CUTS Centre for
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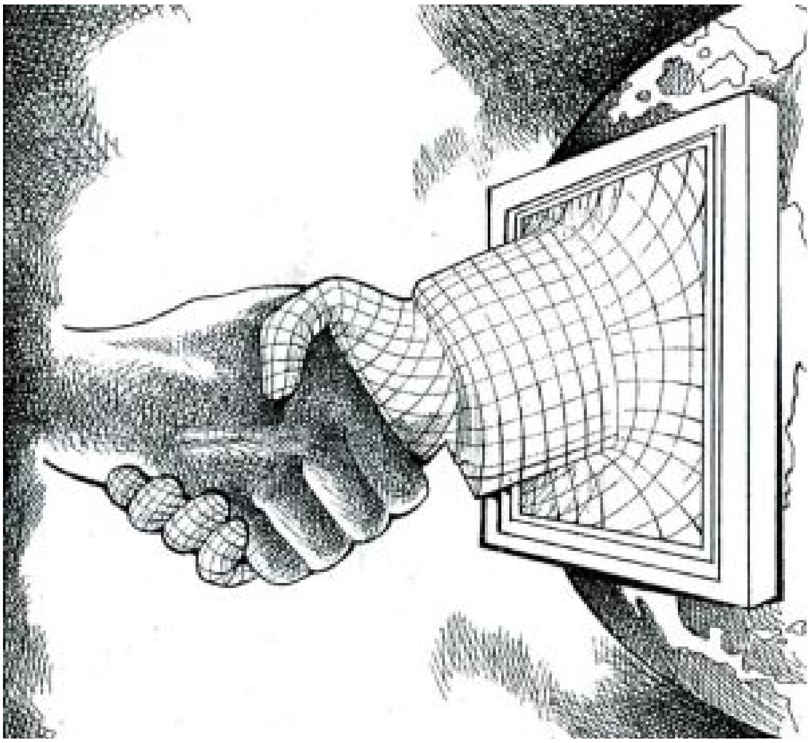
Research Report

Enhancing Collective Export Competitiveness on Textiles and Clothing:

A Study of Select South Asian Countries



CUTS Centre for International Trade, Economics & Environment

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Social Change
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A Study of Select South Asian Countries

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A Study of Select South Asian Countries

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Published by:
कट्स CUTS
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D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India
Ph: 91.141.228 2821, Fax: 91.141.228 2485
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With the support of:

IDRC
CANADA

International Development Research Centre, Canada
Under the Project on South Asian Civil Society Network on International Trade Issues (SACSNITI)

Cover Photo:
Courtesy – The Hindu Business Line

Printed by:
Jaipur Printers P. Ltd.
Jaipur 302 001, India

ISBN 81-8257-045-X

0428, Suggested Contribution: Rs.100/US$25

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Preface

The importance of trade in textiles and clothing cannot be over-emphasised. Clothing is a labour-intensive activity, with a strong gender dimension. The sector is, therefore, particularly important for the creation of employment opportunities in developing countries. The singling out of this sector for targeted policy interventions by major developed countries (to provide protection to domestic industries) continues to be the cause of injustice in trade in textiles and clothing.

It is necessary to recall that developing countries have mostly been at the receiving end of these policy interventions. They offered significant concessions during the Uruguay Round negotiations of the General Agreement on Tariffs and Trade in order to secure an end to the quota system over a ten-year period even though quotas were never GATT-consistent. This removal of the quota system was seen by many developing countries as one of the few clear gains from the multilateral trading system under the World Trade Organisation.

Since 1974, global trade in textiles and clothing has been governed by the multi-fibre arrangement (MFA). The MFA was brought in as a supposedly short-term measure, mainly to give industrialised countries a breathing space to adjust to competition from imports from developing countries. In 1974, when the MFA was established, its lifetime was conceived as four years. It was, however, reprieved five times and expected to demise from 1st January 2005. Not only was its lifetime extended, additional products were brought under its aegis. The WTO Agreement on Textiles and Clothing (ATC) is to phase-out the MFA over a period of ten years. It outlines a programme for the integration of all products into WTO rules by 2005 and it applies to all WTO members whether or not they were signatories to the MFA.

Though elimination of quotas in 2005 will open trade in textiles and clothing to fierce competition, it will simultaneously open many windows of opportunity for all the countries that rely heavily on this particular sector. But it is difficult to predict what exactly the effects will be when all quotas are removed at the end of the phase-out period. It is not certain how much market access this will create, since the agreement does not relate to tariff and non-tariff barriers and many are suspicious that importing countries will find alternative means of protectionism.

The benefits for developing countries may not be spread evenly. Countries that are more competitive may be able to exploit more opportunities, and being competitive would mean having an indigenously integrated textile industry. Basic raw materials being supplied at home would be an important factor for greater exports of value-added products. But, above all, developing countries will need to put their own houses in order: improve productivity and competitiveness and gear up for increased emphasis on quality and in-time delivery requirements of the buyers.

From the point of view of trade and development, this (textiles & clothing) sector holds much importance for the South Asian countries. It is a major source of livelihood as it provides employment to millions of people. At present these countries enjoy certain advantages in trade in textiles & clothing in the world market. But it is expected that the demise of the quota system in January 2005 may not augur well for all countries in the region, particularly smaller and poorer countries like Bangladesh and Nepal. Big countries like India and Pakistan are likely winner.

Given this background and the imminent demise of quota system in January 2005, this paper tries to underline the importance of enhancing collective export competitiveness of South Asian countries. It makes a strong case for enhancing collective competitiveness through cooperation rather than competition. However, there is a need to promote healthy competition among firms within the region and countries for continuous improvement of efficiency and expertise.

The study also recommends the necessity of having an effective institutional arrangement for making such cooperation meaningful and successful. Further, the cooperation on textiles and clothing could be a good beginning to fulfil our long-term objective of enhanced cooperation on economic, trade and investment under the aegis of South Asia Free Trade Agreement (SAFTA).

Jaipur, India

Bipul Chatterjee
Director

Chapter 1
Introduction

The Background

The textile and clothing industry has become a suitable choice on the road to industrialisation for developing countries, in general, and LDCs, in particular,

Textiles and clothing played a crucial role in the early stages of industrialisation in Britain, parts of North America, Japan and more recently in the export-oriented growth of East Asian economies (Yang & Zhong 1998). Japan in the 1950s and 1960s, the East Asian newly industrialising economies (NIEs) in the 1970s and 1980s and China in the 1990s became world-class exporters, primarily by mastering the dynamics of buyer-driven value chains (Gereffi, 2003). Seemingly, following the 'flying geese'[1] pattern, South Asian Economies (namely, Bangladesh, India, Nepal, Pakistan and Sri Lanka) have also emerged as significant textile and clothing exporters. The textile and clothing industry has become a suitable choice on the road to industrialisation for developing countries, in general, and LDCs, in particular, because of its high labour intensity, low capital needs and relatively easy-to-copy technology.

The international trade in textiles and clothing (T&C) passed through a dramatic history of protectionism, interestingly very much under the shade of multilateral umbrella. Starting with Short Term Arrangement for Cotton Textiles (STA) in 1961, the protectionism passed through Long Term Arrangement for Cotton Textiles (LTA) and finally ended with 20 years of notorious regime of Multifibre Arrangement (MFA), which is being phased out over ten years (1995-2004), via the Agreement on Textiles and Clothing (ATC) to fully integrate the textile and clothing sector into the WTO at the end of 2004.

The result of the General Agreement on Tariffs & Trade (GATT) Uruguay Round (UR), which established the WTO in 1995, has changed the global trading environment remarkably. Although the phasing out of the MFA hoped to open wide prospects for the South[2] in general, it has appeared as a severe challenge to many least developed countries which are overly dependent on the 'quota-driven' export of garments. The inclusion of China into the WTO has added a new dimension to the issue.

With increasingly high fashion, but shorter lifecycle of final products, buyers are demanding 'quick response' from suppliers

A common apprehension is that China's membership will affect adversely, particularly smaller Asian countries. Demand conditions in the market are also reshaping noticeably. Buyers are no longer going to follow quota allocation. Very soon, sourcing decisions will depend on convenience and cost-effectiveness. With increasingly high fashion, but shorter lifecycle of final products, buyers are demanding 'quick response' from suppliers. Therefore, proximity to the market is becoming a very important factor. With the same line of reasoning, 'full package' supply is being more preferable to fragmented assembly-type production process. Widespread regional integration across the globe (especially the NAFTA and enlarged EU) and special and preferential treatment offered to their neighbours/partners will appear as a tough challenge to the exporters from South Asia.

There is an urgent need for enhancing collective export competitiveness of South Asian economies on textiles and clothing through co-operation rather than competition

It is true that South Asian countries enjoy comparative advantages in textiles and clothing, but those may turn kaleidoscopic in the near future. Many countries of the region concurrently have a fragile comparative advantage. Given the number of livelihoods dependent on textiles and clothing sectors, these countries are not in a position to afford such a situation. This could even lead to social as well as political turmoil, within and across borders. Thus, there is an urgent need for enhancing collective export competitiveness of South Asian economies on textiles and clothing through co-operation rather than competition. One way out could be through exploring complementarities in the production process.

Given the necessity for exploring complementarities in production and exports of textiles and clothing among South Asian economies as well as for insulating the same from trade actions, the CUTS Centre for International Trade, Economics & Environment, Jaipur, India, proposes to do a research study on this issue. This Paper is a product of the project aiming at examining the possibility of co-operation in the South Asian region to make the success story of T&C boom sustainable in future.

The Objective of the Research

The objective of this research is to assess the competitiveness vis-à-vis potential threats in post MFA era and look for the scope of regional co-operation in enhancing export comparativeness of the nations under the South Asian Association for Regional Cooperation (SAARC)[3].

The immediate objective is to enhance collective competitiveness in T&C export through co-operation among the countries in the SAARC for better realisation of market access potentials in the EU and US. The long-term objective of the study is to enhance trade, economic and political co-operation among the SAARC countries and strengthen their collective position at regional and multilateral forums.

Review of Literature[4]

A number of studies see developing countries as the main beneficiaries of ATC reform, while others fear them in the aggregate to lose because of policy changes

There is a considerable body of analysis aiming at quantifying the economic and trade effects of textile and clothing market liberalisation. Most of the studies foresee increase in global welfare as a result of the ATC under the WTO. However, the estimates of welfare gains show wide variation, with expected annual global benefits ranging from US$6.5bn to US$324bn. The general findings of most of the analyses are that T&C production in industrialised countries is expected to contract and, on the contrary, imports from developing countries will increase. There is similar discrepancy with respect to the distribution of welfare gains. A number of studies see developing countries as the main beneficiaries of ATC reform, while others fear them in the aggregate to lose because of policy changes.

A study done by the International Monetary Fund (IMF) in 1984 estimated that, if the MFA is phased out properly, trade of developing countries with main Organisation for Economic Co-operation and Development (OECD) markets would rise by 82 percent in textiles and 93 percent in clothing (Kirmany, 1984). A couple of years later, the UNCTAD had estimated an increase of 78 percent in textiles and 135 percent in clothing in the exports of developing countries (UNCTAD, 1986).

The UNCTAD had estimated an increase of 78 percent in textiles and 135 percent in clothing in the exports of developing countries

Trela and Whalley (1990) analyse the removal of quota and tariff between Canada, the EU and the USA and 34 supplying developing countries using static CGE model. They expect global welfare gains from quota and tariff elimination to the extent of US$23bn per year of which two-thirds would be shared by three developed countries and leaving one-third for developing countries. In a follow-up study, Trella and Whalley (1995) expand their CGE model to capture the effects related to internal quota allocation systems in exporting countries and estimated the global benefit to be US$49.7bn annually—mainly accruing to developing country exporters.

Nguyen, Perroni and Wigle (1993) estimated the impact of the ATC to be US$84.5bn per year and concluded that the welfare gain will roughly be equally distributed among developed and developing countries.

Using a dynamic CGE model under assumptions of perfect competition and constant returns to scale, Francois, McDonald and Nordstrom (1994) estimate the global gain from T&C quota removal amount to be US$47bn annually. Taking a scenario of monopolistic competition with increasing returns to scale, the authors predicted the gain to be $189bn. According to another estimate[5] in 1994 by the then GATT Secretariat, the removal of quotas and a reduction in tariffs could add 18 percent to the value of trade in textiles and 69 percent to clothing. This growth is a major factor behind the estimated 14-37 percent expansion in exports calculated to accrue to developing and transitional economies as a result of the UR.

Using a Global Trade Analysis Project (GTAP) with CGE model, Yang, Martin and Yanagishima (1997) suggest that the ATC would account for aggregate annual benefits of US$28.6bn and forecast improvement of terms-of-trade for Australia, North America and the EU, while worsening of terms-of-trade of Japan and developing countries.

Fouquin (2001) finds that, as a result of the ATC, the global trade in textiles and apparel[6] would be about 10 percent and 14 percent higher, respectively.[7] Terra (2001) predicts that apparel of restrained exporters, as a whole, will increase by almost 20 percent and their textile production will increase by almost 6 percent.

Welfare gain to developing countries will be increased significantly by contraction of production in developed countries and expansion of trade with developing countries

In a nutshell, almost all the studies indicate that the welfare gain to developing countries will be increased significantly by contraction of production in developed countries and expansion of trade with developing countries. These findings, however, do not assert that all developing countries will be benefited equally. At least two possibilities are emerging: on the one hand, quota-driven least developed countries (LDCs) might be marginalised in the open market competition against big developing countries like China and India and, on the other, preferential treatment, mainly through regional integration centring the USA and the EU, might shift the potential gain to neighbouring countries of such RTAs—leaving South Asia on the losing side.

