On 1 January 2005, the ATC expired and all remaining quotas were abolished. The ATC expiry marked the end of over 40 years of a discriminatory trade regime that restricted textiles and clothing from developing countries. As the ATC expiry approached, the question of its impact became a concern, especially because the majority of the quota-restrained products were to be liberalized at once due to the "backloading" of the lifting of quotas by restraining countries. Many studies predicted that developing-country exporters of textiles and clothing would be heavily impacted by the ATC expiry and that the abolition of quotas would cause a sharp drop in prices, particularly for products from countries with tight quota restrictions.

The United States and the EU are the two major importers of textiles and clothing, accounting for some 70 per cent of world imports. While imports of these products increased by some 7 per cent in 2005 for both markets as compared to 2004, the performances of the countries concerned in the two markets were mixed. The dire consequences predicted for some specific exporting countries did not occur, and certain developing countries that were expected to become casualties of the ATC expiry performed well in 2005 and 2006. On the other hand, countries that were predicted to dominate the international market did not do so. Also, many countries witnessed a decline in their exports of textiles and clothing. Some of the countries that experienced negative growth in 2005 had also done so in 2004, when the quota restrictions were still in effect.

Major factors that contributed to the favourable results of some countries were competitiveness based on modernization and vertically integrated production, as well as the shift in the export mix to products commanding higher prices. The price collapse that was predicted before the ATC expiry did not occur, but prices of quota-restrained articles fell. Exporters that performed well also felt the impact of the price decline.

In light of this overall picture, this paper analyses trends with regard to the US and EU markets that account for the majority of textiles and clothing imports worldwide.

a. The United States market in 2005

The United States accounts for some 40 per cent of total world imports of textiles and clothing. The country provides duty-free access for these articles under its regional and bilateral trade agreements, as well as its non-reciprocal preference programmes. The most relevant regional and bilateral agreements in this regard are the North American Free Trade Agreement, the Central America-Dominican Republic Free Trade Agreement (CAFTA), the United States-Jordan Free Trade Agreement, and the United States-Israel Free Trade Area Agreement. The United States does not provide GSP benefits to textiles and clothing[1], but under the non-reciprocal preference programmes such as the African Growth and Opportunity Act (AGOA), the Caribbean Basin Initiative (CBI) and the Andean Trade Preference Act (ATPA), duty-free access in the United States market is provided to textiles and clothing from beneficiary countries. Among the selected countries, all Latin American and African countries, as well as Jordan, have duty-free access to the United States market, while textiles and clothing from Asian countries and Turkey are subject to most-favoured-nation (MFN) duties.

[1] Exceptionally, some handicraft textile products such as hand-loomed and folklore wall hangings, hand-loomed and folklore pillow covers, and hand-loomed fabrics, are eligible for GSP treatment when the GSP beneficiary has signed an agreement with the United States to provide certification that the items are handmade products of the exporting beneficiary. To date, such agreements have been signed with Afghanistan, Botswana, Colombia, Egypt, Guatemala, Jordan, Macao, Malta, Morocco, Nepal, Pakistan (benefits suspended 30 June 1996, but reinstated on 30 June 2005), Peru, Romania, Thailand, Tunisia and Uruguay. The arrangement allows the United States to grant such products duty-free treatment. Also recently, hand-loomed and folklore carpets and other textile floor coverings, hand-loomed and folklore rugs, other hand-loomed and folklore floor coverings, and hand-woven and folklore tapestries, are made duty-free on an MFN basis. Moreover, for Pakistan, gloves, mittens, and mitts for sports use are eligible to duty-free treatment under the United States GSP scheme in view of its progress in addressing concerns regarding worker rights. http://usinfo.state.gov/gi/Archive/2005/Jul/01-523855.html, 30 June 2005, and - Office of the United States Trade Representative, "U.S. Generalized System of Preferences Guidebook", Executive Office of the President, Washington, D.C., January 2006.

Table 1 shows United States imports of textiles and clothing from selected countries, five regional groups and the world in dollar value terms during the period of 2003 to 2005. United States imports of these products rose by 7 per cent in 2005 from the previous year. For regional groups, United States imports from the ATPA and the Association of Southeast Asian Nations (ASEAN) countries grew by 8 and 5 per cent, respectively, while those from the CAFTA and the CBI countries decreased by 4 per cent. Imports from the sub-Saharan region declined sharply, falling by 17 per cent from 2004.

An examination of individual countries shows that there are winners and losers in each region. For Asia, despite a lack of preferential access to the United States market, the majority of the selected countries substantially increased their exports of textiles and clothing to the United States in 2005, posting growth rates ranging from 6 to 54 per cent. Among these countries, Bangladesh (19%), Cambodia (20%), China (54%), India (27%), Indonesia (18%) and Pakistan (14%) did particularly well, with all recording double-digit growth. On the other hand, exports from Maldives (-94%), Nepal (-27%), Philippines (-1%) and Thailand (-3%) decreased. With the exception of Thailand, all these countries also registered a decline in their exports to the United States in 2004. For Maldives, it was reported that Sri Lankan firms that had operated there shifted their operations back home and that five garment factories that had exported principally to the United States closed in 2005. [2]

For Latin American countries, exports of textiles and clothing from Nicaragua and Peru to the United States boomed in 2005, while those of other countries declined by 2 to 10 per cent despite the advantages of duty-free access and market proximity. Exports of Costa Rica, Dominican Republic, and Mexico to the United States also declined in 2004. The preferential rules of origin applied to these countries prohibit use of most competitive inputs, and this could be a reason for their export decline. As noted below, Jordan which can apply flexible preferential rules of origin, continued to increase its exports.

Among African countries, Botswana, Ethiopia, Tanzania and Uganda registered significant rises in their exports of textiles and clothing to the United States in 2005. In value terms, however, their exports were small, accounting for less than $10 million for each country. Exports from countries such as Kenya, Lesotho, Madagascar, Mauritius and Swaziland amounted $160 to $390 million in 2005, except for Kenya, whose exports dropped markedly from the 2004 level registering a decline of 10 to 27 percentage points. Kenya's exports fell by 2 per cent. Among these countries, only Mauritius experienced negative growth in 2004.

Egypt, Jordan and Turkey are also major exporters of textiles and clothing to the United States. Exports of the first two countries grew significantly in 2005, accounting for 9 and 13 per cent of growth, respectively, while those of Turkey contracted by 9 per cent. Jordan's textiles and clothing enjoy duty-free access to the United States since 2002 under the free trade agreement and are accorded highly flexible rules of origin treatment. Egyptian textiles and clothing exported from the Qualifying Industrial Zones receive duty-free access in the United States market. This agreement was signed by Egypt, the United States and Israel in December 2004.

For countries that experienced declines in their exports of textiles and clothing to the United States in 2004 and 2005, fallacy of composition might be a factor contributing to the trend. This tendency arises when too many countries rush into the same sectors or products. Severe competition brings down prices and drives out exporters that are not highly competitive. Disinvestment in anticipation of the ATC expiry would be another possible cause, but proven information is necessary to confirm this aspect. At present, there is not enough systematic information available on the trends in foreign direst investment to draw firm conclusions. [3]

[2] United States Department of State, Background Notes: Maldives, Bureau of South and Central Asian Affairs, February 2006.

[3] UNCTAD, "TNCs and the Removal of Textiles and Clothing Quotas", United Nations, New York and Geneva, UNCTAD/ITE/IIA/2005/1, 2005, p.11.

A recent study calculated a Risk Index identifying countries that are potentially highly vulnerable to the post-ATC impact. [4] The Risk Index underlies three risk components, i.e., (i) concentration in exports of textiles and clothing; (ii) concentration in exports to the United States and the EU; and (iii) concentration in exports as a stimulus to GDP. Among the countries that experienced declines in their exports of textiles and clothing to the United States in 2005, Honduras, Lesotho, Mauritius, Madagascar, Maldives, Guatemala and Swaziland fall in the category of the top 20 Risk Index countries. Particular attention should be given to these countries in post-ATC monitoring for the United States market.

b. The EU market in 2005

The EU accounts for some 30 per cent of total world imports of textiles and clothing. It provides duty-free access to textiles and clothing under regional trade agreements and non-reciprocal preference programmes. In this respect, the Economic Partnership Agreements (EPA), the Everything But Arms Initiative (EBA) and the Euro-Mediterranean Association Agreements are most relevant to the countries concerned by the analysis on the EU market. The EPA covers the African, Caribbean and Pacific Group countries, while the EBA covers all LDCs. The partners of the Euro-Mediterranean Association Agreements include twelve countries, but the present analysis focused on Egypt, Jordan, Morocco, Tunisia and Turkey. Turkey also enjoys duty-free access to the EU for its textiles and clothing under the Customs Union Agreement with the EU. Under the EU GSP scheme, textiles and clothing from developing countries are entitled to a 20 per cent margin of preference from MFN duties.

Table 2 shows trends for EU-25 imports of textiles and clothing in Euro value terms during the period of 2003 to 2005. As compared to the previous year, EU imports from non-EU countries in 2005 increased by 6 per cent, while intra-EU imports remained the same. Out of 40 selected countries, only seven countries increased their exports in 2005. These include China, India, Viet Nam, Peru, Ethiopia, Madagascar and Turkey. China increased its exports of textiles and clothing significantly, recording 40 per cent growth. India, Peru and Madagascar also performed well, boosting their exports by, 17, 15 and 13 per cent, respectively. Exports of Turkey and Viet Nam grew by 4 and 6 per cent, respectively. Ethiopia increased its exports in 2005, but the total value of the exports was marginal. Exports of other countries fell in 2005, and exports of some other Asian countries posted particularly notable decreases. Among the countries that experienced a decline in their exports in 2005, 12 countries, namely, Indonesia, Maldives, Colombia, El Salvador, Mexico, Mauritius, South Africa, Swaziland, Uganda, Jordan, Morocco and Tunisia, registered a decline in their exports of textiles and clothing in 2004 as compared to the previous year.

Countries such as Cambodia, Mauritius, Sri Lanka, Tunisia and Bangladesh fall into the category of the top 15 Risk Index countries. [5] Exports of Mauritius and Tunisia declined in both 2004 and 2005, while those of the other countries fell in 2005. Special attention should be given to these five countries in post-ATC monitoring for the EU market.

c. Trends in unit import values in 2005

This section reviews unit values of textiles and clothing imports in the United States and the EU for 2005. The quota system limited exports of textiles and clothing from competitive countries. Consequently, it was expected that removal of the quotas would lead to a reduction in the price of these goods in the United States and EU markets through the elimination of quota rents and through the increased price competition.

At the aggregated level, unit values of imports in the United States and the EU for 2005 presented a mixed picture. For the United States market, Tables 3 to 5 indicate the 2005 trends of unit

[4] Conway, Patrick, "Global Implications of Unraveling Textiles and Apparel Quotas", 30 May 2006, Department of Economics, University of North Carolina, p.4.
[5] Ibid.

import values aggregated at four levels of the Categories, i.e., cotton apparel (31), cotton fabric (32), man-made fibre (MMF) apparel (61) and MMF fabric (62). The numbers in brackets are the Category numbers used in the United States statistics on textiles and clothing trade. As shown in Table 3, the unit price of cotton apparel from the world rose by 10 per cent, while that of cotton fabric remained the same. Unit prices of wool and man-made fibre (MMF) apparel from the world fell by 3 and 5 per cent, respectively, while those of wool and MMF fabric rose by 5 and 2 per cent, respectively.

