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Post-Quota Textiles and Apparel Trade in Developing Countries

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Post-Quota Textiles and Apparel Trade in Developing Countries

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Executive Summary

Many observers feared that the elimination of global textile and apparel quotas in 2005 would provoke rapid shifts in trade that would place the world's most fragile economies at risk. In the three years since quotas were eliminated, there have indeed been important changes, but the results for developing countries have been mixed:

- Since 2005, China's share of U.S. and European Union (EU) apparel imports has grown from 20 percent to 35 percent despite quotas that restrain Chinese exports of key products.
- The 28 countries that each exported more than \$500 million in apparel to the United States and to the EU in 2004, accounting for less than 90 percent of the value of those exports, now account for 94 percent of the value of exports to the United States and 90 percent of the value of exports to the EU.
- Among those 28 countries, however, market share is shifting; losers include Mexico, Honduras, and the Dominican Republic and winners include China, Vietnam, Indonesia, India, and Bangladesh.
- Small suppliers—those exporting less than \$500 million in 2004—have been the biggest losers, with only five countries gaining in the U.S. and EU markets.
- Countries under the African Growth and Opportunity Act (AGOA) that had seen strong growth in export sales of apparel to the United States have struggled, on average losing 26 percent of those sales since 2004. The elimination of safeguards restricting China at the end of 2008 could put this region under additional pressure in the coming years.

The period of realignment is not yet over. Countries highly dependent on textile and apparel exports continue to seek competitive advantages to protect jobs, investors, and export revenues and pursue trade agreements and government assistance to secure their future.

In addition to common competitiveness factors, such as cost, efficiency, logistics, and services, major factors that have shaped trends in the textile and apparel trade since 2005 include rising volumes of Chinese exports (and countries' restraints on them), evolving trade preferences and agreements, changes in buying patterns, and antidumping and countervailing duty investigations.

China

In 2005, China and the EU reached a bilateral accord to limit Chinese exports, while the United States imposed unilateral restraints ("safeguards") on imports from China. These restraints apply to products that account for 50 percent of apparel imports into the United States and the EU, so

limiting China's market share benefits smaller exporters significantly. The importance of the trade in restrained items makes vividly clear that distortions still exist in the market and that the end of the current restraint mechanisms will result in further adjustments. The restrained categories are particularly important to sub-Saharan Africa (SSA): 93 percent of SSA exports of textiles and apparel to the United States are products for which Chinese exports are restrained.

Trade Preferences and Agreements

Trade preferences and trade agreements have also played a significant role in the redirection of trade in textiles and apparel, allowing some countries to grow their market shares. However, few preferential suppliers have performed well in the post-quota era, which suggests that the duty benefit alone is not sufficient to ensure competitiveness in the new environment for textile and apparel trade. Products that qualify for reduced or zero tariffs are generally held to "rules of origin" that dictate the sourcing of materials and inputs. These rules can increase the cost of the materials and paperwork.¹

Changes in Buying Patterns

The commercial needs of buyers also determine which countries and suppliers are growing, and which face risks. For example, the need for faster "turns" in inventory drives buyers to suppliers with proximity to materials, reliable transportation and trade processes, and a workforce that is skilled, flexible, and dependable. Buyers also seek suppliers who offer an array of services including creative contributions, product research, procurement skills, and financial strength. These capabilities are rarely found in the least developed countries and are difficult to develop, especially when the "strategic partners" are often the parties passing orders to a factory and are in a closer relationship with the factory than is the U.S. or EU buyer.

Antidumping and Countervailing Duty Investigations

Antidumping and countervailing duty trade remedies, once rarely applied against textiles and apparel trade while quotas regulated the market, are increasingly applied, creating yet more uncertainty. With the elimination of restrictions on large suppliers such as China and Vietnam, the stage is being set for a further rise in the application of these actions in the textile and apparel industries. Smaller developing countries could easily be affected by these types of actions.

Assistance to Restructuring Countries

USAID has assisted a number of countries whose economies depend on trade in textiles and apparel. Activities and programs related to the industry are of six types:

- ***Sector assessments*** that analyze the strengths, weaknesses, opportunities, and threats affecting the industry in a particular country or region.
- ***Labor standards*** activities and activities that provide support for collective bargaining.

¹ Alan K. Fox, William Powers, and Ashley Winston, *Textile and Apparel Barriers and Rules of Origin in a Post-ATC World*, U.S. International Trade Commission Office of Economics Working Paper, June 2007. http://www.usitc.gov/ind_econ_ana/research_ana/research_work_papers/documents/EC200706A.pdf, accessed January 12, 2009.

- ***Workforce development*** programs that focus on basic education and specialized training.
- ***Business capacity building*** programs and activities to develop supply chains and marketing skills.
- ***Export promotion*** programs and activities to diversify the export product base.
- ***Peripheral businesses*** creation activities that enable small- and medium-sized enterprises (SME) to provide services and inputs to the industry.

These activities provide flexible opportunities for USAID to contribute to strategic targets for jobs, income growth, competitiveness, and diversity in export products.

1. Introduction

In 1995 members of the World Trade Organization (WTO) agreed to phase out agreements that had controlled trade in textiles and apparel for more than 30 years. On January 1, 2006, the worldwide system of textile and apparel quotas came to an end.² Because the quota system had forced buyers to purchase goods where quota was available, not where goods were most efficiently produced, it shielded many developing countries from two significant sources of competition: global supply chain forces and competition from large suppliers, including China and India.