The Methodology and Limitation of the Study

The research has been done on the three countries of South Asia (Bangladesh, India and Sri Lanka). Although Pakistan is out of the scope of this report, it will frequently be cited because of her importance in exporting textiles and clothing from this region. Bangladesh, an LDC, has become a widely cited example of success story in exporting garments throughout 1990s to date. Similar logic applies to Sri Lanka, which is also a significant player in T&C business from the region. Finally, India has been showing greater prospect in quota-free environment. As the US and the EU are the main destinations of T&C products from the region, this research will cover only those two trading blocs.

Study concentrates only on the overall performance of export of textiles and clothing mainly to the US and EU markets from the countries under study

Documentary analysis method of research has been followed. The research has mainly used information and data from the PC-TAS database of INTRACEN (International Trade Centre, Geneva), OTEXA, USITC, WTO, the World Bank and UNCTAD (WITS database).

This study concentrates only on the overall performance of export of textiles and clothing mainly to the US and EU markets from the countries under study. It covers products under SITC[8] codes 65 (textiles) and 84 (clothing).

The Organisation of the Paper

The Second Chapter reviews the history and global trade in textiles and clothing with a quick look at the restrictive routes that the T&C sector has been passing through. It also covers the comparative position of South Asia, her key success factors and the importance of the T&C sector to the region. The Third Chapter examines the challenges ahead of South Asia due to MFA quota phase-out and some other new developments in the marketplace—threatening the sustainability of the region's success after 2004. Chapter four looks into plausible complementarities in production processes of textiles and clothing, tracking down the areas where scope of benefits exists through mutual co-operation. The Fifth and final Chapter concludes the paper with a short summary.

Chapter 2

Global Trade in Textiles and Clothing and the Position of South Asia

During the past two decades, there has been a wide change in broadening and deepening of global apparel sourcing networks. Taking US$1bn as a threshold for major players in the global industry in 1980, only Hong Kong SAR, the Republic of Korea, Taiwan Province of China, Mainland China and the United States were major exporters. By 1990, Indonesia, Thailand and Malaysia from Southeast Asia had joined them, as had India and Pakistan from South Asia and Tunisia from North Africa. The largest newcomer in 1990 was Turkey, whose total of US$3.4bn in clothing exports placed it fifth in the world rankings. In 2000, new members of the billion-dollar club included the Philippines and Vietnam in Southeast Asia, Bangladesh and Sri Lanka from South Asia and Mauritius from Africa. The top five apparel exporters in 2000 were China (US$39.2bn), Hong Kong SAR (US$24.7bn), the United States and Mexico (US$9.3bn each) and Turkey (US$7.0bn).[9]

The top five apparel exporters in 2000 were China (US$39.2bn), Hong Kong SAR (US$24.7bn), the United States and Mexico (US$9.3bn each) and Turkey (US$7.0bn)

Before discussing in detail the volume and magnitude of world trade in T&C and the position of South Asia, we will have a quick look at the brief history of international rules governing the T&C sector since 1960s because these rules were very influential in determining the flow of T&C trade around the world.

A Brief History of International Rules Governing T&C

Over the centuries, the T&C industry travelled throughout the world, spreading the blessings of technological development for industrialisation in the North, offering employment opportunities for the unskilled poor and opening the door to export for least developed countries in the South. Textiles and clothing was one of the most important primitive sectors en-route to industrial development of many countries in the world. As Kiekens (2000:3) comments:

It (textiles) is one of history's impressive engines. It is one of the real global industries used by many developed nations as an entry to industrialisation (similar to agriculture) and as such as a way to move from poverty to (some) prosperity...When costs tend to be high the business is simply moved and taught to people in less developed countries.

Textiles and clothing was one of the most important primitive sectors en-route to industrial development of many countries in the world

For more than four decades, this sector was governed by special regimes: the Short Term Cotton Arrangement (1961), the Long Term Cotton Arrangement (1962-1973) and the Multifibre Agreement (1974-1994). Finally, seven years of complex and difficult negotiations at the UR resulted in the ATC to phase out of the MFA. Brief history of protectionist regimes related to textiles and clothing is given below.

The Cotton Arrangements (1961-1973)

In the period that immediately followed immediately the World War II, a major part of international trade was governed by complex national trade regimes. Post-war balance-of-payments difficulties in a number of developed countries were cited to justify high tariffs, complicated customs administration, complex import licensing procedures and a wide range of quantitative restrictions.[10]

Short Term Arrangement on Cotton Textiles (STA) was introduced in 1961, which was extended further as Long Term Arrangement on Cotton Textiles (LTA) in 1962

With the ease of quantitative restrictions under the GATT and the IMF during 1950s, developing countries started penetrating T&C into OECD markets. Being alarmed at the emergence of new source of competition, and being influenced by textile lobby groups,[11] some developed countries (e.g., USA) negotiated with individual governments to limit the quantities of exports of cotton textiles (voluntary export restraints in short 'VER' agreements[12]). Eventually, to solve the problem of the so-called 'market disruption,'[13] importing countries were allowed to engage in bilateral negotiations with the exporting countries to impose quantitative restrictions—despite the fact that it was a fundamental departure from the basic principle of non-discrimination in multilateral trading system and a direct contradiction to the Article XIX of GATT[14]. To accomplish the objectives, Short Term Arrangement on Cotton Textiles (STA) was introduced in 1961, which was extended further as Long Term Arrangement on Cotton Textiles (LTA) in 1962[15].

The Multifibre Arrangement (1974-1994)

The initial American view was that the LTA had provided a balanced set of principles for handling textile problems. However, to protect 'free-riders' in early 1972, the USA, jointly with EC and Japan, declared the initiation of comprehensive negotiation under the GATT. Accordingly, a Working Party was set up in June 1972 to arrive at a common understanding of the facts. Building upon the basic elements of the LTA, the negotiating group approved the final text of the MFA on 20 December 1973 and was activated from the 1st of January 1974. MFA quotas are quantitative restrictions that have a number of characteristics. First, they are applied on a discriminatory basis to some exporting countries but not to others. Second, they are negotiated on a bilateral basis rather than imposed globally and, therefore, differ from country to country in terms of product coverage and degree of restriction. Third, they involve limits on exports, transferring rents (generating by these restrictions) from the importing country to the exporting country.

The MFA was conceived as a temporary expedient to provide 'breathing space' to the domestic industries of developed countries for adjusting to new sources of competition

The MFA was conceived as a temporary expedient to provide 'breathing space'[16] to the domestic industries of developed countries for adjusting to new sources of competition. Although the principal aim of the MFA was introduced to secure a substantial increase in export earnings for developing countries, the system was ultimately methodically abused and had become an unbridled charter of protectionism (Bagchi, 2001:4). In its last years of operation, six MFA participants (Austria, Canada, EEC, Finland, Norway and United States) applied quotas under the Arrangement, to varying degrees in terms of products covered and countries affected. The MFA was used almost exclusively against imports from developing countries. Switzerland and Japan, which were members of the MFA, did not use the quota restriction. In 1994, in its last year of operation, the MFA had 44 Members, including China, which was not a party to the GATT that time

.

The Agreement on Textile and Clothing to Replace the MFA

Finally, at the Uruguay Round in 1994, participating countries agreed to abolish the MFA over a ten-year transition period through the ATC.

During the transition period, each WTO member is required to integrate at least 16 percent and 17 percent of its total imports in 1990's volume at the beginning of the first and second stages

During the transition period, each WTO member is required to integrate at least 16 percent and 17 percent of its total imports in 1990's volume at the beginning of the first and second stages that started on 1 January 1995 and 1 January 1998, respectively. A further 18 percent was integrated at the beginning of the third phase, i.e., 1 January 2002. The balance 49 percent will automatically be integrated on the day following the expiration of the ATC on 31st December 2004 (Article 2:6 and 2:8 of ATC). While the bilateral quotas continued to exist during the transition period, their prevailing growth rate was agreed to be increased by 16 percent during stage 1, 25 percent in stage 2 and 27 percent in stage 3 (Article 2:14 of ATC). Although, as per the ATC, the MFA cannot be extended anymore beyond 2005, the recently initiated GAFTT Campaign dubbed as "Istanbul Declaration" to extend the MFA for further three years has brought in a new dimension to the debate. While the WTO has kept an informal avenue open for further discussion on the job-loss and livelihood concern raised by the campaign, there is little chance of having such an extension of the MFA beyond 2004[17].

Asia in World Trade in Textiles and Clothing

Textiles and Clothing account for about 9.1 percent of world manufactured exports, or 6.5 percent of all merchandise exports[18]. Global textiles and clothing trade rose by 6 percent during 1997-2000, to US$374bn. The gain from such positive change was not captured by all countries/regions equally. The distribution of the gain was mainly influenced by competitive advantage of the respective country or region and preferential trade policies of the North through numerous RTAs.

Total clothing export during 1995 was US$124bn. Through a steady increase over the years, it stood at US$165.5bn in 2000 and US$170bn in 2001. As Table 1 shows, developing countries dominate (more than 2/3rd) the trading in the clothing sector. Interestingly, Asia occupies about 54 percent of the share of developing countries. Strong involvement of Asia with spectacular growth indicates a great prospect for Asian economies in the business in future.

Textiles and clothing account for about 9.1 percent of world manufactured exports, or 6.5 percent of all merchandise exports. Global textiles and clothing trade rose by 6 percent during 1997-2000, to US$374bn

From Table 1, at least three things are worth noting. Firstly, the trade in clothing has increased more than the trade in the textile sub-sector. Secondly, in the clothing sub-sector, export from developed countries has declined, whereas that of from developing countries has increased. Thirdly, among the developing countries, the share of Asia has declined, whereas the share of Latin America has increased. The figures of Asia, excluding China, show a sharp decline because China showed dramatic performance during the period.

If we consider the situation of the four countries in South Asia, namely, Bangladesh, India, Pakistan and Sri Lanka, we find that, except Bangladesh, which is categorised as LDC, they are developing countries. As Table 2 indicates, 93 percent of T&C exports from

Table 1: World Textiles and Clothing Exports during 1995-2000						
Product and region	1995	1996	1997	1998	1999	2000
Textiles (billion dollars)	111.1	113.6	119.3	112.5	113.0	126.1
Clothing (billion dollars)	124.0	128.7	141.9	149.3	150.0	165.5
Share of Clothing export (in %)						
Developed countries	19	21	20	19	18	17
Western Europe	12	13	12	11	10	9
North America	6	7	7	7	7	6
Other developed	1	1	1	1	1	1
Developing economies	75	73	75	75	76	78
Asia	**56**	**54**	**54**	**52**	**52**	**54**
Latin America	7	8	9	11	12	14
Africa and the Middle East	6	6	5	6	6	6
Western Europe	6	6	6	6	5	5
Economies in transition	6	6	6	6	6	6
Source: www.wto.org.						

Bangladesh and Sri Lanka are apparel, whereas India and Pakistan are strong both in the textile and clothing sub-sectors. The Table also reveals that Bangladesh, Pakistan and Sri Lanka are overly dependent on the export of textiles and clothing products. The cost of labour in all the countries in South Asia is significantly lower than that of their competitors, e.g., China and Mexico.

93 percent of T&C exports from Bangladesh and Sri Lanka are apparel, whereas India and Pakistan are strong both in the textile and clothing sub-sectors

The Importance of the T&C Industry to South Asian Economies

The textile and clothing industry has been playing an important role in early stages of industrialisation in many countries in the world. Today, the clothing industry is a source of output and job growth in many developing countries and provides them the much-needed foreign exchange to foster further economic growth. Blessed with abundance of cheap labour, most economies in the South have become famous in exporting textiles and apparel. South Asia is no exception. Gradually, South Asian economies have become overly dependent on the sub-

Table 2: Population, GDP Per Capita (constant 1995 dollars) and Some Indicators of South Asia in 2001						
Items/indicators	Bangladesh	India	Pakistan	Sri Lanka	Competitors	
					China	Mexico
Population (in millions)	133.4	1,033.4	141.5	19.6	1,271.9	99.4
GDP per capita	$386	$472	$521	$869	$878	$3,739
Export of T&C (in millions of dollars)	5,527.1	11,730.0	6,730.0	2,747.9	53,276.6	10,085.2
Share of T&C to total merchandise export (in %)	86	26	73	61	20	6
Ratio of textile to clothing	7:93	43:57	65:35	7:93	31:69	20:80
Compensation rate in clothing (US$/hour)	$0.39	$0.38	$0.41	$0.48	$0.68	$2.45
Source: USITC (2004) various tables						

sector. For instance, 86 percent of exports of Bangladesh consists of garments.