In terms of unit prices from individual countries indicated in Table 4, those of apparel, particularly MMF apparel, from Asian and Latin American countries declined substantially. However, the unit price of cotton fabric from China rose by 10 per cent. Table 5 indicates trends for unit prices of textiles and clothing from some African countries to the United States in 2005. Exports from African countries are concentrated in clothing, and therefore, the table includes data for clothing only. The price trends for these countries were mixed. For cotton apparel, the unit prices of products from Lesotho, Mauritius and Kenya fell by 2 to 5 per cent, while those from Madagascar, South Africa and Swaziland increased by 3 to 23 per cent. For MMF apparel, unit prices decreased by 6 to 16 per cent for Mauritius, Madagascar and South Africa while rising by 2 to 13 per cent for Lesotho, Kenya and Swaziland.

Table 6 indicates the trends on unit values of EU textile-product imports aggregated at Standard International Trade Classification (SITC) Chapter level, i.e., SITC 65 for textiles and SITC 84 for clothing, from selected countries, as well as from intra– and extra–EU. For the EU market as well, trends in unit values at the aggregated level were mixed. Unit values of textiles from China, Pakistan and Tunisia decreased by 3 to 9 per cent, while increasing by 3 to 43 per cent for India, Bangladesh, Madagascar, Mauritius and South Africa. For clothing, unit values for the products from China, India, Turkey, Tunisia, Madagascar and South Africa went up by 3 to 8 per cent, while those from Pakistan, Bangladesh, and Mauritius fell by 1 to 5 per cent.

A study that examined further disaggregated data indicates that unit import values of textiles and clothing that were restricted by the quotas in 2004 fell – some significantly so. [6] In the United States market, products for which unit values declined were men's and boys'/ women's and girls' knit cotton shirts and blouses (338, 339), women's and girls non-knitted man-made fibre (MMF) shirts and blouses (641), and MMF skirts (642), and women's MMF (646) sweaters. Their unit values fell from 20 to 40 per cent.

In the EU market, changes in unit values of restrained textiles and clothing were observed, but to a lesser extent than in the United States. According to the study, for trousers (categories 6 and 28 in the United States Department of Commerce classification), China, Myanmar, Indonesia and Hong Kong witnessed the largest drops in unit value, while Turkey, Russia, Poland, Tunisia, Slovakia and Croatia saw the largest increase. For shirt and T-shirts, countries with binding quotas in 2004, i.e., China, Indonesia and India, had reduced unit values. Others experiencing significant reductions in unit value were Ukraine, Mauritius and Morocco.

Reduced profit margins due to pressure on prices and consequent hardship of developing-country exporters have also been reported. [7] Exporters in countries that performed well after the ATC expiry also felt the impact of the price decline. For example, in Pakistan, most companies exporting fabric and garments realized reduced profits because of price competition, and some companies went out of business. [8]

[6] Ibid.
[7] ILO, "Promoting fair globalization in textiles and clothing in a post-MFA environment", TMTCP-PMFA/2005, Geneva 2005, p.33-35.
[8] Siegmann, Karin Astrid, "Gendered Employment in the Post-Quota Era: The Case of Pakistan", Working Paper, January 2006, quoted in the UNDP publication, "Sewing Thoughts: How to Realise Human Development Gains in the Post-Quota World", Tracking Report, Asia-Pacific and Investment Initiative, UNDP Regional Centre in Colombo, April 2006.

d. Trends in 2006

Table 7 shows the comparison of United States imports of textiles and clothing in dollar value terms between 2005 and 2006. United States imports of products from the world increased by five per cent in 2006 as compared to the previous year. At the regional level, only ASEAN increased exports of textiles and clothing to the United States, while those from other regional groups declined. Except for Maldives and Nepal, exports from Asian countries boomed in 2006. Maldives exported notable amounts of clothing in 2003 and 2004, but it appears that exports to the United States have been almost completely phased out. Also, Egypt and Jordan continued to perform well while Turkey's exports declined. The notable trend during the period in 2006 was the decline of exports from Latin American and African countries. All saw their exports fall except a few countries such as Nicaragua, Peru, Ethiopia, and Ghana, with some countries experiencing steep falls.

Table 8 shows the comparison of the EU imports of textiles and clothing in dollar value terms between 2005 and 2006. EU imports of textiles and clothing from non-EU countries were robust in 2006, registering a 11 per cent increase as compared to the previous year, while intra-EU imports did not change. All Asian countries except Maldives and Nepal increased their exports substantially. Exports from Nepal declined by seven per cent. In 2003, Maldives exported some 5 million euros' worth of clothing to the EU, but the country has not exported textiles and clothing to the EU since 2004. Latin American countries have relative small volumes of textiles and clothing exports, but some of them increased their exports substantially in 2006. Madagascar, Mauritius and South Africa are major exporting countries in Africa, and Madagascar and Mauritius performed well, increasing their exports by 27 and 10 per cent, respectively. Exports from South Africa declined by 11 per cent. Egypt, Morocco, Tunisia and Turkey are also major exporters, and all increased their exports by 4 to 12 per cent except Tunisia, whose exports did not change from the previous year.

e. Chinese bilateral textile agreements with the EU and the United States

In April 2005, the European Commission published guidelines for the use of the Textile-Specific Safeguard Clause (TSSC) in China’s WTO Accession Protocol. These guidelines set alert levels for categories of Chinese textiles imports beyond which the Commission would consider launching market disruption investigations that could lead to the use of temporary safeguards as permitted by China’s WTO Accession Protocol. In the same month, the Commission, presenting data showing substantial rises in exports in some liberalized categories for the first three months of 2005, launched investigations into nine categories of textile imports from China. [9] Intense negotiations between the EU and China followed, and on 10 June 2005, the two parties concluded a bilateral agreement restricting exports of Chinese textile and clothing to the EU.

The EU-China Textile Agreement is valid until December 2007 and covers 10 of the 35 categories of Chinese imports liberalized on 1 January 2005. [10] The agreement limits growth in imports in the 10 categories to between 8 and 12.5 per cent per year for 2005, 2006 and 2007. These ceilings are higher than the 7.5 per cent growth rate that would have been permitted under the Textile-Specific Safeguard Clause (TSSC) in China’s WTO Accession Protocol. However, the quotas will remain until the end of 2007, while no action taken under the TSSC could remain in effect beyond one year, without reapplication, unless otherwise agreed between the Member concerned and China.

Before concluding the bilateral textile agreement with China, some Chinese textiles and clothing were restricted or under investigation in the United States pursuant to the provisions of China’s WTO Accession Protocol. [11] In December 2003, the United States established restrictions on

[9] These included T-shirts, pullovers, blouses, stockings and socks, men’s trousers, women’s overcoats, brassieres, flax or ramie yarn and woven fabrics flax.
[10] These included pullovers, men’s trousers, blouses, t-shirts, dresses, bras, flax yarn, cotton fabrics, bed linen, table and kitchen linen.
[11] International Textiles and Clothing Bureau, "New US-China Textile Agreement", IC/W/303, 17 November 2005.

three product categories that had been integrated into GATT pursuant to the ATC from January 2002[12]. On 29 October 2004, it applied restrictions on other products[13]. These restrictions were up for the period of one year in pursuant to China's WTO Accession Protocol. Meanwhile, the United States textiles and apparel industries filed petitions with the United States Administration with a view to the imposition of restrictions on a number of other products, alleging that "an anticipated increase in imports of these products from China after the abolition of quotas under the ATC threatens to disrupt the United States market for these products". The United States importer association challenged the validity of the Administration's consideration of cases on the basis of "threat" of market disruption, but it so happened that in the meantime, data on imports for the first few months of 2005 showed a spurt in shipments of Chinese textile and clothing to the United States.

Consequently, in November 2005, the United States and China concluded a bilateral textile agreement to limit imports of Chinese textiles and clothing. The agreement places quotas on 34 categories, including major import products such as shirts, trousers and underwear. The products covered by the quotas account for approximately one-third of China's textile and apparel exports to the United States in value terms. The agreement is valid until December 2008, and the expiration date of the bilateral agreement coincides with the date when the textile specific safeguard provision in China's WTO Accession Protocol ends. [14]

f. Diversification into dynamic products

Under the MFA and ATC regimes, securing the availability of quotas was a major concern of importers in the restricting countries. Consequently, importers in the restricting countries engaged in "quota-hopping" to overcome quota limitations, moving from one country to another in a search for suppliers who could assemble garments cheaply. This trend led to the evolving structure of the exporting countries group, which is not necessarily or fully based on comparative advantage and is producing similar products. Textiles and clothing exports face fallacy of composition, which drives out competitors and brings down export earnings.

Delinking from fallacy of composition is a key to survival in the post-ATC competition environment. This would require shifting from quota-captive markets, where competition is intense and profit margins are often low, and diversifying into dynamic products, i.e., products of increasing demand, high added value and profit margins. [15] The products that had shown high growth rates were identified at the HS Code four-digit level and presented below. These products grew continuously from 2001 to 2005, and their growth rates during this period were between 100 to 600 per cent.

- Suits, ensembles, jackets, blazer, trousers, shorts (6203, 6204, 6103, 6104);
- Coats, anoraks, ski jackets (6102, 6201);
- Jerseys, pullovers, cardigans (6110);
- Underwear, pyjamas, bathrobes, dressing gowns (6107, 6108, 6212, 6207, 6208);
- Pantyhose, tights, stockings, socks, shawls, scarves (6115, 6214);
- Tracksuits, ski suits, swimwear (6112, 6211);
- Other garments (6113, 6114, 6210);
- Other made-up clothing accessories (6117, 6217);
- Blankets and travelling rugs (6301);

[12] Ibid. These categories included (i) category 222 - knit fabric, (ii) combined categories 349/649 - cotton and man-made fibres brassieres, and (iii) combined categories category 350/650 - cotton and man-made fibres dressing gowns and robes.
[13] Ibid. These products included cotton, wool and man-made fibre socks (combined categories of 332/432/632).
[14] The provision is found in the WTO document "Report of the Working Party on the Accession of China", WT/ACC/CHN/49, 1 October 2001, paragraph 242, pp. 45-46
[15] UNCTAD, "Report of the Expert Meeting on Strengthening Participation of Developing Countries in Dynamic and New Sectors of World Trade: Trends, Issues and Policies", TD /B/COM.1/EM.26/3, 1 March 2005.

- Bed linen, table linen, toilet linen, kitchen linen (6302);
- Curtains including drapes and interior blinds, bed valance (6303);
- Other furnishing articles (6304);
- Other made-up articles, including dress patterns (6307);
- Yarn of carded wool, fine animal hair (5106, 5108, 5110);
- Cotton sewing thread, cotton yarn (5204, 5207);
- Woven fabrics of cotton (5212);
- Synthetic thread and yarn (5401-5403, 5406, 5504, 5508- 511);
- Silk yarn (5505, 5506);
- Wadding of textile materials and articles, textile fibres, felt (5601-5603);
- Woven pile fabrics and chenille fabrics, tulles and other net fabrics (5801, 5804);
- Embroidery in the piece, quilted textile products in the piece (5810, 5811);
- Other textiles (5901);
- Knitted crocheted fabrics, warp knit fabrics (6004-6006).

The product categories listed above need to be disaggregated at the highest level possible in order to analyse international market trends for individual textiles and clothing articles, but the purpose of the list is to indicate that a wide range of products are dynamic. Also, producers need to have the capability to adjust quickly to changes in consumer preferences with regard to fabric, colour and style.

Demand for technical textiles is rapidly increasing, and profit margins for these textiles are high. [16] Technical textiles are used for unconventional areas such as agriculture, construction, medical care, environmental protection, sports, and so forth. With global consumption of over 1000 tons and a worth of 40 billion dollars annually, technical textiles have emerged as a global industry. [17] In developing countries where a textiles industry already exists, diversification into technical textiles could be pursued without major new investments. Some sixty per cent of technical textile production has already shifted to developing countries, and the potential still holds promise. [18] Among developing countries, China leads in the production of technical textiles, while countries like India, Indonesia, Mexico and Pakistan are pursuing these textiles as well.

Moreover, in the area of traditional product lines, small and medium-sized enterprises are investing in order to follow the trend of “forum-shopping”, whereby manufacturers buy inputs such as yarn, fabric and accessories from the most cost-effective suppliers instead of manufacturing them in-house. This trend has encouraged specialization and niche production in such areas as textile accessories, linings, specialized fabrics, technical textiles, ethnic textiles, etc., and has revitalized the textiles and clothing sector in developing countries.

To facilitate firms' endeavours to shift to dynamic products, Governments also need to assess the adequacy of policy measures. In this respect, areas of particular relevance were identified by industry experts. [19] These include:

- Regulations affecting the competitiveness of dynamic products, for example, those on domestic labour markets, the supply of energy, telecommunications, transportation, and

[16] Ibid.
[17] "Techtextil highlights the optimism in the technical textiles sector", Sachsisches Textilforschunginstitut, published in on-line news magazine *Technical Textiles International*, June 1999, http://www.technical-textiles.net/archive/org)s.htm.
[18] Ibid.
[19] UNCTAD Intergovernmental Expert Meeting on Developing Countries' Participation in New and Dynamic Sectors of World Trade, 7 - 9 February 2005, Geneva. See "Report of the Expert Meeting on Market Entry Conditions Affecting Competitiveness and Exports of Goods and Services of Developing Countries: Large Distribution Networks, Taking into Account the Special Needs of LDCs", TD/B/COM.1/66, 19 January 2004.

electricity, and preferential treatment for specific products at the expense of potential dynamic products;

- Legislation on intellectual property rights for the protection of traditional artistic expression, promotion of niche markets, and attracting foreign investments;

- Infrastructure to support efficient trade such as dry ports, export processing zones, and financial and fiscal incentives to improve competitiveness.

At the international level, measures of particular importance include:

- Relaxing restrictive rules of origin that are constraining "forum-shopping" and the acquisition of competitive inputs;

- Providing technical and financial assistance from bilateral and multilateral donors for enhancing supply capacity, particularly in promoting technological upgrading.

g. Post-ATC issues discussed at WTO

The issue of trade in textiles and clothing in the post-ATC context has been discussed in the Council on Trade in Goods (CTG), and Turkey's proposal to create a special work programme for textiles and clothing is being considered in this regard. [20] The stated objectives of the work programme are "to foster a broader understanding of the unique needs of the textiles and clothing sector; provide guidance for national and multilateral policies and measures to deal with related issues; and in this context, grant technical advice, practical assistance and support to developing countries; elaborate and implement integrated strategies from global to local level to adjust to new global realities." In this light, Turkey has proposed that a work programme be established at WTO to review global production, post-ATC trade and market circumstances; identify options for developing countries to improve their competitiveness in the sector; review adjustment-related issues and recommend measures to assist developing countries facing challenges; and examine ways of developing collaborative efforts with the relevant international organizations.

Current discussions on the establishment of such a work programme stem from an initiative by Mauritius, Bangladesh and Nepal in the summer of 2004 to call for an emergency WTO meeting to consider “unintended negative consequences for vulnerable economies from the impending phase-out of the textiles and clothing quotas on 1 January 2005". Subsequently, it was agreed that the CTG would discuss the post-ATC adjustment-related issues, and several submissions were made to support the proposal to create the work programme. Turkey's proposal has gained support from many countries that export textiles and clothing. [21]

Discussions on establishing a work programme for textiles and clothing in the WTO are continuing, but the subject is highly controversial and no agreement has emerged. The opponents are developing countries that are major exporters of textiles and clothing. They argue that industrial goods are treated collectively at WTO and that textiles and clothing should not be an exception to this

[20] "ISSUES RELATED TO THE TEXTILES AND CLOTHING SECTOR: Communication from Turkey", WTO document, G/C/W/549, 28 April 2006.

[21] "Initial submission on Post-ATC Adjustment-related Issues from Bangladesh, Dominican Republic, Fiji, Madagascar, Mauritius, Sri Lanka, and Uganda", WTO document, G/C/W/496, 30 September 2004, "Turkey's Contribution to the Debate on Post-ATC Related-Issues", WTO document, G/C/W/497, 25 October 2004, "Tunisia's submission", WTO document, Job(05)/31, 11 March 2005, "ISSUES RELATED TO TRADE IN TEXTILES AND CLOTHING: The Perspective of Turkey on the Issues Involved", WTO document, G/C/W/522, 30 June 2005, "Issues Related to the Textiles and Clothing Sector: Communication from Turkey", WTO document, G/C/W/573, 9 March 2007.

practice. They consider that agencies such as the World Bank, IMF and other developmental organizations are appropriate bodies to deal with post-ATC adjustment issues.

II. The NAMA negotiations

The non-agricultural market access (NAMA) negotiations under the Doha multilateral trade negotiations aim at the reduction or elimination of tariff and non-tariff barriers for industrial goods. The results of the NAMA negotiations would have a direct bearing on the textiles and clothing sectors in developing countries and LDCs. Due to stumbling blocks in the field of agriculture, the Doha negotiations in all areas were suspended in 24 July 2006, but the negotiations resumed in early 2007.

Although average tariffs are relatively low for industrial products, there are some protected sectors of export interest to developing countries where tariff peaks and escalation are prevalent, and the textiles and clothing sector is one such sector. Reducing tariff protection for the sector, could, therefore, lead to considerable gains for developing countries. At the same time, however, a tariff reduction could impact the textiles and clothing sectors in developing countries and LDCs by (i) reducing tariff protection on the domestic sectors and consequently intensifying competition with imports; and (ii) eroding preference margins. LDCs are exempt from the NAMA tariff reduction obligation, and therefore do not have to reduce their tariffs unless they are affected by customs union agreement. However, they are expected to substantially increase their level of binding commitments, although the binding coverage rate and the level at which tariffs should be bound have not yet been agreed.

The 6th WTO Ministerial Conference agreed to adopt a tariff reduction scheme, the so-called Swiss Formula.[22] Coefficients to be applied to the Swiss Formula for developed countries and developing countries have yet to be determined. For developed countries, coefficients of 15, 5 and 2 have been considered, while for developing countries coefficients of 40, 25, and 15 have been discussed. The lower the coefficient, the higher the tariff cut.

a. Reduction of tariff protection in domestic sectors

Developing countries are concerned that ambitious bound tariff reductions will lead to reductions in applied rates and consequent loss of tariff protection. Moreover, such tariff reductions would mean that these countries would have to stop using tariffs as a tool for long-term industrial development. The effective use of low and high tariffs would require for industrial development, but the NAMA tariff reductions could make it impossible.[23]

To see the effect of NAMA tariff reductions, a tariff simulation for the coefficients considered in the NAMA negotiations was conducted for the textiles and clothing sectors in some developing countries using the UNCTAD/World Bank World Integrated Trade Solution (WITS). Tables 8 and 9 show the results of tariff simulation. The tariff rates presented in the tables are simple averages at the Chapter level of the Harmonized System Codes. For the treatment of currently unbound tariffs, it is assumed that tariffs will be bound at the double of the applied tariff rate, and the formula for cutting tariffs will be applied thereupon. If, however, the assumed rate for bound tariffs is be higher than 40 per cent it would be replaced with 40 per cent.[24]

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[22] Final bound tariff = ([initial bound tariff] x [coefficient]) / ([initial bound tariff] + [coefficient])

[23] See Akyuz, Yilmaz, "The WTO negotiations on industrial tariffs: What is at stake for developing countries?", Geneva, Third World Network, May 2005, and UNCTAD, *Trade and Development Report, 2006*, United Nations publication, New York and Geneva.

[24] For the treatment of unbound tariffs, there is an understanding in the NAMA that a constant non-linear markup approach would be used and that the range of the markup would be between 5 and 30 percentage points. The results of the WTO tariff simulation that applied the non-linear markup approach were compared with those of the WITS simulation discussed in this paper. The WTO tariff simulation used a markup of 5 and 30 percentage points. The WTO simulation compared in this paper used a markup of 30 and with the assumption that there would be no flexibility for developing countries with low binding coverage. Countries concerned in this paper have high binding coverage except Kenya, Mauritius and Turkey. The results of

Table 9 indicates the pre- and post-Doha tariff scenarios for clothing in selected developing countries. As shown in the table, current applied rates on clothing are high for a number of the selected countries, and consequently, even the most lenient coefficient, i.e., 40, would reduce tariffs on clothing significantly. With a coefficient of 40, new bound rates on clothing would be around 15 to 22 per cent, and out of the 32 selected countries, the new bound rates would be lower in 19 countries than the current applied rates. For African countries, the new bound rates would be 15 to 50 per cent lower than the current applied rates. New bound rates would be lower than the current applied rates for several countries in Asia and Latin America, and for those listed under the category of Other countries. The gap between these two rates ranged from 3 to 30 per cent.

With a coefficient of 25, new bound rates for clothing in the selected countries would be mostly harmonized at 15 to 18 per cent and 22 countries would have lower new bound rates than the current applied rates. For African countries, new bound rates would be 20 to 60 per cent lower than the current applied rates, while for Asian countries, they would be 2 to15 per cent lower than the current applied rates. For Latin American countries and Other countries they would be 3 to 20 per cent and 18 to 35 percent lower, respectively, than the current applied rates.

With a coefficient of 15, new bound rates would be around 10 per cent for most of the countries, and in 28 countries these rates would be lower than the current applied rates. For African and Other countries, the gaps between the new bound rates and the current applied rates are mostly between 24 to 30 per cent, while the corresponding figures for Asian and Latin American countries are 10 to 20 per cent.