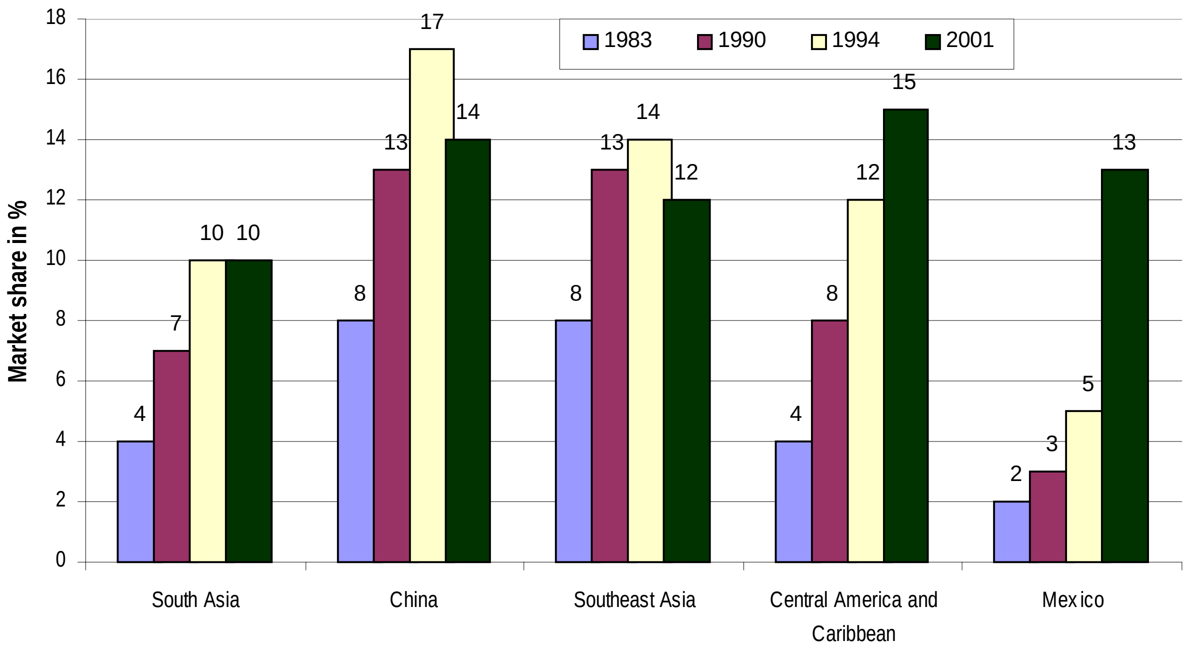
The industry employs 1.5 million people directly and further 10-15 million indirectly. T&C constitutes 26 percent of India's total merchandise export. Pakistan and Sri Lanka's share is 73 percent and 61 percent, respectively (USITC 2004). Another reason for the sector being overly important to the society is that a huge number of female workers – the most vulnerable section of the society – are directly dependant on the sub-sector. The situation is almost the same in all the countries under study. All these facts and figures indicate how important the sector is for the countries in South Asia. The region cannot afford to lose the industry and, at whatever cost, she will have to at least retain, if not grow further, her achievements so far. A small slide from the present position may cause a huge socio-economic, even political, crisis in the region. The attainment of the millennium development goals that aim at reducing poverty into half by 2015 might be extremely difficult if the region cannot keep up its export competitiveness in T&C.

In the 1980s, China and Southeast Asia were the pioneers in exporting T&C from Asia. Both the regions captured 8 percent of the US apparel market in 1983 and grew at the same rate and occupied 14 percent of the market in 1994

The Comparative Position of South Asia

This section represents some interesting developments during the 1980s and 1990s. In the 1980s, China and Southeast Asia were the pioneers in exporting T&C from Asia. Both the regions captured 8 percent of the US apparel market in 1983 and grew at the same rate and occupied 14 percent of the market in 1994. Afterwards, although China maintained its growth, Southeast Asia started to decline, compared to other regions in the world. The scene is completely different in the case of Central America, the Caribbean countries and Mexico. In 1983, South Asia and the Central American and Caribbean countries' position was at the same level, with 4 percent of market share in the

Figure 1: The Share of Different Regions/Countries in the US Apparel Market in Selected Years

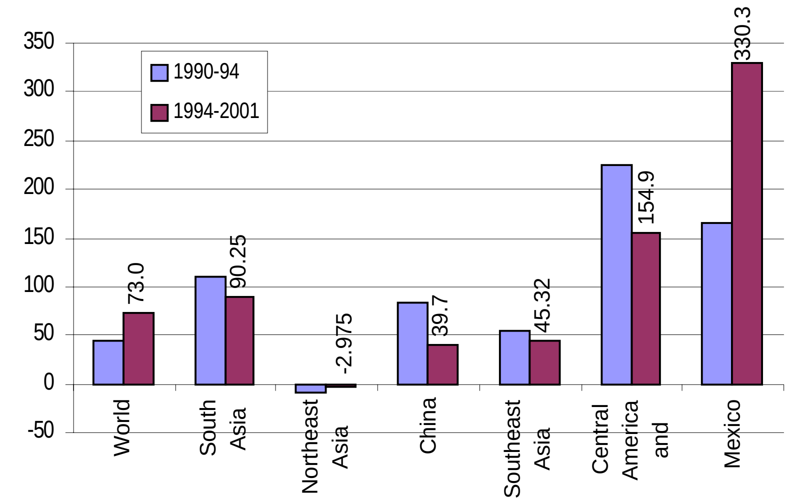


Source: Constructed on data from Table 1 in Gereffi (2003:10), cited source: OTEXA.

US, whereas Mexico's share was only 2 percent. But, in subsequent years, South Asia reached 10 percent in 1994 and remained at the same level in 2001. By contrast, the Central American and Caribbean countries and Mexico outperformed South Asia by capturing 15 and 13 percent of the US apparel market in 2001, respectively.

The special treatment to the US, the Central American and Caribbean countries and the impact of NAFTA on Mexico was the main reason behind their unparalleled success, compared to South Asia

Figure2: The Percentage Change of Apparel Export to the US Market during 1990 to 1994 and 1994 to 2001



Source: Constructed, based on calculations on data from Table 1 in Gereffi (2003:10).

The dramatic growth in the export of the Latin American countries and Mexico was not without reasons. The special treatment to the US, the Central American and Caribbean countries and the impact of NAFTA on Mexico was the main reason behind their unparalleled success, compared to South Asia.

Figure 3 reveals the same result. Given the US import from the world grew by 73 percent during 1994 to 2001, the South Asia grew by 90 percent, Northeast Asia declined by about 3 percent, China and Southeast Asian grew by about 40 and 45 percent, respectively. By contrast, during the same time, the Central American and Caribbean countries grew by 155 percent and Mexico grew by 330 percent. All these unprecedented growths are appearing as a challenge to the South Asian countries.

The Key Competitive Factors of South Asia

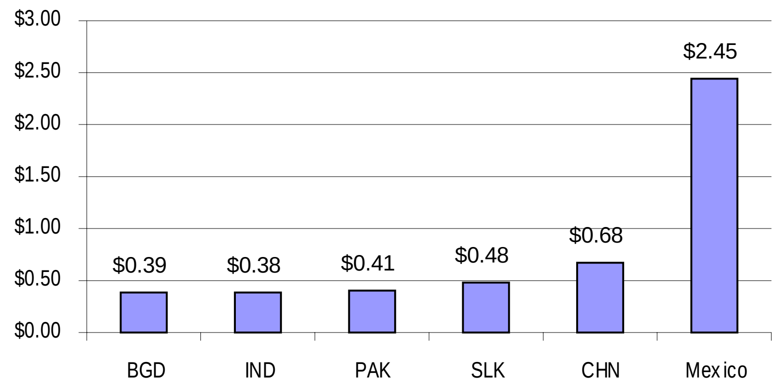
Textile and clothing industry is spread throughout the world because of low cost of labour in developing countries, which is the key component of the labour-intensive production process of the industry

Textile and clothing industry is spread throughout the world because of low cost of labour in developing countries, which is the key component of the labour-intensive production process of the industry. During the 1980s, when East and Southeast Asian countries' cost of labour went up significantly with the attainment of their higher stages of economic development, South Asia became a suitable choice as the next destination for the industry. The most common and important competitive factor among all the South Asian countries is the availability of cheap labour which is essential for textiles, and particularly for the clothing industry. As shown in figure 5, the hourly compensation rate in all the four countries in South Asia is among the lowest in the world. A recent study in the US shows that a plentiful supply of low cost labour is the primary reason for sourcing by US companies from the four countries in South Asia (USITC, 2004:3-26).

Textile yarn and fabrics constitute 49.5 percent of the total exports of Pakistan (Gereffi, 2003:30), which has the third-largest installed capacity of short-staple spindles for spun yarn in the world, after China and India

Apart from the low cost of labour, the region, as a whole, has some other competitive advantages over others. The main advantage is the availability of raw materials. Although Bangladesh and Sri Lanka import 70 percent and 80 percent of their inputs, respectively,[19] India and Pakistan are net exporters of raw materials. Textile yarn and fabrics constitute 49.5 percent of the total exports of Pakistan (Gereffi, 2003:30), which has the third-largest installed capacity of short-staple spindles for spun yarn in the world, after China and India. India is also the third-largest cotton producer in the world, after China and the United States. The availability of (cheap) raw material in the region has given a competitive advantage to the clothing industries of not only India and Pakistan but also Bangladesh, Nepal and Sri Lanka.

Figure 3: The Hourly Compensation Rates in Selected Countries (in apparel factories in 2001)



Source: Constructed on data in Table 3-1 in USITC (2004).

Learning curves of all the four countries are fairly long, which is very important in with dealing international trade. India's remarkable advancement in software development and information and communication technology may aid in international marketing in a quota-free world.

India's remarkable advancement in software development and information and communication technology may aid in international marketing in a quota-free world

Supportive government policies also have played an important role. Considering the socio-economic importance of the sector, respective governments have decisively pursued favourable policies for the development and flourishing of the textiles and clothing industry, which has established a fantastic private-public relationship in all the countries in South Asia, through the industry.

Chapter 3
The Challenge Ahead

Although the abolition of the MFA quota system, in principle, is viewed as an opening up of huge opportunities for the South, in general, it is becoming a big challenge, particularly for LDCs, to accommodate such changes. The shock is severe for those whose competitive advantage was quota-driven.

The demand for 'quick response' and 'full-package' supply capability is also becoming a problem for quota-driven countries in South Asia

As developing countries, in general, and LDCs, in particular, could hardly improve their situation during the last 10 ATC years, there emerged a crisis situation with the abolition of the MFA threatening to create a huge displacement effect on jobs and livelihood of millions of poor in these countries. The advantage of having low-cost labour is no longer a sufficient factor to remain competitive in a quota free market. Increasingly, the demand for 'quick response' and 'full-package' supply capability is also becoming a problem for quota-driven countries in South Asia. Moreover, preferential treatment to many competitors through RTAs (e.g., NAFTA and enlarged EU and numerous bilateral agreements) is becoming another challenge to South Asian countries.

As the MFA was restrictive in nature, it surely has sent some wrong signals to the market in allocating scarce resources differently, as it should have been without any quota restriction. Therefore, when the MFA will be abolished fully at the end of 2004, the market is supposed to correct the allocation of resources based on economic logic. For this reason, the quota-driven success of many countries may become frail and might not be sustainable in the post-MFA era.[20]

The following sections will evaluate the impact of the MFA phase-out and elaborate some of the other challenging factors to the exporters from South Asia.

The Consequence of Quota phase-out

Although quota system is one kind of trade barrier, it had appeared as 'blessings' for some countries but 'curse' for some others

For the last four decades, quota has been used as the main instrument in governing the trade in textile and clothing. Although quota system is one kind of trade barrier, it had appeared as 'blessings' for some countries but 'curse' for some others – affecting exporting countries at least in two different ways: (a) by giving special access to some countries, and (b) by imposing restrictions on some others. Countries like Bangladesh, Nepal, Cambodia, etc., surely benefited because of preferential access offered through quota, while, at the same time, it deterred big countries like China from entering into the export market in full swing – leaving room for new and weak players to have a good start for their export-oriented growth strategy.

There are differences in views of experts about the nature of the economic consequences on the developing countries originating from the elimination of quota. While a number of studies suggest that majority of developing countries will gain at the expense of high cost countries like Hong Kong, South Korea and Taiwan, some others suggest that relatively new sources might be squeezed out of the market because of their small size, lack of product diversification and low productivity[21].

Trade economists, in general, believe that any kind of restriction is bound to create distortion and, hence, dismantling of such barriers will definitely increase the trade flow. However, it is not clear who will gain at whose pain in case of the MFA phase-out. Some researchers postulate that stronger countries might gain at the cost of weaker ones. For example, Irene Trela (1998) concludes:

The studies point to the benefits from eliminating of the MFA largely accounting to developed rather than developing countries, and also accruing on the demand side rather than on the production side in developed countries

> "The studies that exist seem to point to the benefits from eliminating of the MFA largely accounting to developed rather than developing countries, and also accruing on the demand side rather than on the production side in developed countries. The most efficient suppliers among developing countries, such as China, ASEAN and South Asia, also gain, while many of the less efficient suppliers lose because they lose quota rents and lose market shares as they are forced to compete with the more efficient suppliers among developing countries."

It is argued that, during the initial stages of a country's export, quota played an important role in getting easy access to the developed market. In a sense, the statement is correct to some extent, particularly in case of some countries. For example, Bangladesh entered into the garment business at the beginning of the 1980s, mainly because of two reasons. One was the outbreak of civil war in Sri Lanka and the other was the quota allocation by major markets.

As the phasing-out programme is approaching its end, many have expressed their concern that the abolition of quota will have an adverse impact on the export of those countries whose success was quota-driven or quota-dependent. Labelling this statement as a "mythology", Bagchi (2001:210) claims that the argument had no foundation. Indicating the huge portion of unfulfilled quota,[22] he argued that quota was not a sufficient factor to gain market share. According to him, quality and cost are also important in this regard. He also added that, given the wide experience and commercial intelligence in the business, Bangladesh and Indonesia might expand further in free market condition.