Table 10 indicates the pre- and post-Doha tariff scenarios for textiles in the selected countries. Current applied rates for textiles are generally lower than those for clothing in these countries, but the NAMA tariff cut would have considerable impact. With a coefficient of 40, out of the 32 selected countries, new bound rates would be lower in 14 countries than their current applied rates. The difference between the two rates would be between 2 to 17 per cent. On the other hand, new bound rates for all Latin American countries would be higher than the current applied rates, and therefore, a coefficient of 40 would not impact on their textile industries.

With a coefficient of 25, new bound rates would be mostly between 10 to 15 per cent, and in addition to the countries noted above, seven Latin American countries and two countries in the other regions would have new bound rates that are lower than their applied rates. The difference between the two rates would be between 5 to 10 per cent for most of the countries, but for Egypt, Morocco and Tunisia, the corresponding figures are between 16 to 25 per cent.

With a coefficient of 15, new bound rates would be around 10 per cent for most of the selected countries, and new bound rates would be around 10 per cent lower than the current applied rates. For Egypt, Morocco and Tunisia, they would be 20 to 30 per cent lower than the current applied rates.

b. Erosion of preference margin

Post-Doha tariff scenarios for textiles and clothing imports in the United States and the EU were examined to assess the impact of the NAMA negotiations on preference margins for countries that enjoy duty-free market access to the two major markets[25] Countries that come under the United States trade preference programmes and countries that have free trade agreements with the United States have duty-free access to the United States market for their textiles and clothing. For the EU

the WTO tariff simulation showed almost identical results with the results of the WITS simulation, except for slight differences for India and Turkey. For coefficients of 40 and 25, the WTO simulation resulted in a 3 to 8 per cent lower tariff reduction than the WITS simulation.

[25] Developing countries receive preferential market access for their textiles and clothing under the EU GSP, but the preference margin is 20 per cent of the MFN rate. Given the relatively small preference margin, the analysis in this paper concerned countries with duty-free access.

market, countries under the EBA and the APC schemes, as well as those with customs union or free trade agreements with the EU, have duty-free access for their textiles and clothing. Given the importance of the two markets in terms of size and preference benefit, NAMA-determined preference erosion could impact these countries, particularly for those with high preference utilization rates. Moreover, textiles and clothing are included in the list for the sectoral initiative under the NAMA negotiations, and there is even a possibility that preference margins for these products might disappear completely.

Tables 11 and 12 show the present United States and EU tariff structures for textiles and clothing that are of importance to developing countries. Simple average bound rates for textiles and clothing in the two trade partners are between 6 to 12 per cent. Average applied rates are mostly the same as bound rates in the two trade partners. Considering that average industrial tariffs for industrialized countries are 3.5 per cent, their average bound rates for textiles and clothing are quite high. Furthermore, data for disaggregated tariffs shown in the fourth column onward in the two tables reveal tariff peaks for textiles and clothing.

In the United Sates, for apparel, 30 per cent of tariff lines have duties between 10 to 15 per cent, and for apparel with knitted fabrics, 20 per cent of the tariff lines have duties between 16 to 20 per cent. For apparel with non-knitted fabrics, 10 per cent of the tariff lines have 16 to 20 per cent of duties. Moreover, 10 per cent of tariff lines for apparel with knitted fabrics have duties between 21 to 30 per cent. For the category of "Other made-up textile articles", 36 per cent of tariff lines have duties between 10 to 15 per cent. Also, MFN duties for textiles are quite high, going up from 10 to 20 per cent for a substantial share of the tariff lines. Likewise, in the EU, as shown in Table 11, tariffs on textiles and clothing are high. Duties for the majority of the tariff lines for apparel and other made-up textile articles are 12 per cent. For textiles, a large share of the tariff lines has duties between 5 and 8 per cent.

Given the high MFN tariffs imposed on textiles and clothing in the United States and the EU, countries that have duty-free access for textiles and clothing in the two trading partners have a considerable advantage at present vis-à-vis those without preferential access. However, the simulation results shown in Tables 13 and 14 indicate that even with the most lenient coefficient considered for developed countries, namely 15, MFN duties on the textiles and clothing concerned would be reduced to around 4 to 6 per cent. With coefficients of 5 and 2, they would be below 3.5 and 1.7 per cent, respectively. These results imply that the NAMA negotiations could result in the effective disappearance of preference margins, especially with coefficients of 5 and 2.

c. The issue of "non-preferred" vs "preferred" countries

There is another equally important concern for the issue of preference erosion. As noted above in the section on the United States market in 2005, the United States GSP scheme, with minor exceptions, does not include textiles and clothing. Consequently, textiles and clothing from developing countries and LDCs that are not included in the United States non-reciprocal preference schemes or the free trade agreements are subject to high MFN duties. The EU GSP scheme extends preference of 20 per cent of MFN duties to textiles and clothing from developing countries; however, when compared to countries with duty-free access, the tariff advantage is small. Hereafter, countries without duty-free access are referred as "non-preferred" countries as opposed to "preferred" countries, i.e. countries with duty-free access.

Textiles and clothing from developing countries and LDCs in Asia are particularly affected by the inequality in market access. Asian developing countries are "non-preferred" countries in the two major markets, while those from the other regions are "preferred" countries in at least one of these markets. [26] Asian LDCs are "preferred" countries in only one of the two major markets, while LDCs in the other regions are "preferred" countries in both markets.

For the "non-preferred" countries, NAMA tariff reduction is the only way to redress the unequal market access that they face with "preferred" countries. As noted above, the textiles and clothing sector in industrialized countries is protected by tariff peaks and escalation. Hence, "non-preferred" countries have a substantial stake in the MANA tariff reduction. Moreover, because industrial tariffs in developed countries are mostly low, tariff reductions on textiles and clothing are practically the only meaningful result that these countries can obtain from the NAMA negotiations.

As discussed below, the NAMA discussions on the non-reciprocal preferences issue has highlighted the problem between "preferred" and "non-preferred" countries.

d. Non-reciprocal preferences issues discussed in the NAMA negotiations

At the 6th WTO Ministerial Conference held in Hong Kong, China, in December 2005, Ministers recognized the challenges that may be faced by non-reciprocal preference beneficiary countries due to erosion of preferences and instructed the NAMA Group to intensify its efforts to assess the scope of the problem with a view to finding possible solutions. [27] Some proposals have been made in this regard.

The African group has proposed applying longer implementation periods for tariff reductions on products that would be affected by preference erosion for non-reciprocal preference beneficiary countries. [28] Many developing countries, however, are opposed to any measures that would allow for longer periods or lesser cuts in the markets in developed countries, as this would come at the expense of their own access to major markets. [29] Also, they consider that such measures would constitute special and differential treatment in favour of developed countries. They have made a counterproposal that the challenges faced by preference receiving countries should be dealt with via targeted assistance and capacity-building through Aid-for-Trade and other technical assistance programmes to assist affected countries in diversifying their exports and enhancing their competitiveness. Other countries have suggested that compensation measures be provided to developing countries that would be adversely affected by trade solutions in order to ease preference erosion. Such measures include providing immediate preferential market access for affected developing countries and extending additional phase-out years for implementing their tariff cuts in the same tariff lines.

Also, developing countries and LDCs have demanded that countries providing non-reciprocal preference programmes should relax rules of origin and other requirements to improve utilization of these programmes. The issues of rules of origin and other requirements are discussed in Section III of this paper.

e. NAMA negotiations on non-tariff barriers

In parallel with tariff negotiations, non-tariff barriers (NTBs) negotiations are taking place in the NAMA Group with the objective of reducing or eliminating NTBs, in particular on products of export interest to developing countries. Developing countries and LDCs that export textiles and clothing have high commercial stakes in the NTBs negotiations, as NTBs represent significant constraints for the textiles and clothing trade. Textiles and clothing face various NTBs that often take

[26] For example, under the United States non-reciprocal preference programmes such as the CBI and the ATPA, 24 Caribbean countries and four Andean countries have duty-free access for their textiles and clothing in the US market.
[27] "Ministerial Declaration", WTO document, WT/MIN(05)/DEC, 22 December 2005, paragraph 20.
[28] "Treatment of non-reciprocal preferences for Africa", WTO document, TN/MA/W/49, 21 February 2005.
[29] The NAMA 11 Group of Developing Countries, Argentina, Venezuela, Brazil, Egypt, India, Indonesia, Namibia, Philippines, South Africa and Tunisia.

the form of complex and stringent internal regulations and standards. For example, typical measures are customs and other documentation formalities, non-uniform classification practices with respect to the same products, rules of origin (including stricter rules for eligibility for preferences), technical barriers to trade requirements, and social-condition-related requirements. Importing countries often impose these measures unilaterally without consulting exporters who will be affected by them. In principle, technical regulations and standards are aimed at accomplishing the legitimate policy objectives of human safety, health protection and environmental protection, but they can effectively block market entry for exporters who are unable to meet conditions and requirements for which compliance is often difficult and costly. Also, problems arise when the purpose of technical measures goes beyond their legitimate protection policy objectives.

To prepare for negotiations, the NAMA Group has proceeded to identify, examine and categorize NTBs based on the notifications made by Members. Among the NTB notifications made in the NAMA negotiations, those identified specifically for textiles and clothing include:

- Restrictive governmental measures on import of textile products, e.g., import licensing requirements,
- Excessive technical regulations and standards, and certification requirements,
- Differing and excessive labelling or marking requirements,
- Difficult, costly marking and labelling requirements,
- Specific packaging requirements,
- Pre-shipment inspection requirement,
- Unreasonable customs valuation,
- Application of strict rules of origin,
- Lack of enforcement for infringement of intellectual property rights,
- Lack of preventive measures in the countries concerned for false country of origin marking,
- Non-uniform classification practices with respect to the same products,
- Export taxes and export restrictions on textile raw materials, [30]
- Import prohibition on used textile products,
- Import restriction of fabrics,
- Price controls, and
- Tariff quotas.

Some proposals have been made in specific areas. Many countries are concerned about proliferation of label requirements and increasingly diverse labelling schemes. Requirements for labelling often cover social, environmental and developmental aspects, as well as conventional technical specifications such as fibre content and care instructions, and labelling schemes can vary by company and by country. In this respect, the United States has proposed that with respect to textile and apparel goods, labelling requirements be harmonized and that the information that could be required by importing countries would be limited to those on country of origin, fibre content, care instructions, and information necessary for consumer safety. [31] Similarly, the EU has proposed that the NAMA Group agree on what information can be required for labelling for textiles and apparel. [32]

Excessive certification requirements and conformity assessment procedures were also frequently noted as technical barriers that affect textiles and clothing trade. Particular barriers identified in the NAMA negotiations in this regard include (i) use of standards not recognized internationally; (ii) non-recognition of third-party certification and testing; (iii) costs and delays of

[30] Many countries oppose the proposals to negotiate disciplines in respect of export taxes or export restrictions, arguing that these issues fall outside the explicit mandate and the balance of issues struck at the Doha Ministerial.

[31] "Negotiating Text on Textiles, Apparel, Footwear and Travel Goods Labeling Requirements: Communication from the United States", WTO document, TN/MA/W/18/Add.14, 15 May 2006.