Bangladesh entered into the garment business at the beginning of the 1980s, mainly because of two reasons-Outbreak of civil war in Sri Lanka and the quota allocation by major markets

Although researchers differ on the impact of the quota phase-out, some consequences are obvious. Competition will be intensified, which will impose downward pressure on price. In such a case, countries in low-end market (e.g., Bangladesh) with standardised product may suffer the most. Big players like China and India may capture the lions share of the market. As importers will be free to choose their source, they might discover new players in their neighbourhood to ensure 'quick to market'. Being distant from the major markets, all South Asian countries will have a hard time in finding suitable alternatives to such a strong natural barrier.

Myths or Reality?

Until recent past, it was difficult to assess the true impact of quota abolition because of the back-loaded nature of the phase-out schedule. There are, however, some evidences available now on what might happen in the absence of quota, which might give us a sense about the myths or reality of the dilemma. In one case, when Sweden eliminated all quotas on textile and cotton products in 1991, a massive shift took place towards China, whereas countries in Southeast and South Asia hardly profited. In another case, when Canada unilaterally removed quotas on shirts and blouses, there was again a massive shift towards China and, particularly, a large shift away from Bangladesh. While the value of imports from the four non-OECD suppliers (i.e., India, Hong Kong, South Korea and Bangladesh) decreased by 25 percent in 1996 through 1998, the value of imports from China increased by 140 percent (Spinanger 2000). Table 3 unveils similar facts. Due to integration of several categories into the WTO, the US market grew on average by 31 percent, whereas China increased by 12 times (or 560 percent, if we ignore the category 222). It is not clear, however, why Mexico share in US imports has declined by 12 percent despite preferential treatment under the NAFTA. One reason might be the significantly higher cost of labour, compared to China.

When Sweden eliminated all quotas on textile and cotton products in 1991, a massive shift took place towards China, whereas countries in Southeast and South Asia hardly profited

Table 3: The Impact of Some Selected T&C Products Integrated into the WTO: Percentage Change in US Imports from 2001 to 2002

Product (category)	World	China	Mexico	Bangladesh	India	Pakistan	Sri Lanka
Babies' garments (category 239)	10	826	-21	-18	16	-7	-24
Brassieres (category 349/649)	21	232	-21	49	25	-44	30
Robes (category 350/650)	28	540	-14	-6	60	15	64
Luggage and flat goods (cat. 670)	39	536	-52	-52	131	167	-44
Knit fabrics (category 222)	33	21976	10	-28	1257	12	-63
Weighted average	31%	1209%[a]	-12%	-17%	62%[a]	4%	-32%

Source: US Department of Commerce (OTEXA), and author's calculation. [a.] If we ignore outliers (for China and India in case of category 222), the figures still show an increase of 560 percent for China and 33 percent for India.

The most striking figures are related to Bangladesh and Sri Lanka, which have been adversely affected due to the abolition of quota. Even in knit fabrics, where Bangladesh is supposed to be stronger over the past several years, its export has decreased by 28 percent. If we consider the aggregate result of all the categories, it poses more questions than answers. In all the categories mentioned in Table 3, total US imports from the world grew by 31 percent and 10 percent during 2002 and 2003, respectively. The figures of China (560 percent and 66 percent), South Korea (145 percent and 18 percent) and India (33 percent and 7 percent) grew significantly during the two periods. By contrast, exports of Bangladesh (17 percent and 14 percent), Sri Lanka (32 percent and 38 percent) and Mexico contracted noticeably. Pakistan's situation was mixed: her export increased by 4 percent in 2002, but decreased by 22 percent in 2003. Again it is not clear why a high cost country like South Korea could grow so fast (by 145 percent)? Does this mean that

Total US imports from the world grew by 31 percent and 10 percent during 2002 and 2003, respectively

the items are not price-sensitive? Or, are there sufficient margins to ignore low cost producers by assigning more value to quality and reliability of service? Although this is out of the scope of this report, the answer to the second question might be positive, given the sky-high price of apparels in the North, compared to the (negligible!) remuneration offered to the factories in the South for cutting and making.

These evidences should help us imagine the impact of quota abolition – 'who gains at whose pain' – after 2004. If this trend continues in all the quota-restricted categories, it is very likely that China will continue its victory – leaving quota-driven countries like Bangladesh and Sri Lanka at enormous risk after the end of MFA regime.

As the entry barrier is very low, new exporters will constantly enter the global supply chain, push existing firms to cut costs, upgrade or exit the market

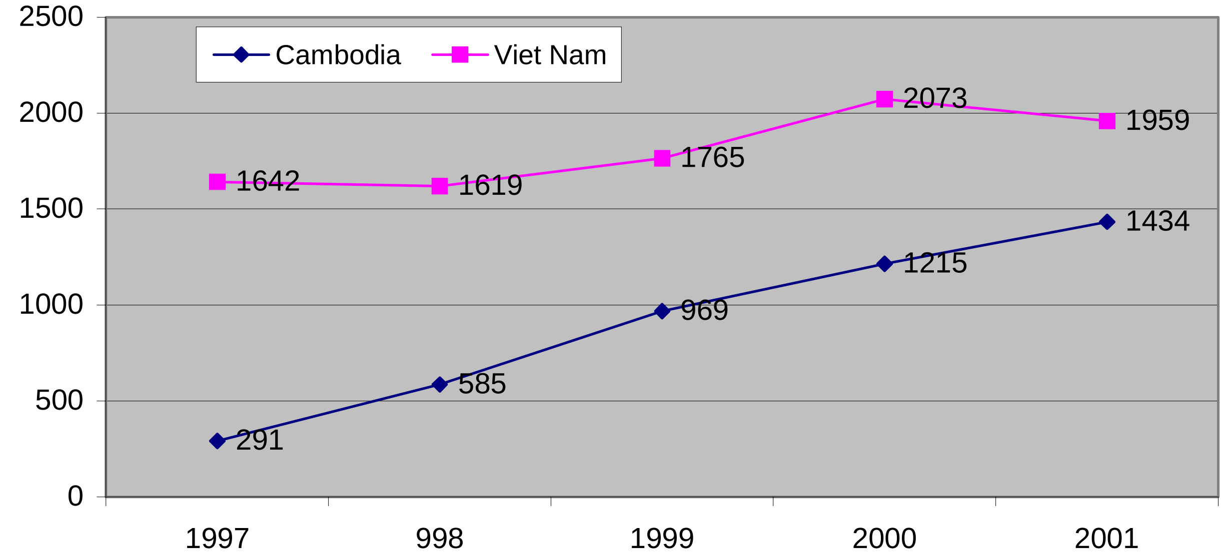
Some new entrants have recently been obvious in the world market. For example, the extraordinary growth of Cambodia and Vietnam in recent years is difficult to ignore. This is probably the result of bilateral relationships with the US and EU. As Figure 6 indicates, Vietnam and Cambodia have grown spectacularly, posing a credible threat for low-end producers, e.g., Bangladesh, in the region. As the entry barrier is very low, new exporters will constantly enter the global supply chain, push existing firms to cut costs, upgrade or exit the market (Gereffi 2003:21).

In general, it seems that prior findings by many researches are closer to reality that big countries will be benefited more and small countries, particularly those that are overly dependent on quota, may lose their competitiveness.

The Implication of China's Accession to the WTO

China's economic strength, continuous growth,[23] strong infrastructure, low cost of labour, huge internal market and, last but not least, her leading presence, almost in all western markets, have appeared as an important factor to all of her competitors as well as trading partners.

Figure 4: Textiles and Clothing Exports of Cambodia and Vietnam, 1997-2001 (in millions of US$)



Source: Based on data from Table G-1 in USITC, 2004.

The attainment of her most favoured nation (MFN) status, through accession to the WTO in 2001, has raised a common apprehension that China might gain considerable market share at the expense of weaker economies all over the world. This has created a significant concern not only in Latin America or Africa but also in Asia – especially those who compete against China in the same market with similar product. There are plenty of evidences that China will outperform almost every player in the market. Therefore, China is, and will remain, a considerable threat for exporters from South Asia until her cost of labour goes up sufficiently with the attainment of higher stages of economic development.

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The Concern of Regional Integration Arrangements

The effect of regional integration in and around the major markets (the EU and the US) is another concern to the exporters of Asia who are far from the ultimate destination of their products. Over the years, the trade in T&C is taking a shape of regional dominance: manufacturers of the USA use Mexico and Caribbean Basin; European Union firms are turning to North Africa and Eastern Europe; and Japan to East Asian NIEs – leaving little room for South Asian exporters. Fouquin et al. (2002) attempt to quantify the impacts of regional integration and simulate the impact of hypothetical free trade areas between the European Union and Mediterranean countries and between North and Latin American countries. They find that removing the existing EU tariffs on T&C would boost production by 20 percent in textiles and more than 50 percent in the case of clothing. In terms of welfare effects, the Mediterranean countries would gain US$3bn per year, compared to a welfare loss under a scenario of MFA quota elimination without regional preferences. Referring to similar impact in the case of regional preferences in Americas, they predicted that Asian exporters would lose in exports due to trade diversion for such regional integration.

A World Bank Country study regarding Bangladesh (1995) expresses its concerns over the displacement effect of the NAFTA on the export of Bangladesh. For example, Mexico's duty free access to USA and Canada has given her clear advantage over other competitors. Spinanger (2000) shows that Mexico's share in US clothing imports increased by over 200 percent in the period 1993-98. The US Trade and Development Act (US TDA 2000) has been initiated to provide duty and quota-free access[24] to 72 the Caribbean and Sub-Saharan African countries. This includes 33 out of 49 LDCs in the world. Being far from the market, Asian countries are bound to face uneven competition from these countries. There are many such integration agreements[25] that might affect flows of trade from Asia in varying degrees. The proposed FTAA and continuous enlargement of EU (e.g., customs union with Turkey) may aggravate the situation further.

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The Change in Market Conditions

In anticipation of a massive change in the post-MFA era, various participants in the market are reshaping their competitive edge. Markets are increasingly becoming buyer-driven (see Box 1). The retail sector in the US and other developed economies is undergoing a major restructuring. Between 1987 and 1991, the five largest soft goods chains in the United States increased their share of the national apparel market form 35 to 45 percent. By 1995, the five largest retailers – Wal-Mart, Sears, Kmart, Dayton Hudson Corporation and JC Penney – accounted for 68 percent of all apparel sales. The next 24 retailers, all billion-dollar corporations, represented an additional 30 percent of these sales. A similar shift is under way in other developed countries, including the EU (Gereffi 2003:6). Lead firms are increasingly becoming more dependent on international subcontractors for major part of their operations – retaining only strategic resources (such as product design, new technologies, brand names or consumer demand) under their control. Therefore, although the business in low streams (for subcontracting in cutting and sewing) is increasing, the possibility of entry to international marketing is getting extremely difficult for exporters in the South.

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Box 1: Producer-driven Vs Buyer-Driven Market

Industrial and commercial firms have both promoted globalisation, establishing two types of international economic networks. One is "producer-driven" and the other "buyer-driven". In producer-driven value chains, large, usually transnational, manufacturers play central roles in co-ordinating production networks (including their backward and forward linkages). This is typical of capital and technology-intensive industries such as automobiles, aircraft, computers, semiconductors and heavy machinery. Buyer-driven value chains are those in which large retailers, marketers and branded manufacturers play pivotal roles in setting up decentralised production networks in a variety of exporting countries, typically located in developing countries. This pattern of trade-led industrialisation has become common in labour-intensive, consumer-goods industries such as garments, footwear, toys, handicrafts and consumer electronics. Tiered networks of third-world contractors that make finished goods for foreign buyers carry out production. Large retailers or marketers that order the goods supply the specifications.

Firms that fit the buyer-driven model, including retailers like Wal-Mart, Sears and JC Penny, athletic footwear companies like Nike and Reebok and fashion-oriented apparel companies like Liz Claiborne, Gap and The Limited Inc., generally design and/or market – but do not make – the branded products they order. They are "**manufacturers without factories**", with the physical production of goods separated from the design and marketing. Unlike producer-driven chains, where profits come from scale, volume and technological advances, in buyer-driven chains profits come from combinations of high-value research, design, sales, marketing and financial services that allow the retailers, designers and marketers to act as **strategic brokers** in linking overseas factories and traders with product niches in their main consumer markets. Profitability is greatest in the concentrated parts of global value chains that have **high entry barriers** for new firms. Such companies develop and sell branded products and have considerable control over how, when and where manufacturing will take place. Thus, large manufacturers control producer-driven value chains at the point of production, while marketers and merchandisers exercise the main leverage in buyer-driven value chain at the design and retail stages.

Source: Extracted from Gereffi (2003), p.3.

The New Determinants of Trade Performance in the Absence of Quota

As Audet (2004) comments, low-wage does not necessarily translate into a comparative advantage, when all services in the entire supply chain are considered

As Audet (2004) comments, low-wage does not necessarily translate into a comparative advantage, when all services in the entire supply chain are considered. A number of other factors will become more active in determining the location and sourcing decisions of T&C in a quota-free world. Box 2 lists the factors/elements covered by such determinants. Needless to say, the degree of success of a particular country or region will very much depend on the fulfilment of or compliance with such factors beyond 2004. Some of the factors are local in nature (infrastructure, business climate, etc.) and, hence, controllable by respective countries, but some are beyond a country's control (such factors include natural barriers like distance from the market, non-availability of raw material, etc.). Some other factors are global in nature and manageable only at global levels, with collective action by all countries in a region. The impact of regional integration is such a factor. The major determinants are briefly discussed below, with associated strengths/weaknesses of the countries in South Asia.

Box 2: Textiles and Apparel: Factors of Competitiveness

Business climate:

- Political stability
- Safety of personnel
- Security of production and shipping
- Transparent and predictable legal, commercial and regulatory system
- Minimal administrative burden and corruption
- Compliance with internationally recognised health and labour standards
- Subsidies and tax credits
- Free trade zones
- Real exchange rates
- Market demand and economic growth

Infrastructure:

- Roads, ports, rail and air for moving of good in and out of the country
- Shipping and other transportation times and costs
- Access to reliable sources of energy, water and telecommunications

Proximity and preferential access to market:

- Proximity to major markets
- Preferential access to major markets

Labour and management:

- Availability of workers
- Compensation rates
- Labour skills and productivity
- Availability of qualified managers, including middle management

Raw-material inputs:

- Access to quality and cost-competitive domestic and regional yarn and fabric production
- Tariffs on imports of raw materials
- Rules of origin for trade preferences
- Cost and availability of capital to invest in new machinery and purchase raw materials

Level of service provided and reliability of supplier:

- Reputation for quality and on-time delivery
- Existing business networks (supply chain linkages, relationship with customers)
- Level of service provided (e.g., full-package versus assembly)
- Flexibility and variety in styles or products and lot sizes offered
- Lead time and flexibility to respond to quick turnaround orders

Source: Adopted from USITC (2004:3-4) with some modification.

Proximity to the Market

The ability to respond to the demand quickly is going to be an important determinant in the post- MFA era. Reportedly, US brands and retailers such as Gap and Nike intend limiting their apparel product development lifecycle from 12 to only 9 months.[26] Therefore, proximity to the export market will be an important factor for suppliers. Birnbaum (2001) reports that shipping time from Sri Lanka, Bangladesh and India to the United States averages 28 days, compared to 2 days from Mexico and Canada. Tait (2002) reports that Romania, the Czech Republic and Hungary are all within 1 to 2 days by road freight to the EU. Another study done by the US Trade Commission finds that it takes about 45 to 60 days to ship from India to the East Coast of the United States. Given an ocean voyage of 20 days is equivalent to a 16 percent tariff (Hummels, 2001), being distant from the market would be very expensive for South Asia. Proximity to market is important not only for transportation costs but also for shorter lead-time requirements increasingly imposed by buyers. Needless to say, it is impossible to overcome the natural barrier as well as difficult to find complementary solutions.

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Preferential Access to Markets

During late 1990s, the proliferation of RTA has emerged as a new type of restriction related to market access, which offers preferential treatment to partners and deters market access to non-members. Although the debate on 'stumbling bloc versus building bloc' is far from over, it is most likely to become another controversial issue under the WTO. The preferential treatments offered by the US through the NAFTA, AGOA and CBERA and similar benefits offered by the EU to the ACP (e.g., the Cotonou Agreement) and Mediterranean countries will become market access restrictions for countries outside such agreements. Enlarged EU, proposed CAFTA or FTAA will definitely be difficult issues for South Asian exporters. Numerous bilateral agreements with the US and the EU may complicate the situation for countries not a party to major trading blocs. This is a dangerous issue, which is surprisingly allowed via Article XXIV of GATT/WTO, and, therefore, difficult to solve in the foreseeable future.

The proliferation of RTA has emerged as a new type of restriction related to market access, which offers preferential treatment to partners and deters market access to non-members

In the post-MFA period, preferential arrangements through RTA will become a deadly situation for South Asia, because after 2004, if quota restriction is not there, South Asian countries will face tougher tariff and non-tariff barriers than those who are partners of RTAs. The recently signed SAFTA seems far away from being compensatory to such adverse situations. On the one hand, the effectiveness of the special and differential treatment (e.g., GSP, EBA etc.) to the LDCs is eroding with gradual reduction of tariff and, on the other hand, non-tariff barriers are becoming deadly issues for LDCs.

Raw-material Inputs

Another important success factor in the T&C business is the availability of quality raw materials at reasonable cost. The availability of local or regional raw material greatly improves a country's ability to respond to orders with shorter lead times. This issue is becoming more important when raw material suppliers are becoming direct competitors in the quota-free market. Countries like China, India and Pakistan are in better positions, which are endowed with abundance of raw materials, whereas countries dependent on import of raw materials, such as Bangladesh and Sri Lanka, will definitely face enormous difficulty in the post-MFA era. The shortage of raw material inputs for textiles was one of the reasons why Bangladesh was not successful in backward integration to textiles, despite being very successful in the clothing sub-sector.

The Infrastructure

South Asia faces many challenges in upgrading infrastructure to enhance the competitiveness of their textile and apparel sector

Infrastructure is an important factor in export business. The quality of transportation system (roads, rail, airports, seaports, etc.) is very important in moving goods into and out of the country. Access to reliable sources of energy, water and telecommunication is also very crucial for international business. Therefore, this factor is undoubtedly an important determinant in choosing the sourcing locations by buying houses. Weak infrastructure is always a big impediment to most of the developing countries. South Asia faces many challenges in upgrading infrastructure to enhance the competitiveness of their textile and apparel sector. South Asia, in general, has poor infrastructure. India has no deep-water ports and her railroad network is antiquated. Bangladesh's communication network is substandard. Infrastructure in Bangladesh is characterised by poor roads, port congestion and frequent power outages.[27] Sri Lanka has also poor infrastructure, due to damage because of civil unrest.

The Business Climate

A country's business climate is an important element in evaluating the risk and cost of doing business there. This includes political stability, social safety and security, transparency in legal, commercial and regulatory systems, various incentives including free trade zones, etc. This also includes transparency in the country's political system. Most of these elements are country-specific and will become very important in the post-MFA era.

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The business climate in South Asia is not impressive at all. In some cases, it is the worst among comparable regions. Political unrest, lack of social safety and security, lack of transparency in legal, commercial and regulating systems, reckless corruption[28] and inefficient bureaucracy are the major problems in the region. Given the weak democratic institutions in the region, in general, more often than not, politicians tend to be driven by 'theory of public choice', where party interests get more importance over national or regional welfare.

The Level and Reliability of Service

The enormous buying power of major US retailers[29] has compelled suppliers to be more responsive to retailers' demand, as it tends to reduce the flexibility of suppliers in scheduling production and negotiating prices and other contract terms. In the post-quota world, strong buyers are likely to use suppliers that offer not only competitive price but also faster and more flexible service. With retailers reducing stocks and pushing inventory cost back-up, the supply chain, suppliers will need to be able to respond more quickly and efficiently to retailer demands for smaller, more frequent orders. As many retailers are becoming 'manufacturers without factories' (e.g., global brokers), they tend to prefer to source from foreign suppliers that can provide "full package" services. Full package service is defined as complete service consisting of product development, fabric sourcing, cutting and sewing, quality control, packaging, trade financing and logistics arrangements. (Box 3 describes the various stages of apparel manufacturing).

Labour and Management

The enormous buying power of major US retailers has compelled suppliers to be more responsive to retailers' demand, as it tends to reduce the flexibility of suppliers in scheduling production and negotiating prices and other contract terms

The cost of labour, though not sufficiently, is still an important factor in determining the destination of such a labour-intensive industry. But, labour management and availability of skilled middle managers are also significant factors. Low cost of labour is necessary, but no longer a sufficient condition for being competitive in the market after 2004. Again, low cost might not be effective, if productivity is also low. The productivity of labour in developing countries is persistently low, compared to developed countries. For instance, the productivity of men's shirt-making plant in India is 35 percent of the US and 55 percent of China.[30] South Asia's relatively low labour costs are partially offset by lower productivity levels. In a study, US retailers indicate that productivity rates in India, Pakistan and Bangladesh are about 20 to 25 percent below than those in China (USITC, 2004:3-29). According to the Garment Exporters Association of India, the differences in productivity translate to labour costs that are effectively 40 percent higher than that of China.[31] Besides costs, management of trade unions is always a big and complex political issue in poor countries. Furthermore, the issue of labour standard and child labour has proved to be an added burden for South Asian factories.

Box 3: Stages of Development in Apparel Manufacturing

The figure below shows the level of service offered by manufacturers or vendors. At the first stage, manufacturers only sew the cut garment pieces as contract service. This stage is common in offshore assembly operations in the Caribbean or Mexico, in which fabrics are cut into garment parts in the US and sent out for sewing abroad. The second stage consists of cutting and sewing. At this stage, factories still generally operate as contractors. Most of the operations in Bangladesh are under such contracts, where design and raw materials are supplied by the buying houses. In stage 3, manufacturers source trim instead of cutting and sewing, generally for basic products for which the trim is standard, such as white buttons for a men's shirt. At the final stage, a manufacturer becomes full-package supplier, being responsible for many aspects of the garment production from purchasing fabrics and trim and pattern-making to full production and packaging, ready for retail sale.

The level of service in full-package production can vary, depending on the buyer and the contract. Even though the manufacturers purchase the fabrics, the retailers or apparel companies often choose the actual quality and source. Then the retailers or the apparel companies issue a Letter of Credit, based on which the supplier imports required raw materials on back-to-back L/C.

Sometimes, full-package suppliers select the fabric and/or suggest alternative suppliers. Full-package suppliers must be financial solvent in order to obtain financing for the purchase of raw materials. Generally, large importers purchase the products on free-on-board (FOB) basis, taking responsibility for shipping and duty charges, because they can negotiate better shipping rates than smaller overseas apparel suppliers. However, some companies purchase part of their product on a landed-duty-paid (LDP) basis, allowing the foreign manufacturer to take care of shipping and payment of duties.

Source: Adopted from USITC, 2004:3-9.

Stage 1: Sew

Stage : Cut and sew

Stage 3: Cut, sew and source trim

Stage 4: Full-package, FOB or LDP

Chapter 4

The Complementarities and The Scope of Co-operation

So far, we have seen that South Asia, in general, and LDCs, in particular, are vulnerable to the changed market conditions under no-quota restrictions. One of the reasons is that these countries grossly failed to rectify their home-grown problems during the last ten years. Therefore, recognising the plausible adverse impact on the job-loss and livelihood of millions of poor, these countries have little option but to look for other sources of competitive advantages to retain their glorious past. Regional co-operation might be one of the options in this regard.

South Asia, in general, and LDCs, in particular, are vulnerable to the changed market conditions under no-quota restrictions these countries grossly failed to rectify their home-grown problems during the last ten years

The scope of co-operation and/or willingness to co-operate depends upon the size of benefit out of such co-operation, or the cost of non-co-operation. The benefit should be integrative rather than distributive in nature. In case of integrative benefit, the size of the pie gets bigger with co-operation and it becomes a positive sum game. However, in distributive cases, the total size of the pie does not change and the same size is redistributed among co-operating parties, which leads to a 'zero-sum game'. Again, the benefit may not be distributed exactly equally, but there should be some minimum benefit, such that the proposal is acceptable to the lowest beneficial party.

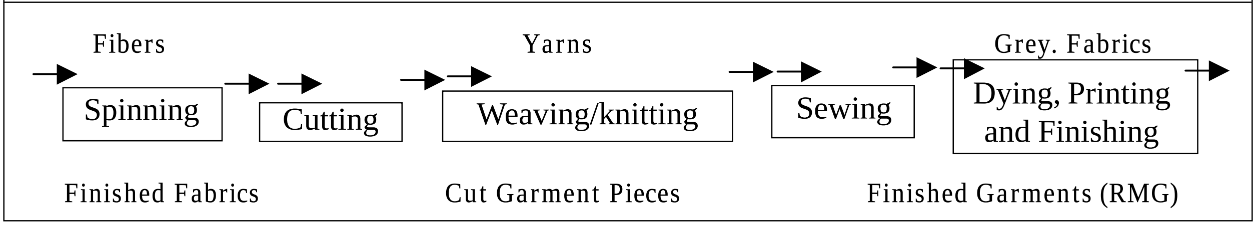
In trade economics, the source of benefit depends on the degree of heterogeneity in resource endowments[32]. Therefore, to test whether there exists benefit from co-operation or not, we have to see if there is any heterogeneity of resource endowments or differences in the level of expertise throughout the process of T&C production among the countries under study.

South Asian countries compete in the same market (mainly in the US and the EU), with similar product and with the same logic –cheap labour. Therefore, apparently, there seems to be no scope of significant benefit through co-operation, by sharing the production processes among the countries in the region, in the case of textiles and clothing.[33] However, a careful look may reveal some clue to the heterogeneity in the production processes and difference in resource endowments in different countries in South Asia, which may indicate some scope of benefit through co-operation.

In order to examine the complementarities and the scope of co-operation in the production process, we need to have a look at the major processes of the textile and clothing industry

In order to examine the complementarities and the scope of co-operation in the production process, we need to have a look at the major processes of the textile and clothing industry. Box 4 shows the major steps of production processes of a typical T&C factory. Note that the industry is clearly separable into two parts: one is textile (spinning and weaving) and the other is clothing/apparel (cutting and sewing). As the finishing part can be performed independently, we consider it as neutral and set aside it from this part of analysis.

Box 4: Major Steps in Textiles and Clothing Production Process



The spinning process uses fibres as inputs and produces yarns as output. The yarn then is used as an input by weaving or knitting factories to produce grey fabric. The grey fabric becomes a finished fabric after completing dying, printing and finishing processes (the dying, printing and finishing processes together are called 'finishing' in short). The cutting and sewing part is done in clothing/apparel factories. For our analytical purposes, textile means spinning and weaving/knitting (with or without finishing) processes and apparel/garment/clothing means cutting and sewing processes. The finishing part may be tagged with either textiles or clothing production or, as mentioned before, could be performed independently.