[32] " Negotiating Proposal on Non-Tariff Barriers in the Textiles/Clothing and Footwear sector: Communication from the European Communities", WTO document, TN/MA/W/11/Add.7, 27 April 2006

testing performed by customs; (iv) excessive losses of samples due to overzealous sampling; and (v) unnecessary testing and certification processes. In this light, the EU has made a proposal to simplify certification requirements and conformity assessment procedures and to make rules with a view to limiting such practices to what would be agreed as necessary measures[33].

Also, the EU and the NAMA 11 Group of Developing Countries[34] have proposed that WTO establish a "NTB Resolution Mechanism" that would be a horizontal mechanism but would be independent from WTO's dispute settlement mechanism[35]. The objectives are to reduce the risk of NTBs arising in the future and to facilitate timely and cost-effective resolution of NTBs. Currently, WTO members have two channels to seek resolution for NTB problems, i.e., through the notification system under the relevant WTO agreements, and by means of the dispute settlement mechanism. However, these mechanisms fail to meet the needs of exporters with NTB-related problems. The notification system is not geared to problem-solving, and the dispute settlement mechanism is time-consuming and costly. The NTB Resolution Mechanism would, therefore, supplement these means of resolving NTBs within the WTO system. It is proposed that the Mechanism attempt to identify solutions with the support of its experts without interfering with Members' rights and obligations in the WTO. Participation in the NTB Resolution Mechanism procedure would be mandatory whereas implementation of the recommended solution would not. Any party unwilling to implement the recommended solution would be required to state its reasons.

f. Other relevant NAMA discussions

The proposal made by Turkey to harmonize textiles and clothing tariffs and the subject of flexibility for developing countries in tariff reductions are the other NAMA issues that have a direct bearing on trade in textiles and clothing. Turkey has proposed that tariffs on textiles and clothing be harmonized with a view to attaining tariff reductions that would be less than under the Swiss Formula[36]. While this proposal is supported by some countries, it is firmly opposed by many others which argue that it goes against the requirements of the mandate of the NAMA negotiations. The issue of flexibilities originates from Paragraph 8 of the July framework, which provides for flexibilities to undertake less than formula cuts on some tariff lines or the flexibility to leave some tariff lines unbound, provided that certain criteria are met. Some WTO Members want to link the depth of cuts to be made by developing countries to options to use the Paragraph 8 flexibilities, but such linkage is rejected by the majority of developing countries, which argue that the paragraph 8 flexibilities should be seen as a stand-alone allowance for developing countries.

III: Other issues affecting textiles and clothing exports of developing countries

a. Rules of origin for non-reciprocal preference programmes

Apparel-exporting developing countries that do not have a competitive domestic textile industry are not able to benefit effectively from the preferential access provided under the non-reciprocal preference programmes due to their limitations in meeting rules of origin requirements. For example, less than 50 per cent of apparel articles made with knitted or crocheted fabrics (HS Chapter 61) from countries like Indonesia, Philippines, Sri Lanka, Thailand and Viet Nam benefited from the

[33] Ibid.
[34] Argentina, Brazil, Egypt, India, Indonesia, Namibia, Philippines, South Africa, Tunisia and Venezuela.
[35] "Negotiating Proposal on WTO Means to Reduce the Risk of Future NTBs and to Facilitate their Resolution: Communication from the European Communities", WTO document, TN/MA/W/11/Add.8, 1 May 2006, and "Resolution of NTBs through a Facilitative Mechanism: Submission by NAMA 11 Group of Developing Countries", WTO document, TN/MA/W/68/Add. 1, 8 May 2006.
[36] "Harmonization in the Textiles and Clothing Sectors: Communication from Turkey", WTO document, JOB(06)/60, 22 March 2006.

EU GSP scheme in 2005. For woven-fabrics apparel articles (HS Chapter 62), the corresponding figure was even lower, accounting for less than 30 per cent.

For LDCs, rules of origin are a particularly important issue for their apparel exports given the lack of capacity to produce fabrics. Apparel exports have become an important source of foreign exchange earnings for many LDCs in the last decade due to the combination of such factors as the availability of inexpensive labour, quota restrictions under the ATC, and duty-free access provided under the non-reciprocal preference programmes. However, as discussed below, flexible rules of origin have been key factors in boosting the apparel exports of these LDCs.

Canada has extended duty-free access to textiles and clothing from LDCs since 1 January 2003 with flexible rules of origin that allow assembly using fabrics from Canadian GSP beneficiary countries. The value of Canadian imports of textiles and clothing from LDCs was $150 million in 2002 when these products did not have duty-free access to the Canadian market, but in 2004 the corresponding figure went up to $532 million, accounting for 60 per cent of LDC goods imported to Canada. Most of the textiles and clothing imports were apparel articles, and all of these articles entered the Canadian market duty-free in 2005.

The so-called "third-country" fabric rule under the AGOA scheme provides flexibility for the AGOA rules of origin for textiles and clothing. Under this rule, AGOA beneficiary countries that have preferential access for textiles and clothing are qualified as "lesser-developed" countries and may use inputs from any country[37]. Apart from South Africa and Mauritius, all African countries included in Table 7 are "lesser-developed countries"[38]. The first shipment of duty-free goods under the AGOA entered the United States in January 2001, and the value of AGOA textiles and clothing exports grew from $975 million in 2001 to $1.5 billion in 2005. The utilization rate of AGOA benefits for apparel is very high, and almost all of these products were admitted duty-free in 2005[39]. However, the "third-country" fabric rule is temporary and is set to expire on 1 October 2007. The latest report on the AGOA scheme noted that the uncertain future of this rule has contributed to the decline of apparel exports from the AGAO countries to the United States[40].

The EBA scheme provided by the EU extends duty-free access to textiles and clothing from LDCs. The rules of origin stipulate that to qualify for duty-free treatment, apparel articles must undergo a double transformation, namely, yarns may be imported but must be transformed to fabric and to apparel. Partial regional accumulation is granted within some regional groups such as ASEAN, the South Asian Association for Regional Cooperation (SAARC), the Central American Common Market and the Andean Group. This provision allows, for example, an EBA beneficiary country that is also an ASEAN country to use inputs from any ASEAN countries, provided that such inputs have the origin status of ASEAN country. But this flexibility is more limited than with the Canadian rules of origin or the AGOA "third-country" fabric rule.

Most sub-Saharan African countries do not have capacity to produce fabrics or to provide competitive fabrics that can be used as inputs to exports, as a result of which apparel exports of these countries do not qualify for preferential treatment in the EU market. This is the major reason that most of their apparel exports go to the United States. For Bangladesh, the major LDC exporter of clothing articles to the EU, the EBA rules of origin are difficult to comply with, particularly for

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[37] Section 3108 of the AGOA Acceleration Act of 2004 defines a "lesser-developed" country as a country that had a per capita gross national product of less than $1,500 in 1998 as measured by the International Bank for Reconstruction and Development. It also includes Botswana and Namibia in the category of "lesser-developed" countries. African countries included in the tables in this paper are all "lesser-developed" countries, except for South Africa and Mauritius.

[38] Starting on 1 October, 2004, Mauritius was allowed to participate in the third-country fabric provision established for lesser-developed countries. This special provision for Mauritius expired on 30 September 2005.

[39] United States Department of Commerce, Office of Textiles and Apparel

[40] United States Trade Representative, "2006 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act", the sixth of eight Annual Reports, May 2006, p.4.

woven-fabric apparel. The country has over the years developed the domestic capacity to produce knitted and crocheted fabrics, and 80 per cent of its exports of apparel articles made with these fabrics entered the EU market duty-free in 2005. However, the corresponding figure for woven-fabric apparel was less than 30 per cent. Production of woven fabric requires higher skills and technology than knitted fabrics. Cambodia, Nepal, and Madagascar are other LDCs that export textile products to the EU. Large shares of clothing exports from Cambodia and Nepal qualified as duty-free in 2005, but these countries may derogate from the EBA rules of origin and use inputs from ASEAN, SAARC or Africa, Caribbean and Pacific (ACP) countries. [41] Madagascar is a member country of the EPA, as a result of which it may use the EPA rules of origin, which are much more flexible than those of the EBA. [42]

To make non-reciprocal preference programmes effective for textiles and clothing, adoption of something like Canadian rules of origin would be necessary. Also, such rules of origin will ease the problem of "preferred" vs "non-preferred" countries, as inputs from the latter can be used by the former. Permanent nature of flexibility is another important element in user-friendly rules of origin. As noted in the case of the AGOA, uncertainty as to the continuity of flexible rules of origin can be a source of anxiety for investors and may hamper long-term business commitments. [43]

b. The new EU GSP scheme

In July 2005, the European Commission adopted the guidelines for the EU GSP scheme for the period 2006-2015, and the first implementation period of 1 January 2006 to 31 December 2008 has started. [44] The new EU GSP scheme addresses the concerns of LDCs and other vulnerable countries for their textiles and clothing exports in the post-ATC phase, and it introduced the new graduation mechanism to focus the GSP benefits on those developing countries that are most in need. The new criterion for graduation of textiles and clothing include:

- Graduation would take place when a "group of products" from a particular country exceeds 12.5 per cent on average of total EU imports of the same products under GSP over the last three consecutive years. Groups of products are defined by reference to the “sections” in the EU Customs Code, which are identical with Sections of the HS Classification. Section 11 of the HS Classification (HS Chapters 50 to 63) covers textiles and clothing, and within Section 11, textiles (HS chapters 50 to 60) and clothing (HS chapters 61 to 63) are treated separately for graduation.

- Vulnerable countries, i.e., those representing less than 1 per cent of total EU GSP imports of those for which a group of products represents more than 50 per cent of its total exports to the EU under GSP, will not be graduated.

For textiles and clothing, review on graduation will take place annually to reflect the possibility of sharp increases in beneficiary country exports, while for other products, the assessment on graduation will come at the end of 2008. Under the current cycle of the EU GSP scheme, textiles and clothing from China and textiles from India are removed from the EU GSP scheme.

Also, textiles and clothing exports from "vulnerable" developing countries may benefit from the "GSP Plus" provision under certain conditions. "GSP Plus" benefits comprise duty-free access to the EU for some 7,200 products that include textiles and clothing. As for required conditions, a

[41] For Cambodia, 80 per cent of knitted fabric apparel and 40 per cent of woven fabric apparel qualified as duty-free in 2005, while for Nepal 90 per cent of textile and clothing articles benefited from duty-free treatment. The bulk of Nepal's exports were carpets, which accounted for 65 per cent of total textiles and clothing exports to the EU.

[42] The EPA rules of origin allow full cumulation among ACP countries, i.e., fabrics can be imported from any EPA countries.

[43] "2006 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act", op.cit.

[44] "Generalized System of Preferences Communication from the European Communities”, WTO document, WT/COMTD/57, 28 March 2006.

country must first demonstrate that it is "vulnerable", that is, the five largest sections of its GSP-covered imports to the Community must represent more than 75 per cent of its total GSP-covered imports, and GSP-covered imports from that country must represent less than 1 per cent of total EU imports under GSP. Then, the country needs to ratify twenty-seven key international conventions on sustainable development and good governance. For reference, these conventions are listed in the Annex to this paper. During the current cycle, 15 developing countries have benefited from the GSP Plus provision. These countries include Bolivia, Colombia, Costa Rica, Ecuador, Georgia, Guatemala, Honduras, Sri Lanka, Republic of Moldova, Mongolia, Nicaragua, Panama, Peru, El Salvador and Venezuela.