The Heterogeneity in T&C and the Scope of Benefit through Co-operation

Although cheap labour is an important factor for both the sub-sectors, the textile part is relatively more capital-intensive, compared to clothing, which is heavily labour-intensive by nature. Textile is more 'producer-driven', where large manufacturers play the central role in co-ordinating production networks (including backward and forward linkages) and control the point of production. The textile sector needs relatively more capital with sophisticated technology and, therefore, enjoys high entry barrier. Uninterrupted source of good quality raw material with reasonable price, use of sophisticated technology with superior expertise in the production process and sufficient (ensured) demand for the output are the key success factors of a textile mill.

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The clothing sub-sector, by contrast, is heavily labour-intensive – with semiskilled, or even unskilled, labourers. This sub-sector is 'buyer-driven' – meaning that the demand-side is completely controlled by large transnational marketers/retailers, with full control over the design and retail stages. In one sense, apparel producers are merely subcontractors – mainly for cutting and sewing as per orders placed by buyers, who select fabrics, supply designs and control the quality. In many cases, these buyers specify the raw material and the accessory suppliers. In a nutshell, apparel production is under full control of buyers in the North. Clothing factories are relatively small in size, with less complicated technology and low entry barriers. Therefore, the market is overcrowded with many players, where intra-firm competition drives down the price (and hence profit margin) to the lowest level – leaving little option for factory owners to improve the pay structure or the working conditions of the factory.

As the hourly compensation rate is almost the same across the region,[34] there exists little scope of benefit through sharing the different production processes of the clothing sub-sector by different countries in South Asia. Therefore, the production-sharing system between the

US and Mexican/Caribbean basin countries or the outward processing trade of the EU with eastern European or Mediterranean countries is not applicable in clothing sub-sector in South Asia. To make feasible such co-operation, the benefit must have to be high enough to cover the cost of transportation between countries.

However, given the heterogeneity between the textile and clothing sub-sectors in the region, there might be some scope of co-operation. The following statement reveals such heterogeneity:

> The textile and apparel sectors in Bangladesh, India, Pakistan and Sri Lanka exhibit different degrees of specialisation. While firms in Pakistan specialise in cotton textile intermediate goods (yarn and grey fabrics)...firms in Bangladesh and Sri Lanka remain export-oriented apparel producers, dependent on imported inputs such as yarn and fabric. India has developed a highly complex sector, covering the entire value and production chain from fibre production to garment manufacture and packaging. Firms in South Asia, generally, are not vertically integrated and are, for the most part, independent, privately-owned and medium-size firms. (USITC, 2004:F-3)

Although all the South Asian countries seem to have similar resource endowments, India and Pakistan are relatively blessed with textile raw materials. These two countries have considerable expertise in textile technology. By contrast, Bangladesh and Sri Lanka have gained considerable expertise in apparel-making. Table 4 upholds the statement. The memo item 'share of Asia' shows that Asia dominates the yarn and weaving production and India and Pakistan are among the strongest, after China. If we look at the balance of trade in textiles (Table 5), we will have the feeling how nicely the countries in South Asia are balanced with textiles and clothing resources/expertise.

Although all the South Asian countries seem to have similar resource endowments, India and Pakistan are relatively blessed with textile raw materials. These two countries have considerable expertise in textile technology

There has been a shift in the world yarn-spinning and fabric-weaving capacity from developed to developing countries in the past two decades.

Table 4: The Number of Installed Spindles and Rotors and Looms in 2000 in South Asia

	Sh.ort staple spindles	Long staple spindles	Open-end rotors
In Spinning	Number (share)	Number (share)	Number (share)
Bangladesh	2,469,000 (5%)	15,000 (1%)	85,700 (12%)
India	37,698,000 (77%)	990,000 (95%)	453,100 (66%)
Pakistan	8,567,000 (17%)	35,000 (3%)	149,500 (22%)
Sri Lanka	246,000 (1%)	0 (0%)	0 (0%)
Memo: Share of Asia	71%	45%	27%
In weaving	Shuttle-less looms	Shuttle looms	Filament weaving looms
Bangladesh	3,200 (11%)	4,700 (3%)	0 (0%)
India	7,500 (27%)	115,500 (83%)	1,500 (3%)
Pakistan	16,000 (57%)	7,200 (5%)	50,000 (97%)
Sri Lanka	1,300 (5%)	11,000 (8%)	0 (0%)
Memo: Share of Asia	39%	75%	92%

Source: International Textile Manufacturers Federation, International Machinery Shipment Statistics, Vol. 24/2001 (cited in USITC 2004). Note: percentages may not sum to 100 due to rounding off.

Most of the increase in the production capacity has occurred in Asia. China, along with India, has the largest number of spindles and weaving machines in the world. Due to large domestic supply of raw materials with competitive prices, India and Pakistan have developed their large spun-yarn segments.

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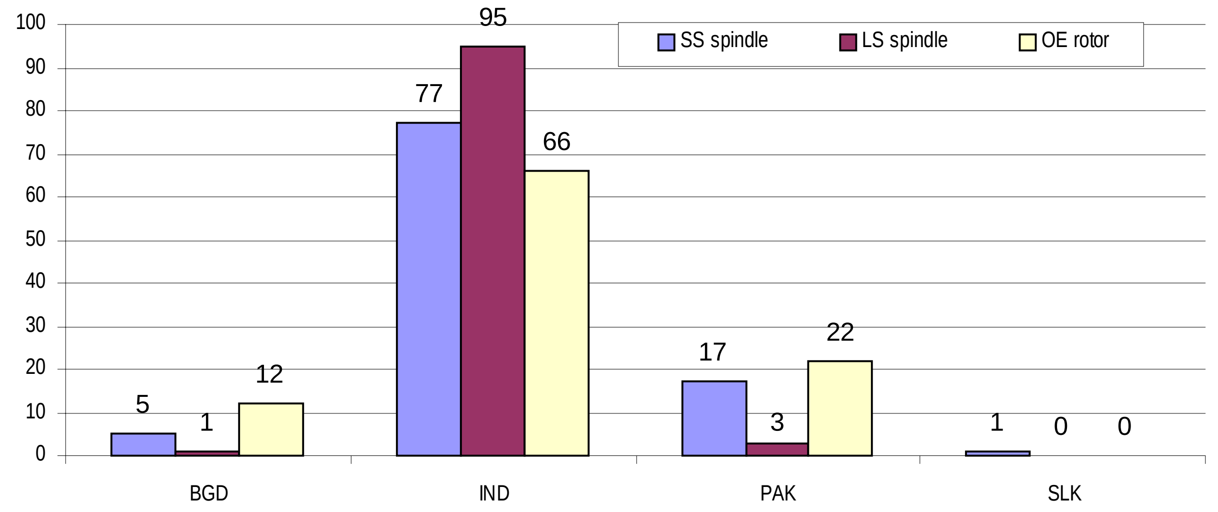
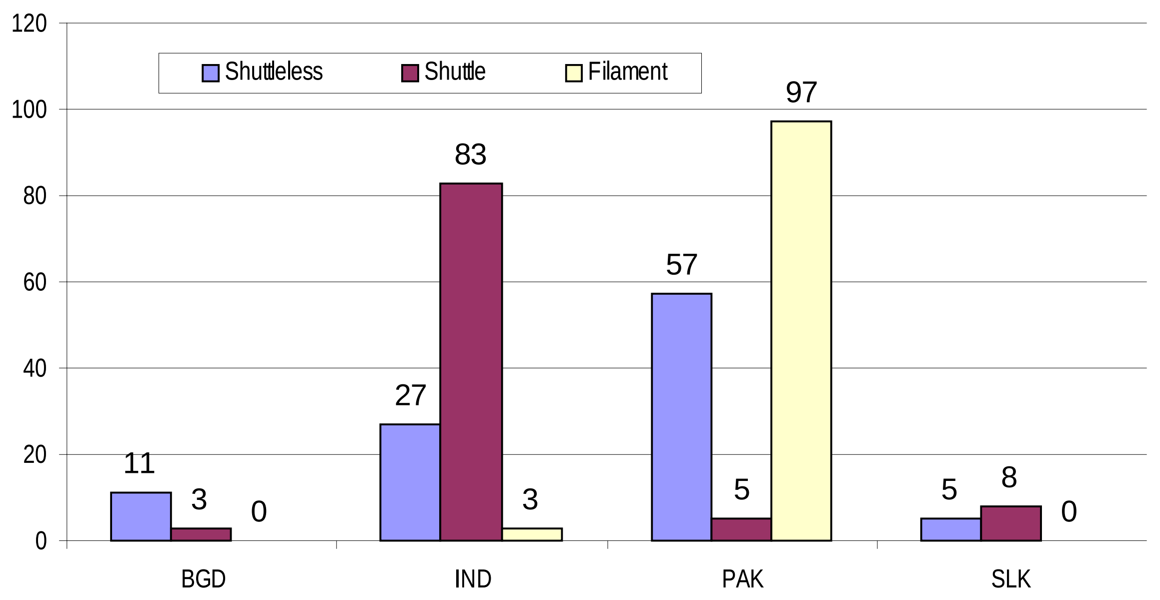
The following two figures clearly indicate the diverse position in textiles of the four countries under consideration. Figure 7 shows India's dominance in all the segments in weaving (namely, short staple spindles, long staple spindles and open-ended rotors), compared to other South Asian countries.

Figure 5: Installed Spindles and Rotors in Selected Countries in South Asia (in percentage, 2000)



Source: Based on the data in Table 4 above.

Figure 6: Installed Looms in Selected Countries in South Asia (in percentage, 2000)



Source: Based on the data in Table 4 above.

Figure 8 indicates that almost the entire capacity of spinning in South Asia is distributed between India and Pakistan. India has more Shuttle looms (83 percent), whereas Pakistan dominates in Filament looms, with 97 percent of the total capacity in Asia.

Intra-regional Balance of Trade in Textiles

India has more Shuttle looms (83 percent), whereas Pakistan dominates in Filament looms, with 97 percent of the total capacity in Asia

The countries in South Asia also have different positions in the textiles trade. It is obvious from Table 5 that Bangladesh and Sri Lanka have deficit in textiles, whereas India and Pakistan have surpluses. Therefore, South Asia, as a whole, has surplus in textiles (yarn and fabrics). This heterogeneity could be the main source of benefit through co-operation between the textile and clothing sub-sectors.

Table 5: The Balance of Trade in Textiles in South Asia (in millions of dollars)

Country	1997	1998	1999	2000	2001	Average
Bangladesh	-1,138.3	-931.7	-1,005.7	-1,280.0	-884.4	-1,048.0
India	4,453.2	3,744.8	4,176.0	4,924.7	4,448.0	4,359.3
Pakistan	4,406.8	4,081.0	4,007.9	4,251.3	4,220.5	4,193.5
Sri Lanka	-811.2	-798.2	-801.1	-857.8	-661.9	-786.0
Overall Balance (South Asia)	+6,910.5	+6,095.9	+6,377.1	+7,038.2	+7,022.2	+6,688.8

Source: Compiled from various tables in USITC (2004) and author's calculation.

The Major Source of Textiles Imported by Bangladesh and Sri Lanka

If we look at the present source of textiles imported into Bangladesh and Sri Lanka (Figure 9), we would find considerable scope of co-operation. Bangladesh imports 39 percent of her textile needs from China and only 22 percent from India (despite closed neighbours and direct road links). On the other hand, Sri Lanka imports her textiles mainly form South Korea (29 percent) and China (17 percent). India is only the third supplier to Sri Lanka, with 12 percent of her demand. These figures indicate that there is scope for mutual benefit through co-operation in the textile and clothing sub-sector among the countries of South Asia. Through co-operation, Bangladesh and Sri Lanka might have ensured supply of raw materials for their clothing factories and India and Pakistan might gain because of the ensured market of their textiles products.

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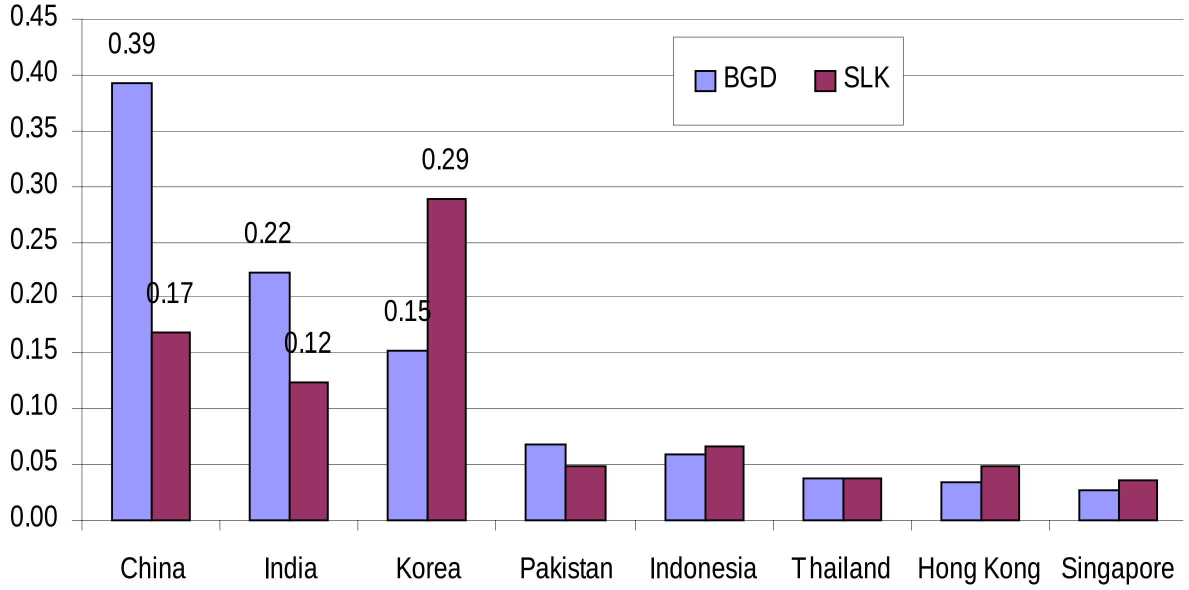
The question may arise, however, about the quality of textiles produced in India and Pakistan, compared to other competitors from developed countries, because the market might not accept low quality fabrics for their final products. This problem opens, rather than closes, the scope for benefit further out of co-operation. Given that most of the installed spinning capacity is more than 10 years old (in Asia), it needs to be replaced with faster, labour-saving equipments to increase the supply of quality yarn. In the case of weaving, Asia accounted for 68 percent of shuttle-less looms and 97 percent of shuttle looms. Most of the installed looms in Asia (in India and China) are shuttle looms, which represent older weaving technology. Therefore, there is also a scope for modernising the existing facilities with faster, more efficient

Figure 7: The Source of Textiles Imports into Bangladesh and Sri Lanka (average of 1997-2001)



Source: Constructed on data from USITC (2004).

equipments, such as with open-ended rotors. This kind of modernisation needs huge capital, probably with foreign direct investment (FDI) that brings not only capital but also latest technology and expertise.