The EU is also in the process of reforming the rules of origin that govern GSP eligibility. The objective is to simplify and, where appropriate, relax these rules to increase effectiveness of the EU GSP scheme; for textiles and clothing, however, this issue is reportedly facing difficulties due to sensitivity in the domestic sector.

c. Social clause, corporate social responsibility and private codes of conduct

Social clauses are increasingly finding their ways into governmental and private sector initiatives that affect textiles and clothing exports from developing countries. They are often voluntary measures, but non-compliance could have significant negative implications for market access. They aim at securing compliance with standards concerning environment, health and security, labour conditions and other social conditions. A prominent example for governmental initiative of linking trade and social clauses is the "GSP Plus" provision of the EU GSP scheme. Measures concerning environment, health and security are also largely governmental initiatives, and these measures may be identified as technical barriers to trade or sanitary and phytosanitary measures in the context of WTO rules. On the other hand, social clauses, particularly those related to labour conditions, are largely private sector initiatives, and they can be market entry barriers for textiles and clothing from developing countries. Such barriers can prohibit market entry even when there are no trade barriers in the sense of the WTO rules.

The concept underlying labour conditions is corporate social responsibility (CSR). There is a wide variety of concepts and definitions associated with CSR, but there is no overall agreement on its definition[45]. A publication by the Commission of the European Communities, "The future of the textiles and clothing sector in the enlarged European Union", defined CSR as a "contribution from enterprises to sustainable development"[46]. This report emphasized that CSR was particularly relevant to the textiles and clothing sector given its internationalized supply chains. Under the banner of CSR, apparel retailers in the major importing countries impose stringent labour conditions on their international suppliers through private codes of conduct which these retailers have developed. While the retailers face intense competition in their domestic markets and seek low-cost producers globally, their actions are criticized by labour unions and NGOs, which claim that labour conditions in supplying developing countries are poor. The labour conditions dimension has become a vital aspect of supply chain management, and textiles and clothing factories in developing countries are required to comply with strict codes of conduct and receive frequent compliance audit visits[47].

Studies report cases of extremely poor working conditions in textiles and clothing factories in developing countries, and there is also a danger that working conditions will deteriorate given the heavy pressure on developing country exporters to cut prices. Ensuring adequate labour conditions is

[45] Michael Hopkins, "Corporate social responsibility: an issues paper", ILO Working Paper No.27, ILO, Geneva, May 2004, p1.

[46] Commission of the European Communities, "The future of the textiles and clothing sector in the enlarged European Union", COM(2003) 649 final, ,Brussels, 29.10.2003

[47] International Textiles and Clothing Bureau, "Textile and Clothing Trade: Emerging Issues", CR/41/IND/4, 10 March 2005, p.4.

a legitimate and important concern, and it is essential that Governments enforce labour legislation so as to gradually comply with the norms of the ILO Conventions. [48]

The problem with private codes of conduct for textiles and clothing factories in developing countries is that labour conditions imposed by buyers are often arbitrary, going far beyond ILO labour standards, and fail to consider cultural and social specificity. Also, finding local audit and monitoring professionals who understand local laws and issues is a challenge. Moreover, well-meaning campaigns could be seized upon by protectionist interests as vehicles to create unnecessary barriers to trade. Buyers may act at the behest of protectionist-minded unions and trade associations that are interested in price equalization through the imposition of very stringent labour conditions.

Market concentration by retailers in the major importing countries makes it difficult for developing-country suppliers to cope with the problem of private codes of conduct. Apparel retailing in the major importing countries is dominated by large firms that control major distribution channels and networks and exercise considerable control over the global commodity chain of textiles and clothing. [49] Individual exporters in developing countries have practically no bargaining power vis-à-vis the large retailers, and have no choice but accept conditions imposed by buyers. At the same time, with their strong bargaining power buyers are exercising significant influence on prices, affecting producers' margins and limiting the latter's capacity to modernize and provide better wages and working conditions. [50]

At present, there is no systematic mechanism to which producers with problems related to private codes of conduct can turn. Recently, ILO initiated a pilot project to enhance the competitiveness of the textiles and clothing industries in developing countries by facilitating tripartite dialogue, improving working conditions, providing remedial assistance to factories, and undertaking capacity-building for trade unions, employer representatives and Government. Major initiatives under the project are the Better Factories Cambodia initiative, the Decent Work Pilot Programme in Morocco, and the Factory Improvement Programme in Sri Lanka. [51] These initiatives help alleviate the problem of private codes of conducts. However, the scale of the project is very much limited, and global assistance is needed. Also, developing countries should endeavour to develop and implement localized compliance programmes rather than letting them be imposed as imported buyer-driven requirements. [52] Compliance with ILO core labour standards should be considered as an asset in improving competitiveness, and Governments and producers should strive to achieve this objective. Meanwhile, requirements set out in private codes of conduct should not exceed ILO core labour standards, and there is a need for an institution like the ILO to establish a mechanism to oversee the level of requirements laid down in private codes of conduct.

IV. Summaries and issues for considerations

The doomsday scenario predicted for the post-ATC phase did not materialize. In 2005, US imports of textiles and clothing rose by 7 per cent and EU imports of these products from non-EU countries increased by 6 per cent. However, the profiles of winners in the two markets were different. The countries that performed well in the United States market were mostly Asian countries, while the

[48] The ILO Declaration on Fundamental Principles and Rights at Work, adopted in June 1998, defines basic labour rights as (a) freedom of association and the effective recognition of the right to collective bargaining; (b) elimination of all forms of forced or compulsory labour; (c) effective abolition of child labour; and (d) elimination of discrimination in respect of employment and occupation.

[49] UNIDO, "The Global Apparel Value Chain: What Prospects for Upgrading by Developing Countries", p.6, Gary Gereffi, Olga Memedovic, Vienna, 2003. UNCTAD, "Report of the Expert Meeting on Market Entry Conditions Affecting Competitiveness and Exports of Goods and Services of Developing Countries: Large Distribution Networks, Taking into Account the Special Needs of LDCs", TD/B/COM.1/66, 19 January 2004.

[50] ILO, "Promoting fair globalization in textiles and clothing in a post-MFA environment", op.cit., p.33.

[51] Ibid.

[52] "Textile and Clothing Trade: Emerging Issues", op.cit., p.12

winners in the EU market were also from other regions. In both the US and EU markets, many countries that experienced negative export growth in 2005 had already done so the previous year, when quota restrictions were still in place. Some countries increased their exports without preferential market access, while some nations with such access experienced a decline in their exports. This trend might be attributed to rigid preferential rules of origin that prohibit the use of competitive inputs.

The price collapse of textiles and clothing predicted for the post-ATC phase did not occur, but a decline in unit values was observed for products that had been limited by the quotas. This trend was particularly pronounced in the United States market. Price pressure reduced profit margins for textiles and clothing exports, and exporters in the countries that did well in the post-ATC phase have also felt the impact of price decline.

In the United States market, the countries that performed well in 2005 mostly continued to do so in the first eight months of 2006. The United States is a major market for many Latin American and African countries, yet they did not do well, with many registering significant falls in their exports. For the EU market, performance in the first five months was notably better than for the same period in 2005, and most Asian countries enjoyed robust growth. However, for other major exporters such as Egypt, Morocco, Tunisia and Turkey, the results were uneven.

Given the mixed post-ATC results, it is not possible to draw firm conclusions as to the post-ATC impact. However, the exports of many countries, particularly in Africa and Latin America, have been declining since the ATC expiry, and in some countries this downward trend had started before then. Fallacy of composition might be a major factor behind export decline driving out less competitive exporters from saturated markets. In the post-ATC competition environment, policy measures are necessary to improve efficiency and to diversify into dynamic products, as well as to diversify out of the textiles and clothing sector. There is a lack of systematic information on post-ATC trends in foreign direct investment, and study is required in this area.

Tariff peaks and escalation are prevalent for textiles and clothing sector, which means that developing countries would benefit substantially from the tariff reductions that would result from the NAMA negotiations.

On the other hand, if developing countries are obliged to make drastic tariff reductions in the NAMA negotiations, their textiles and clothing sectors will face severe loss of tariff protection, in addition to which these countries will have to give up a policy tool for long-term industrial development. Flexibility to use low and high tariffs is required for diversifying away from low value-added production activities into high value-added ones. Thus, if the Doha multilateral trade negotiations are to live up to their characterization as a development round, the NAMA negotiations should leave adequate flexibility for developing countries and LDCs to use their tariffs for development. This policy flexibility could also help countries that would be impacted by preference erosion; otherwise, these countries would have to face challenges on both domestic and international markets.

Erosion of preferences due to NAMA tariff reductions is a serious concern, particularly for countries that have duty-free access to the US and EU markets. Due to tariff peaks in the textiles and clothing sectors in these markets, these countries have enjoyed a significant advantage over countries without preferential access. However, preference margins would be reduced considerably in the post-NAMA phase, even if the most lenient tariff-cut coefficient is adopted.

There is another equally important concern on the issue of preference erosion. The interests of "non-preferred" countries in the NAMA negotiations should not be penalized in dealing with the problem of preference erosion. The NAMA tariff reductions imply high stakes for "non-preferred" countries, given the high tariffs imposed on textiles and clothing from these countries. In fact, because tariffs on other industrial goods are low, tariff reductions on textiles and clothing would be the only meaningful result they could obtain from the NAMA negotiations. Therefore, the NAMA negotiations on the issue of non-reciprocal preferences need to identify solutions that would not compromise the interests of "non-preferred" countries.

WTO Members should, as soon as possible, implement their commitments that were confirmed in the Hong Kong Ministerial Declaration, namely, to provide duty-free access to products from LDCs, to make preferential rules of origin applicable to imports from LDCs transparent and simple, and to make these concessions bound.[53] The time during which LDCs can benefit from duty-free access is limited, as preferences will eventually be phased out with progressive trade liberalization.

Rules of origin for textiles and clothing need to be flexible and stable to increase the effectiveness of non-reciprocal preference programmes for these goods. The system used in the Canadian rules of origin is a good example in this respect. Flexible rules of origin could also ease the problem of "preferred" vs "non-preferred" countries. Also, textiles and clothing need to be included in the GSP schemes that currently exclude these products. Exclusion of the products from GSP benefits aggravates the problem of "preferred" vs "non-preferred" countries.

Compliance with social clauses is increasingly linked to non-reciprocal preference programmes. While developing countries should gradually endeavour to achieve compliance with international standards in all respective areas, the imposition of onerous social conditions runs counter to their development objectives. Also, assistance should be provided where support is required for implementing international standards.

In addition to tariffs, NTBs are a serious obstacle to market access of textiles and clothing. NAMA negotiations on NTBs have significant commercial stakes for exporters of these products. Important proposals have been made in the NAMA negotiations for the reduction and elimination of NTBs, and the NAMA negotiations provide an opportunity to establish an innovative approach, thereby effectively solving NTB-related problems.

The problem of NTBs for developing countries relates to a lack of capacity to comply with standards and to participate in standard-setting. In order to capture gains from NAMA liberalization, effective measures are required to substantially upgrade developing countries' technical levels and capacity in the areas of compliance and standard-setting, in accordance with respective international standards and scientific criteria.

While tariff and NTB reductions are crucial to improved market access for textiles and clothing, it is also important to address market entry conditions, particularly those concerning private codes of conducts that are arbitrary, excessive and could be seized upon by protectionist interests. Given the bargaining power of retailers, suppliers are forced to adopt private codes of conducts that go beyond ILO core labour standards. At the same time, retailers exert increasing pressure on prices, and suppliers in developing countries are hard-pressed to meet the requirements of private codes of conduct.

The tenet of private codes of conduct is to respect corporate social responsibility, but this responsibility should not be so onerous that it penalizes producers and exporters in developing countries and becomes a disincentive for local investment. ILO's recent initiative on labour conditions is a step forward to solve the problems of private codes of conduct, but this initiative must be a global one. Also, there is a need to establish a mechanism that could regulate private codes of conducts so that these codes do not go beyond ILO core labour standards.

[53] *The Decision on Measures in Favour of Least-Developed Countries* contained in Decision 36 of Annex F of the Hong Kong Ministerial Declaration.

Two specific issues on textiles and clothing have been considered at WTO, namely, establishment of a work programme for textiles and clothing at WTO, and harmonization of textiles and clothing tariffs with a view to achieving lower tariff reductions than what would result from the Swiss Formula. The post-ATC competition pressure and adjustment challenge are driving motives for these initiatives. While the international community should be sensitive to the needs of vulnerable economies in the post-ATC phase, any attempts at WTO to carve out textiles and clothing with the objective of retaining market share should be resisted. Such attempts breach agreements embodied in the Single Undertaking of the Uruguay Round of Multilateral Trade Negotiations.

The liberalization to be attained by the NAMA negotiations will bring considerable efficiency and welfare gains overall in the long run, but in the short and medium term there will be significant adjustment costs that will also impact the textiles and clothing sectors in developing countries and LDCs. At present, countries that export textiles and clothing are in the process of post-ATC adjustment, and the results of NAMA negotiations could add the hardship of adjustment, particularly for small and vulnerable economies. To effectively respond to adjustment problems, reform of the textiles and clothing sector needs to be situated in a context of overall adjustment that encompasses the diversification of economic activities, industrial reform, domestic capacity-building, employment, and creation of social safety nets. In this light, it is necessary to formulate focused and coherent trade and development policies. In addition, targeted, comprehensive and high-quality technical assistance and capacity-building are required.

The stand-alone flexibilities for developing countries provided for in Paragraph 8 of the July framework are necessary to help developing countries adjust to trade liberalization. These flexibilities were negotiated independently from the issue of depth of tariff cuts, and the NAMA negotiations should not attempt to link them to depth of tariff cuts.

The textiles and clothing sectors in developing countries and LDCs will constantly be exposed to the opportunities and challenges of the evolving international trading system. UNCTAD should continuously monitor the textiles and clothing trade with a view to identifying problems that these countries have in accruing development gains from the international trading system. Also, through its technical assistance on capacity-building UNCTAD can assist countries that are affected by liberalization in the textiles and clothing sector. In this regard, UNCTAD can conduct country-specific needs assessments and priority identification through assessment of comparative advantages and opportunities, both existing and potential, and goal- and target-setting in terms of industrial and sectoral reforms, as well as trade performance.

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ANNEX

Table 1
United States Imports of Textiles and Clothing from Selected Countries
2003 -2005

Import from	2003 Millions of dollars	2004 Millions of dollars	2005 Millions of dollars	2004-2005 (%)
World	80399	83310	89205	7
Region				
ATPA	1107	1387	1495	8
ASEAN	11678	12143	12788	5
CAFTA	9244	9578	9169	-4
CBI	9675	10022	9661	-4
Sub-Saharan	1534	1781	1486	-17
Asia				
Bangladesh	1939	2065	2457	19
Cambodia	1251	1441	1727	20
China	11608	14559	22405	54
India	3211	3633	4617	27
Indonesia	2375	2620	3081	18
Maldives	94	81	5	-94
Nepal	155	131	96	-27
Pakistan	2215	2546	2904	14
Philippines	2040	1938	1921	-1
Sri Lanka	1493	1585	1677	6
Thailand	2071	2198	2124	-3
Viet Nam	2484	2720	2881	6
Latin America				
Colombia	539	636	618	-3
Costa Rica	594	524	492	-6
Dominican Rep.	2128	2066	1855	-10
El Salvador	1757	1757	1646	-6
Guatemala	1773	1959	1831	-7
Honduras	2507	2677	2629	-2
Mexico	7940	7793	7246	-7
Nicaragua	484	595	716	20
Peru	516	692	821	19
Africa				
Botswana	7	20	30	50
Cape Verde	3	3	2	-33
Ethiopia	2	3	4	33
Ghana	5	7	5	-29
Kenya	188	277	271	-2
Lesotho	393	456	391	-14
Madagascar	196	323	277	-14
Malawi	23	27	23	-15
Mauritius	269	228	167	-27
Namibia	42	79	53	-33
South Africa	253	164	86	-48
Swaziland	141	179	161	-10
Unit. Rep. of Tanzania	2	3	4	33
Uganda	2	4	5	25
Other countries				
Egypt	535	564	614	9
Jordan	583	956	1083	13
Turkey	1744	1764	1609	-9

Source: United States Dept. of Commerce, Office of Textiles and Apparel

Table 2
EU Imports of Textiles and Clothing from Selected Countries
2003 - 2005

	2003 Millions of euros	2004 Millions of euros	2005 Millions of euros	2004-2005 (%)
EU25-Extra	66723	69933	74436	6
EU25-Intra	75897	76393	76286	0
Asia				
Bangladesh	3240	3894	3711	-5
Cambodia	424	520	477	-8
China	14309	16076	22484	40
India	4526	4759	5558	17
Indonesia	1867	1795	1616	-10
Maldives	5	0	0	0
Nepal	71	79	74	-5
Pakistan	2298	2519	2219	-12
Philippines	328	373	253	-32
Sri Lanka	774	878	868	-1
Thailand	1270	1323	1229	-7
Viet Nam	630	752	801	6
Latin America				
Colombia	47	44	39	-11
Costa Rica	2	2	2	0
Dominican Rep.	12	12	11	-8
El Salvador	10	9	10	11
Guatemala	5	5	4	-20
Honduras	24	26	21	-16
Mexico	107	105	103	-2
Nicaragua	1	2	2	0
Peru	76	88	101	15
Africa				
Botswana	6	10	5	-50
Cape Verde	4	4	4	0
Ethiopia	6	6	8	33
Ghana	1	0	0	0
Kenya	4	6	6	0
Lesotho	1	1	1	0
Madagascar	133	166	187	13
Malawi	0	0	0	0
Mauritius	560	523	450	-14
Namibia	1	1	1	0
South Africa	163	154	131	-15
Swaziland	8	5	2	-60
Unit. Rep. of Tanzania	4	9	5	-44
Uganda	1	0	0	0
Other countries				
Egypt	540	611	605	-1
Jordan	12	11	9	-18
Morocco	2623	2572	2397	-7
Tunisia	2982	2848	2692	-5
Turkey	10151	10611	10989	4

Source: Eurostat

Table 3
Trends in Unit Prices of United States Imports of Textiles and Clothing from the World
2004 to 2005
(Percentage)

Product	World
Cotton Apparel (31)	10%
Cotton Fabric (32)	0%
MMF Apparel (61)	-5%
MMF Fabric (62)	2%

Source: United States Dept. of Commerce, Office of Textiles and Apparel
Note: Numbers in brackets are the Category numbers.
MMF: man-made fibre

Table 4
Trends in Unit Prices of United States Imports of Textiles and Clothing
from Selected Asian and Latin American Countries
2004 to 2005
(Percentage)

Products	China	India	Pakistan	Bangladesh	Mexico	Honduras
Cotton Apparel (31)	-5%	3%	-4%	0%	-2%	-5%
Cotton Fabric (32)	11%	0%	0%	0%	29%	60%
MMF Apparel (61)	-26%	14%	-8%	-6%	4%	-8%
MMF Fabric (62)	0%	-20%	0%	-25%	25%	0%

Source: United States Dept. of Commerce, Office of Textiles and Apparel
Note: Numbers in brackets are the Category numbers.
MMF: man-made fibre

Table 5
Trends in Unit Prices of United States Imports of Textiles and Clothing
From Selected African Countries
2004 to 2005
(Percentage)

	Lesotho	Mauritius	Kenya	Madagascar	South Africa	Swaziland
Cotton Apparel (31)	-5%	-2%	-4%	3%	23%	6%
MMF Apparel (61)	13%	-12%	8%	-6%	-16%	2%

Source: U.S. Dept. of Commerce, Office of Textiles and Apparel

Table 6
Trends in Unit Prices of EU Imports of Textiles and Clothing from Intra EU, Extra EU and Selected Countries
2004 to 2005
(Percentage)

	EU25 Extra	EU25 Intra	China	India	Pakis-tan	Bangla-desh	Turkey	Tuni-sia	Mada-gascar	Mauri-tius	South Africa
Textiles (SITC65)	-2%	0%	-3%	3%	-9%	4%	0%	-6%	43%	13%	5%
Clothing (SITC84)	-2%	5%	3%	8%	-4%	-5%	3%	5%	6%	-1%	7%

Source: Eurostat

Table 7
United States Imports of Textiles and Clothing from Selected Countries 2005/2006

	2005 Million dollars	2006 Million dollars	2005/2006 (%)
Region			
World	89205	93277	5
ANDEAN	1495	1463	-2
ASEAN	12788	14673	15
CAFTA	9169	8466	-8
CBI	9661	8993	-7
Sub-Saharan	1486	1315	-12
Asia			
Bangladesh	2457	2998	22
Cambodia	1727	2151	25
China	22405	27067	21
India	4617	5031	9
Indonesia	3081	3902	27
Maldives	5	0	-100
Nepal	96	85	-11
Pakistan	2904	3250	12
Philippines	1921	2085	9
Sri Lanka	1677	1703	2
Thailand	2124	2124	0
Vietnam	2881	3396	18
Latin America			
Colombia	618	551	-11
Costa Rica	492	480	-2
Dominican Rep.	1855	1550	-16
El Salvador	1646	1433	-13
Guatemala	1831	1678	-8
Honduras	2629	2445	-7
Mexico	7246	6376	-12
Nicaragua	716	879	23
Peru	821	865	5
Africa			
Botswana	30	29	-3
Cape Verde	2	0	-100
Ethiopia	4	6	50
Ghana	5	10	100
Kenya	271	264	-3
Lesotho	391	387	-1
Madagascar	277	238	-14
Malawi	23	18	-22
Mauritius	167	119	-29
Namibia	53	33	-38
South Africa	86	67	-22
Swaziland	161	135	-16
Tanzania	4	4	0
Uganda	5	1	-80
Other countries			
Egypt	614	806	31
Jordan	1083	1254	16
Turkey	1609	1312	-18