To make the huge long-term investment feasible, or to attract FDI for the sector, the region needs to be integrated in order to enlarge the economies of scope

To make the huge long-term investment feasible, or to attract FDI for the sector, the region needs to be integrated in order to enlarge the economies of scope. At least three things are necessary for large investment in modernisation of the textile sub-sector: (a) ensured supply of raw material inputs with competitive prices, (b) necessary institutional support to integrate the entire regional market, and (c) ensured sizeable demand for the final output. The supply of raw material could be ensured by India and Pakistan and the demand for the final output could be ensured by Bangladesh and Sri Lanka. What is missing here is the institutional support, that is, the institution to organise the co-operation. A well-established regional institution is essential to make the co-operation arrangement credible, predictable and reliable for giant investors to be convinced from home and abroad. We can conclude, therefore, that South Asia, as a whole, has sufficient textile inputs for her clothing factories. India and Pakistan could utilise Bangladesh and Sri Lanka as their good markets. Bangladesh and Sri Lanka can benefit by importing low-cost raw materials from India and Pakistan for their garment factories. This heterogeneity of resource endowment, the differences in expertise and ensured reciprocal demand and supply indicate that there is scope for benefit through mutual co-operation.

The benefits consist of not only high export earnings but also the availability of cheap raw materials. The positive externalities, in the long run, will be more than just short-term gain through export and import. Deeper economic co-operation will change the relationship from trader to partner between countries, which will increase mutual trust and reliability. Parties will start valuing the merit of partnership more over personal and national interest. As one party's business boom will boost the others, corporations will find multiplication of mutual benefit. If this process continues, more and more firms will get interested in the system because it will make their non-cooperation too costly to stay aloof. This 'domino effect' will force other parties to co-operate extensively. This process will lay the ground for broader regional economic co-operation, which will speed up the process of deeper economic integration (e.g., free trade area, customs union). Ultimately, the engagement might play an important role in achieving regional peace and security in South Asia, which is a crying need for the overall development of the region. We should recall that the European Coal and Steel Community (ECSC) played exactly this kind of pivotal role in attaining the present stage of European Union. At this moment, this view might sound too optimistic or even unrealistic, but such optimism is very helpful in achieving something big in future.

In the clothing sub-sector, co-operation is not feasible like the outward processing trade of the EU or the production sharing system of the US

Some Scope of Co-operation still Exists in the Clothing Sub-sector

In the clothing sub-sector, co-operation is not feasible like the outward processing trade of the EU or the production sharing system of the US. In both the cases, labour cost differential was the driving force, which is absent in the South Asian region. However, the Dying, Printing and Finishing (in short Finishing) processes could be shared, based on revealed benefit of doing so. For example, as the Finishing part is very much related to the choice of buyers, therefore, sometimes, it is convenient to complete the Finishing part according to the specification of a particular buyer. In such a case, Finishing could be completed in a nearby factory of garments. Note should be taken here that Finishing is less labour intensive. It is more of technical expertise and sophisticated machines that do the job better.

Besides this, the clothing part could further be divided into high-end, standardised, and low-end segments. High-end and sophisticated fashion-oriented production processes need superior design, sophisticated technology and highly skilled workers. In the case of standardised items, it needs large volume of production process with semi-skilled workers. In low-end items, small subcontractors with semi, even unskilled, workers may perform the job. Therefore, although there is no heterogeneity in the clothing sector, in general, there is scope for different players to fit in. We can recall how high cost region like Hong Kong can still survive in the world clothing market. In South Asia, countries are also naturally inclined to such groupings. For instance, it seems Bangladesh is specialised more on low-end to standardised items, whereas Sri Lanka is more suitable for standardised to high-end products. Admittedly, it is difficult to draw a concrete line. India, because of her fashion-oriented, large home-market, has a clear advantage in the high-end fashion market. India has already shown some kind of superiority in design and has wide prospects for further development. Given the possibility of rising cost of labour with continuous development, it can be expected that, in future, India will shift towards high-end market – leaving the standardised and, particularly, low-end market for the next tier of countries. These specialisations are not arbitrary or mandatory for the countries in co-operation. Basically, if the ground is kept open, the 'invisible hand' of Adam Smith will automatically allocate the job, based on resource endowment and expertise, through interaction of economic interest of the parties involved.

Bangladesh is specialised more on low-end to standardised items, whereas Sri Lanka is more suitable for standardised to high-end products

International Marketing – The Hidden Resource

The most beneficial part of the business is international marketing, where all the countries in South Asia are almost absent so far. Quota-driven markets, dominated by foreign buying houses, kept local exporters away from international market intelligence. The industry, in general, felt little urgency in investing in marketing because quota-driven buyers used to come to their doorstep to place their orders. After 2004, the situation will be reversed: exporters themselves will have to find their own customers. Therefore, international market information will play a vital role.

The Scope of Benefit

The industry, in general, felt little urgency in investing in marketing because quota-driven buyers used to come to their doorstep to place their orders

If someone walks through a shopping street in any OECD country and peeps through the windows at the price tags, he or she might immediately be astounded, realising the difference between the remuneration that retailers pay for cutting and sewing in the South and the price they charge to their customers in the North. The difference is sky-high in case of fashion-oriented garments. From this experience, it should not be difficult to imagine how profitable the marketing part of the business is! The marketers/retailers create high economic rents by controlling core resources, through heavily investing in sophisticated and costly technology, and spending lavishly on advertisement and promotional campaigns to create and manage a global brand.

Scope of Co-operation

International marketing in T&C is the most lucrative part of the business. However, entry barriers are also very high, because it needs high levels of fashion intelligence, good quality market information, sophisticated technology and a mountain-high budget to introduce/manage a global brand. In order to claim a fair share of marketing, separate brand identity is essential. However, introducing a new brand, or managing it, may be too costly for a single firm. As India is already in an advanced position[35], compared to other countries in the region, she could take the lead. The presence of a regional brand (or shared brand) at the global level could pave the way to gradually getting into the difficult but lucrative part of the business, in the long run. Therefore, mutual co-operation is utmost important in this part of the business.

Regional co-operation with institutional arrangement is essential to make the market sizeable and credible to outsiders to be convinced for joint venture

At the initial stage, making joint venture with marketers/retailers/buying houses might be another option. But again, there is a need to make the regional market big enough to be attracted by a big shark. Regional co-operation with institutional arrangement is essential to make the market sizeable and credible to outsiders to be convinced for joint venture.

Sharing of Information and R&D

Gathering market information and doing research for development is costly and needs huge investment. Doing such things individually is too expensive and less effective. Therefore, there exists huge scope for co-operation through which every firm or country could be significantly benefited. Regional information centre with marketing research and regional centre for research and development could perform the job better. Stakeholders should contribute a fixed fee and buy the service with nominal cost. This might help establish numerous buying houses with the support of such information service in the region. Firms not that successful in production may shift to become buying houses and ultimately help others in finding their ultimate customers.

A Word of Caution

In finding scope for cooperation or implementing programmes through co-operation, we must bear in mind that there should be sufficient scope for competition among firms within the region

In finding such scope for cooperation or implementing programmes through co-operation, we must bear in mind that there should be sufficient scope for competition among firms within the region. No firm should get any undue benefit out of such a programme. The main principle should be that firms co-operate in international market, but compete against each other within the region. Again, this co-operation will cover only those areas where mutual benefits exist out of such co-operation. Otherwise, firms should be free to compete against each other in the international market.

How to Accomplish?[36]

Three stakeholders should get together to harvest the benefits of co-operation. The prospective parties are:

- Governments – representing respective national interests,
- Trade associations – representing business firms in respective countries, and
- NGOs/CSOs – representing the workers – the most vulnerable, but least organised, section.

Who Bells the Cat?

Although governments are the highest decision-makers, they are overburdened with other agenda. Experience shows that governments are least likely to act properly, before it gets too late[37]. Trade associations are usually driven by profits and have less incentive to do something for social welfare. Workers, who are feared to be the main victims of the situation, are widely unorganised and, hence, unable to create sufficient pressure on their respective governments to act in their favour. Therefore, top-down approach seems to be ineffective in solving the problem.

In the case of bottom-up approach, NGOs/CSOs have a special role to play. Although a good representative of vulnerable workers, they have no direct power and have limited capacity due mainly to shortages of funds

In the case of bottom-up approach, NGOs/CSOs have a special role to play. Although a good representative of vulnerable workers, they have no direct power and have limited capacity due mainly to shortages of funds. However, with whatever power and capacity they have, NGOs/CSOs should consider the following steps to provoke regional co-operation among the stakeholders in the case of T&C.

Step one: Conduct detailed research to demonstrate the exact benefit and modality of co-operation.

Step two: Organise comprehensive campaigns to raise awareness among the common people about the emergence of the issue and the potential dangers of failing to act in time.

Step three: Convince the business community about the potential benefits of co-operation and, particularly, about the cost of non-cooperation.

Step four: Bring governments and business community together to take necessary actions, by providing initial institutional support to start up such co-operation.

Step five: Keep searching for better avenues of further co-operation (even in other areas) and act as an active partner in the process on behalf of vulnerable workers.

As mentioned before, a separate institution is extremely important to make the arrangement reliable for concerned parties and credible to outsiders. Therefore, there should be one institution jointly organised by the stakeholders. It may be organised under the SAARC[38], or as a separate entity.[39] Business-to-business relationship cannot solve the problem fully because there is need to dismantle all kinds of tariff and not-tariff barriers, which can only be done through involving governments.

It is expected that all the countries in South Asia will agree to provide common institutional support under the umbrella of the SAARC

If it is organised under the SAARC, a special section for T&C under the SAARC Secretariat could facilitate policy co-ordination on behalf of all the SAARC governments, with a database on market information for research and development.[40] This will act as a regional information centre and will perform international market research. It will be a shared resource centre for all the parties. Some information, research findings and publications should be free for all. A separate homepage should be there for easy dissemination of information. Sufficient power should be assigned to the organisation, so as to act like a dispute settlement body in T&C for the region to resolve any disputes between parties involved.

It should be noted, however, that this is just a preliminary idea. Concrete proposal is required to formulate the actual shape of the organisation. As this is a common problem for the region, it is expected that all the countries in South Asia will agree to provide common institutional support under the umbrella of the SAARC. As mentioned before, NGOs should provide initial organisational support until such arrangement is fully operational.

Chapter 5
Summary and Conclusion

Summary

Textile and clothing is one of the most primitive industries in the world. It played a significant role in industrialisation in many countries. The industry has become a suitable choice for developing countries on the road to industrialisation, because of its high labour intensity, low capital needs and easy-to-copy technology. Taking advantage of the steady growth of world trade in T&C since World War II, Japan in the 1950s and 1960s, East Asian NIEs in the 1970s and 1980s and China in the 1990s became world-class exporters. Since late 1990s, South Asian economies also have emerged as significant textiles and, particularly, clothing exporters in the world market and have become overly dependent on the sector.

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Since the beginning, the T&C sector was deliberately kept out of the multilateral trading system, to protect the interest of the North. At the Uruguay Round of GATT, members agreed to end the MFA regime through ATC with a ten-year transition period. Accordingly, the T&C is going to be fully integrated into the WTO since the beginning of 2005. Although the MFA quota system was a restriction in principle, the relentless success of small economies during the past decades prompts many researchers to believe that the quota had a significant role for small countries to grow faster. As a corollary, while the MFA-quota phase-out is approaching its end, it is an increasing concern as to how overly dependent developing economies might be affected by quota phase-out.

Despite wide disagreements on the distribution of gains out of the quota phase-out, there seems to be common understanding that quota phase out will open the market for all and, hence, intensify competition. Big players like China will pose credible threats to existing players. While there is no direct remedy to natural barriers (distant from the market), preferential access offered to the competitors, through regional integration arrangements by major markets, will create uneven ground for South Asia. It seems that the future market of T&C will revolve around the regional group, rather than individual countries. As falling behind in the race of ever increasing regional integration arrangements and numerous bilateral agreements around the world, South Asia will face a tough challenge in coping with issues of market access to the US and the EU. Therefore, organised action could address the problem better, particularly those that are regional or multilateral in nature.