Source: United States Dept. of Commerce, Office of Textiles and Apparel

Table 8
EU Imports of Textiles and Clothing from Selected Countries
2005/2006

	2005 Million euros	2006 Million euros	Jan.-May 2005/2006 (%)
EU25 Extra	74436	82353	11
EU25 Intra	76286	76958	1
Asia			
Bangladesh	3711	4809	30
Cambodia	477	553	16
China	22484	25273	12
India	5558	6258	13
Indonesia	1616	1867	16
Maldives	0	0	0
Nepal	74	69	-7
Pakistan	2219	2483	12
Philippines	253	301	19
Sri Lanka	868	1043	20
Thailand	1229	1334	9
Vietnam	801	1174	47
Latin America			
Colombia	39	45	15
Costa Rica	2	1	-50
Dominican Rep.	11	13	18
El Salvador	10	32	220
Guatemala	4	6	50
Honduras	21	26	24
Mexico	103	116	13
Nicaragua	2	2	0
Peru	101	133	32
Africa			
Botswana	5	5	0
Cape Verde	4	4	0
Ethiopia	8	8	0
Ghana	0	0	0
Kenya	6	5	-17
Lesotho	1	1	0
Madagascar	187	237	27
Malawi	0	0	0
Mauritius	450	495	10
Namibia	1	0	-100
South Africa	131	117	-11
Swaziland	2	2	0
Tanzania	5	6	20
Uganda	0	0	0
Other countries			
Egypt	605	680	12
Jordan	9	10	11
Morocco	2397	2487	4
Tunisia	2692	2705	0
Turkey	10989	11383	4

Source: Eurostat

Table 9
Pre- and Post-Doha Tariff Scenarios for Clothing in Selected Developing Countries
(percentage)

Country	Pre Binding Coverage	Pre Average Bound Rate	Current Average Applied Rate	Post Average Bound Rate Coeff. 40	Post Average Bound Rate Coeff. 25	Post Average Bound Rate Coeff. 15
Africa						
Kenya	0	n.a.	35	20	15	11
Mauritius	0	n.a.	77	20	15	11
Namibia	100	47	38	22	16	11
South Africa	100	47	38	22	16	11
Swaziland	100	47	38	22	16	11
Zimbabwe	0	n.a.	5	20	15	11
Asia						
China	100	16	18	11	10	8
Indonesia	100	35	14	19	15	11
India	55	37	30	20	15	11
Malaysia	98	21	19	12	11	9
Pakistan	100	25	25	15	13	9
Philippines	100	30	10	17	14	10
Sri Lanka	100	18	12	12	10	8
Thailand	100	30	33	17	14	10
Latin America						
Argentina	100	35	22	19	15	11
Brazil	100	35	20	19	15	11
Colombia	100	40	20	20	15	11
Costa Rica	100	45	15	21	16	11
Dominican Republic	100	40	20	20	15	11
El Salvador	100	40	25	20	15	11
Guatemala	100	45	15	21	16	11
Honduras	100	35	15	19	15	10
Jamaica	100	50	20	22	17	12
Mexico	100	35	35	19	15	11
Nicaragua	100	60	15	24	18	12
Peru	100	30	20	17	14	10
Uruguay	100	35	22	19	15	11
Other countries						
Egypt	100	40	*	20	15	11
Jordan	100	20	29	13	11	8
Morocco	100	40	50	20	15	11
Tunisia	100	60	43	24	18	12
Turkey	3	27	12	15	12	9

Source: UNCTAD/World Bank World Integrated Trade Solution Database

Note: * Duties are specific duties and not ad valorem.
The data in the first three columns are for the latest tariff years available in the Database. For post average bound rates, the tariff year is 2001, except for the following countries. Tariff years are 2000 for Peru, 2002 for Mauritius, Egypt and Tunisia, and 2003 for Turkey.

Table 10
Pre- and Post-Doha Tariff Scenarios for Textiles
in Selected Developing Countries
(percentage)

Country	Pre Binding Coverage	Pre Average Bound Rate	Current Average Applied Rate	Post Average Bound Rate Coeff. 40	Post Average Bound Rate Coeff. 25	Post Average Bound Rate Coeff. 15
Africa						
Kenya	0	n.a.	22	19	15	10
Mauritius	0	n.a.	14	5	4	3
Namibia	99	23	18	14	12	9
South Africa	99	23	18	14	12	9
Swaziland	99	23	18	14	12	9
Zimbabwe	5	28	20	18	14	10
Asia						
China	100	10	11	8	7	6
Indonesia	100	26	9	15	12	9
India	70	25	27	17	14	10
Malaysia	99	19	15	12	10	8
Pakistan	95	21	20	14	11	8
Philippines	97	27	6	16	13	10
Sri Lanka	93	10	3	8	7	6
Thailand	95	27	18	16	13	9
Latin America						
Argentina	100	35	18	19	15	10
Brazil	100	35	17	19	15	10
Colombia	100	36	18	19	15	11
Costa Rica	100	45	9	21	16	11
Dominican Republic	100	39	5	20	15	11
El Salvador	100	38	16	19	15	11
Guatemala	100	45	9	21	16	11
Honduras	100	34	11	18	14	10
Jamaica	100	50	3	22	17	11
Mexico	100	35	18	19	15	11
Nicaragua	100	41	6	20	15	11
Peru	100	30	16	17	14	10
Uruguay	100	34	18	18	14	10
Other countries						
Egypt	100	28	38	16	13	9
Jordan	100	16	10	11	9	7
Morocco	100	42	37	20	16	11
Tunisia	92	56	33	23	17	12
Turkey	18	29	7	11	10	8

Source: UNCTAD/World Bank World Integrated Trade Solution Database

Note: * Duties are specific duties and not ad valorem.
The data in the first three columns are for the latest tariff years available in the Database. For post average bound rates, the tariff year is 2001, except for the following countries. Tariff years are 2000 for Peru, 2002 for Mauritius, Egypt and Tunisia, and 2003 for Turkey.

Table 11
Present United States Tariff Structure for Textiles and Clothing
(Percentage)

Product (HS Code)	% over Total Imports of T&C	Simple Average Bound Rate	Simple Average Applied Rate	Duties of 10% to 15%	Duties of 16% to 20%	Duties of 21% to 25%	Duties of 26% to 30%	Duties of over 30%
Cotton yarn and fabrics (52)	2	8	8	48	0	0	0	0
Man-made filaments (54)	2	10	10	36	21	0	0	0
Man-made staple fibre (55)	2	11	11	46	29	0	0	0
Apparel with knitted fabrics (61)	36	12	12	30	20	4	6	0
Apparel with non-knitted fabrics (62)	41	10	10	32	10	3	1	0
Other made-up textile articles (63)	9	7	7	36	0	0	0	0

Source:UNCTAD/World Bank World Integrated Trade Solution Database
Note: Figures in the 5th to 9^{h} columns were calculated at the applied rate at the HS 6 digit level.

Table 12
Present EU Tariff Structure for Textiles and Clothing
(Percentage)

Product (HS Code)	% over Total Imports of T&C	Simple Average Bound Rate	Simple Average Applied Rate	Duties of 5% to 8%	Duties of 9% to 12%	Duties of 12%
Cotton yarn and fabrics (52)	5	6	6	60	0	0
Man-made filaments (54)	4	6	6	55	0	0
Man-made staple fibre (55)	3	6	7	50	0	0
Apparel with knitted fabrics (61)	31	12	12	1	99	88
Apparel with non-knitted fabrics (62)	40	11	11	11	89	88
Other made-up textile articles (63)	7	10	10	16	80	61

Source:UNCTAD/World Bank World Integrated Trade Solution Database
Note: Figures in the 5th and 7th columns were calculated at the applied rate at the HS 6 digit level.

Table 13
Post-Doha Tariff Scenarios for Textiles and Clothing in the United States
(Percentage)

Product (HS Code)	Post-Doha Round Bound Rate Coeff.15	Post-Doha Round Bound Rate Coeff.5	Post-Doha Round Bound Rate Coeff.2
Cotton yarn and fabrics (52)	5.2	3.0	1.6
Man-made filaments (54)	5.8	3.2	1.6
Man-made staple fibre (55)	5.9	3.2	1.6
Apparel with knitted fabrics (61)	6.3	3.4	1.7
Apparel with non-knitted fabrics (62)	5.7	3.1	1.6
Other made-up textile articles (63)	4.2	2.5	1.3

Source:UNCTAD/World Bank World Integrated Trade Solution Database

Table 14
Post-Doha Tariff Scenarios for Textiles and Clothing in the EU
(Percentage)

Product (HS Code)	Post-Doha Round Bound Rate Coeff.15	Post-Doha Round Bound Rate Coeff.5	Post-Doha Round Bound Rate Coeff.2
Cotton yarn and fabrics (52)	4.3	2.7	1.4
Man-made filaments (54)	4.2	2.7	1.5
Man-made staple fibre (55)	4.4	2.7	1.5
Apparel with knitted fabrics (61)	6.6	3.5	1.7
Apparel with non-knitted fabrics (62)	6.4	3.5	1.7
Other made-up textile articles (63)	6.0	3.3	1.6

Source: UNCTAD/World Bank World Integrated Trade Solution Database

LIST OF CONVENTIONS THAT NEED TO BE RATIFIED AND IMPLEMENTED FOR EU "GSP PLUS" PREFERENCES

UN and ILO Conventions on core human and labour rights

1. International Covenant on Civil and Political Rights
2. International Covenant on Economic, Social and Cultural Rights
3. International Convention on the Elimination of All Forms of Racial Discrimination
4. Convention on the Elimination of All Forms of Discrimination Against Women
5. Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment
6. Convention on the Rights of the Child
7. Convention on the Prevention and Punishment of the Crime of Genocide
8. Convention concerning Minimum Age for Admission to Employment (No 138)
9. Convention concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour (No 182)
10. Convention concerning the Abolition of Forced Labour (No 105)
11. Convention concerning Forced or Compulsory Labour (No 29)
12. Convention concerning Equal Remuneration of Men and Women Workers for Work of Equal Value (No 100)
13. Convention concerning Discrimination in Respect of Employment and Occupation (No 111)
14. Convention concerning Freedom of Association and Protection of the Right to Organize (No 87)
15. Convention concerning the Application of the Principles of the Right to Organize and to Bargain Collectively (No 98)
16. International Convention on the Suppression and Punishment of the Crime of Apartheid.

Conventions related to the environment and governance principles

17. Montreal Protocol on Substances that Deplete the Ozone Layer
18. Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal
19. Stockholm Convention on Persistent Organic Pollutants
20. Convention on International Trade in Endangered Species of Wild Fauna and Flora
21. Convention on Biological Diversity
22. Cartagena Protocol on Biosafety
23. Kyoto Protocol to the United Nations Framework Convention on Climate Change
24. United Nations Single Convention on Narcotic Drugs (1961)
25. United Nations Convention on Psychotropic Substances (1971)
26. United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988)
27. United Nations Convention against Corruption (Mexico)

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