As a corollary, while the MFA-quota phase-out is approaching its end, it is an increasing concern as to how overly dependent developing economies might be affected by quota phase-out

Although cheap labour will continue to be an important success factor, other issues like the quick response, favourable business climate, better infrastructure and close contact with ultimate buyers may get more importance in the quota-free market. Therefore, new competitive edge is required to cope with the new situation. The new determinants of trade performance could be grouped as:

a. country-specific bottlenecks (infrastructure, business climate, etc.);
b. market-oriented complexities (demand for quick response, buyer-dominated market, etc.);
c. natural barriers (distance from market, availability of raw material, etc.); and
d. policy-related impediments (market access, multilateral and regional agreements).

Improved co-operation among the countries in the region will enlarge the market base and economies of scale to attract new FDI for the T&C sector

These could further be classified as controllable and uncontrollable issues. The first set of problems is under the control of a specific country, while the one of natural barriers is under no one's control. The remaining two, market-oriented complexity and policy-related impediments, could be made more manageable through mutual co-operation among the countries in the region. Joint venture with forward/backward integration might be one option to sharpen the competitive edge of the region. Improved co-operation among the countries in the region will enlarge the market base and economies of scale to attract new FDI for the T&C sector. Similarly, a common position in the regional or multilateral trade negotiations might minimise some of the policy-oriented problems. For example, restrictions related to the rules of origin (RoO) could be eased by arranging regional accumulation. The Sub-Saharan African and Caribbean Basin countries have been successful, to some extent, in this regard (with USA). South Asian countries might get similar treatment from the US and the EU, only if they move together.

The textiles and clothing industry is clearly separable into two sub-sectors. The textile sub-sector (spinning plus weaving/knitting, with or without finishing) needs availability of raw material, relatively sophisticated technology and huge capital. By contrast, the clothing sub-sector (cutting plus sewing) is predominantly dependent on cheap labour. Therefore, although there is little scope for benefit through sharing production process in clothing, there exists a considerable scope for benefit in co-operating between the textiles and clothing sub-sectors. In South Asia, India and Pakistan are dominant in textiles, whereas Bangladesh and Sri Lanka specialise in clothing. India and Pakistan need guaranteed demand for their textiles and, likewise, Bangladesh and Sri Lanka require uninterrupted supply of raw materials (textiles) for their clothing factories. Therefore, the two sub-sectors are complementary to each other, which indicates the scope for benefit through co-operation.

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International marketing is the most lucrative part of the business, where South Asia is seriously lagging behind. Captive market bound by quota was the main reason for not paying enough attention to international marketing, which will become very important when quota will be fully abolished. As major markets are already captured by big giants, the entry barrier is tremendously high. Introducing a global brand, or managing thereof, is not only complex but also costly. It needs sophisticated technology, with sufficient expertise. Therefore, it is difficult for a single firm to do so. Considering its long-term prospect and huge benefits, firms in the clothing sub-sector can co-operate in sharing market information, or even managing individual or joint brand names. Establishment of regional buying houses could pave the way to entering into international marketing. Sharing of international market information, through a regional information centre and joint research and development, could avoid duplication and minimise the cost of such support services.

Gathering information individually or doing marketing research and investing in R&D is not only costly but also less effective. This is the most viable part of co-operation through which all the stakeholders could be benefited, with minimum cost. This may also help in shifting some firms into buying houses, which will definitely aid in entering into international marketing in the long run. A regional information centre, under the SAARC Secretariat, with well-managed separate homepage for this purpose, may provide immediate service to her stakeholders.

Although there should be co-operation in the international market, there must be competition among firms within the region for continuous improvement of efficiency and expertise

One thing must be borne in mind that, although there should be co-operation in the international market, there must be competition among firms within the region for continuous improvement of efficiency and expertise.

Conclusion

The challenge due to change in the market conditions after the MFA phase-out and other developments is a credible threat to individual countries, as well as to the region, as a whole. Although remedial measure for natural barrier is hard to find, country-specific, home-grown problems should be manageable by individual countries. Problems related to preferential treatment offered to competitors are beyond the control of an individual country, but better manageable through collective action. The heterogeneity between the textiles and clothing sub-sectors in different countries in South Asia indicates the scope for benefit through mutual co-operation.

Institutional arrangement is essential to make such co-operation effective and operational. It may be organised under the aegis of SAARC Secretariat. The institution should work as an information centre for all. International market research and policy co-ordination should be the main objective of the organisation. NGOs/CSOs have a special role to play at the initial stage to convince business organisations and lobby for national and international support.

The textile and clothing industry in South Asia is just ready to become an experimental case to test the viability of South-South co-operation

Recognising the imminent threat of job-loss and livelihood concern posed by the MFA phase-out, if proper initiative is taken, it is expected that stakeholders would be willing to extend their mutual co-operation to retain, if not enhance, their collective competitive advantage to face the challenge. If South Asia cannot agree to co-operate fully in one industry (i.e., T&C), where every country has substantial interest, how the SAFTA, involving hundreds of products with multidimensional socio-economic and political differences, could become reality in the near future, as planned? Political courage with sense of accountability to people and proper initiative could pave the way for future, as the ECSC had accomplished during the 1950s in establishing the European Union – probably the most successful regional integration arrangement so far. The textile and clothing industry in South Asia is just ready to become an experimental case to test the viability of South-South co-operation. The question remains, will our leaders be willing to set aside other contentious issues during their deals in T&C? Millions of poor are turning to their respective leaders to see that they take the right decision at the right time.

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Endnotes

1 Popularly known as "Flying-Geese" strategy described by Prof. Akamatsu (1962) of Japan that argues how industrialisation started with labour intensive, low value-added items and them went up the ladder of high tech industries —– leaving low tech industries for less developed countries.

2 Henceforth, 'North' and 'South' will be used as synonymous to 'developed' and 'developing' countries, respectively.

3 Established in 1985 by seven members: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

4 This section is based on the OECD study entitled "Liberalising Trade in Textiles and Clothing: A Survey of Quantitative Studies", TD/TC/WP(2003)2/FINAL (unclassified), OECD, May 2003.

5 Source: www.wto.org.

6 The two terms 'aApparel' and 'clothing' will be used interchangeably in this report.

7 Cited in USITC (2004), vol. I, p. 2-3.

8 SITC code refers to the Standard International Trade Classification, Revision 3.

9 See Gereffi (2003), p.26.

10 See at www.wto.org.

11 The US textile lobby was so powerful that it could threaten to block the Kennedy Round and could collect the pledge of President Nixon even before the election (See Bagchi, 2001:3).

12 Japan accepted the VER first in the history in 1955 (see Bagchi 2001:26).

13 Market disruption is considered with "sharp increases in imports, over a brief period of time and in a narrow range of commodities which can have serious economic, political and social repercussions in the importing countries".

14 Article XIX GATT deals with quantitative restrictions (Legal Text 1999).

15 LTA was extended several times until the end of 1973 (Bagchi 2001:50).

16 Surprisingly, this 'temporary breathing space' continued for 43 years and three months (Bagchi, 2001:6).

17 A campaign organizedorganised by Global Alliance for Fair Textile Trade (GAFTT) has argued for the extension of the MFA phase-out and demanded a special session of the WTO. See at www.fairtextiletrade.org/ and (Robbani, 2005).

18 Figures for 1994, International Trade Trends and Statistics 1997, , table Table A7 (www.wto.org).

19 See USITC 2004:F-6 & 55.

20 For example, Someya, Shunnar, and Srinivasan (2002) contended that the exporting success of some Middle Eastern countries (e.g., United Arab Emirates), in recent years, is mainly attributable to the presence of Far-Eastern (quota-restrained) foreign investors that are using those countries as export platforms. They predict, therefore, that the export from these countries will be subject to substantial risk, as the post-quota world will offer neither the geographic closeness of the Mediterranean to the EU market nor the low costs.

21 See Bhattacharya and Rahman (2000).

22 India had the largest quota for cotton fabrics in the EC, yet it could export only 10-20% in 1980s (Bagchi 2001:211).

23 China has been growing persistently since 1970s, sometimes in double digits.

24 Subject to certain eligibility criteria.

25 As of March 2002, 250 Regional Trade Agreements (RTAs) had been notified to the GATT/WTO, of which 168 are currently in force (WTO 2002).

26 www.emergingtextiles.com retrieved on 1 April 2004.

27 The World Bank estimated that Bangladesh loses about $1 billion annually because of power outages and unreliability of power supply. See U.S. Department of Energy, Energy Information Agency, Country Analysis Brief: Bangladesh, Feb. 2002, p.2 (cited in USITC, 2004:3-27).

28 The report of Transparency International on corruption is always disgraceful for South Asia.

29 Five largest retailers control 68 %percent and 29 biggest retailers occupy 98 %percent of allthe whole of the U.S. apparel market. A similar shift is under way in the EU market (see Gereffi, 2003:6).

30 www.emergingtextiles.com retrieved on 1 April 2004.

31 "The Far Pavilions: India's Apparel Industry," Bobbin, Nov. 2001, p. 51 (cited in USITC 2004:F-23)

32 Heterogeneity can be complementary and co-accelerative, while homogeneity can be substitutive and competitive (Akamatsu, 1962:6).

33 See Kelegama and Adhikari (2002).

34 Hourly compensation rates in the apparel industry is $0.39 in Bangladesh, $0.38 in India, $0.41 in Pakistan and $0.48 in Sri Lanka. The figure is $0.68 in case of China. Source: USITC (2004), publication no. 3671;, Table 3-1, p. 3-7.

35 In the last three years, India has established more than 65 national and sub-national regional brands (USITC 2004:F-21)

36 There is a variety of ways of accomplishing the objective of regional co-operation. The suggestion mentioned under this heading is just as an example of how to go about it.

37 Here, we can think about why governments did little during the last 10 transitional years.

38 As SAFTA has already been signed under the SAARC.

39 Like, South Asian Textiles and Apparel Community (SATAC) similar to that of ECSC in Europe.

40 Diplomatic missions of SAARC countries located in important cities abroad, particularly in the U.S. and in the EU, could be used to have valuable market information.

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This study also examines pros and cons of Carrots and Sticks approaches, and analyses incorporation of these approaches in three major MEAs, the Montreal Protocol, The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and the Basel Convention, to find out which approach has been more successful in ensuring enforcement and compliance. *(Rs. 100/US$25, ISBN 81-87222-58-1)*

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This research report intends to increase awareness in the North about the ground-level situation in poor and developing countries. At the same time, it makes some useful suggestions on how the concerns of LDCs can be addressed best within the multilateral framework. The suggestions are equally applicable to the developing countries.
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Given this background, this paper examines how the failure of 1980s codes, regulated by international bodies, resulted in the proliferation of corporate codes of conduct and an increased emphasis on corporate social responsibility.
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These sanctions were exercised to alleviate the problem of child labour by US policy-makers and also by some countries in the EU. But, the question arises – have the trade sanctions imposed by these countries in any way helped eliminate this problem? This research report of CUTS Centre for International Trade, Economics & Environment tries to address this question.
It has explored the impact of these trade sanctions and finds that these sanctions resulted in the contradiction of the basic objective, i.e., elimination of child labour.
Besides highlighting the causes of child labour, the report makes some very useful recommendations on how the issue of child labour can be addressed best at the domestic as well as international level.
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This research report is a sincere attempt to fathom the relevance of SPS and TBT Agreements, their necessity in the present global economic scenario and, of course, the development of case law related to the Agreements, along with a brief description of the impact of this case law on developing countries.
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The paper tries to critically examine the WTO proposal on the harmonised rules of origin. The study has looked at its implications on South Asian countries, especially India. Further, in view of the contentious nature of the RoO pertaining to textiles, and the big stakes involved for South Asia, the study places special emphasis on textiles and clothing.
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This paper looks into various commonalities in the economic situation of South Asian countries, their sensitivity attached to agriculture, and above all, a common approach to globalisation. In view of these realities, the paper tries to explore a common agenda that South Asian countries can follow during future negotiations on the WTO Agreement on Agriculture. Now the Doha Round of trade negotiations has entered into a crucial phase after the July developments. The "July Package" has resulted in agreement over the framework for establishing modalities in agriculture. In light of this, there cannot be a more opportune time for publishing this paper.
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This paper tries to bring to the fore some practical political, economic and operational issues from the point of view of South Asian countries in particular and which may arise as a result of future multilateral agreement on trade facilitation. It throws light on some of the major policy issues and recommends approaches that would fit with the interests and priorities of South Asian countries. One of the major issues the paper tries to emphasise upon is that the problems of improving customs administration in the region are only a small part of a much greater problem relating to border management and domestic tax and revenue enforcement issues.
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It focuses on the significance of Mode 4 for South Asia, the kinds of barriers faced by these countries in supplying services through Mode 4, and how the GATS negotiations can be used to advance their export interests under this particular mode of service supply. Besides, the study also highlights the role of complementary domestic policy reforms and measures, which are equally important for harnessing benefits if trade under Mode 4 is liberalised.
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This study by CUTS Centre for International Trade, Economics & Environment attempts to highlight concerns about the industrialised countries exporting domestically prohibited goods (DPGs) and technologies to the developing countries that are not capable of disposing off these substances safely, and protecting their people from health and environmental hazards. *(ISBN 81-87222-40-9)*

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2. **Analyses of the Interaction between Trade and Competition Policy**
   This not only provides information about the views of different countries on various issues being discussed at the working group on competition, but also informs them about the views of experts on competition concerns being discussed on the WTO platform and the possible direction these discussions would take place in near future. It also contains an analyses on the country's presentations by CUTS.
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