One might say that the end of the quota system was the beginning of the end of a 40-year era and the beginning of full globalization of the textiles and apparel industries. Countries and markets are still adjusting to these seismic changes. What can we learn from the changes that occurred in the first three years of a largely quota-free world? What, if any, patterns are revealed by emerging trends? Is the worst past for most suppliers in developing countries, or are there more shocks to come? The purpose of this paper is to shed light on these and other issues affecting the leveraging of the textiles and apparel industry for development purposes.

In the first section of this paper, we identify trends of interest to development planners by examining who has won and who has lost by the elimination of apparel and textile quotas in 2005. In the second section, we provide a detailed analysis of major uncertainties arising from trade restrictions on China that will be lifted at the end of 2008, and provide a list of countries and products at risk. Next we explore the potential for preferential trade arrangements and agreements in the post-quota world. In the fourth section we review other new challenges—in addition to those arising from trade policy—for developing countries. Finally, we conclude with a review of USAID programs and interventions available to assist developing countries in adjusting in the post-quota world. The past ten years have seen rapid growth in USAID interventions in this area. In light of the importance of textiles and apparel to USAID partner countries, it will remain critical that USAID continue to develop intelligent responses to transformations in these industries.

² Textiles and apparel referred to in this report are covered under SITC categories 65 and 85.

2. Impact of Quota Elimination

China is by far the largest supplier of textiles and apparel to the United States and the European Union. It claimed 35 percent of U.S. and EU apparel import markets in 2007, up from 20 percent in 2002. This rapid growth has been largely at the expense of East Asian producers such as Taiwan, Korea, and Hong Kong, but has also affected regional producers in Eastern Europe, Mexico, and Central America, as well as smaller supplier countries. The European Commission estimates that apparel production in the EU declined by more than 32 percent from 1996 to 2006.³ Large suppliers, such as Bangladesh, Pakistan, India and Sri Lanka, maintained market share or gained small amounts. The performance of members of the Association of Southeast Asian Nations (ASEAN) in U.S. and EU markets has been mixed: They have lost market share in the EU but gained market share by nearly a third in the United States, their primary market. In both markets, smaller producers from Africa, South America, and the Pacific have generally lost sales in relative and absolute terms (see Figure 2-1).

WINNERS AND LOSERS

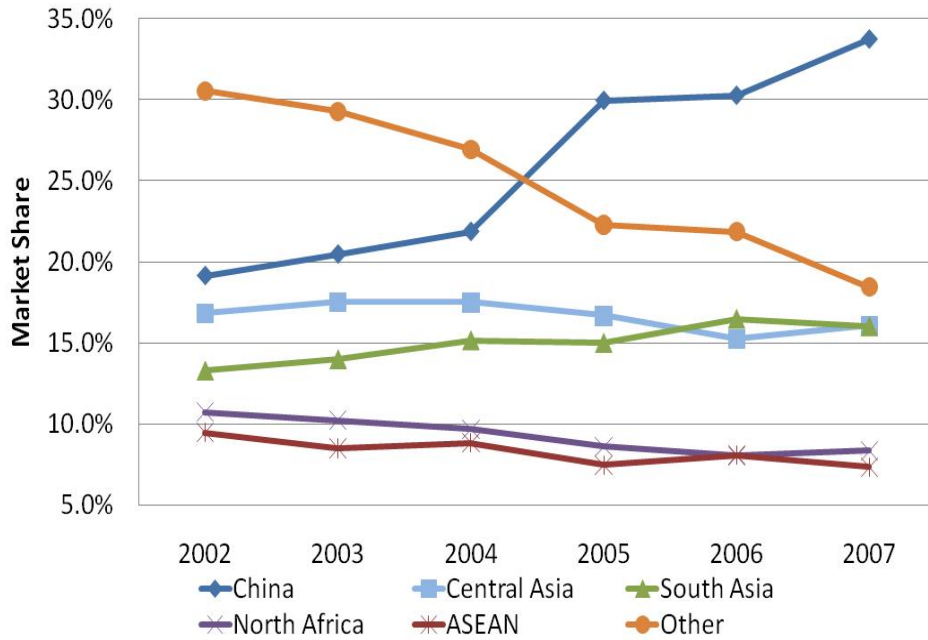
The United States and EU began phasing out quotas on selected apparel in 1995; the phasing-out of quotas on sensitive products, including more than 90 percent of U.S. textile and apparel imports, did not begin until 2002. Since quotas ended completely in 2005, exports from some countries have grown while exports from others have ceased. More than 100 countries trade apparel with the major markets—so who are the winners and losers?

In general, small countries exporting US\$500 million or less to the United States or €500 million or less to the EU in 2004 have experienced a 22 percent to 34 percent decline in exports. Small countries exporting to the United States have suffered the most. More than 85 percent of small suppliers to the EU experienced a decline in export values; more than 90 percent of small exporters to the United States lost sales in the U.S. market. Only Egypt, Haiti, Morocco, Tunisia, and Botswana maintained a positive growth position in the U.S. market (see Table 2-1). At the same time, exports from Fiji, Nepal, South Africa, and others have been nearly eliminated since 2005. Similar trends have appeared in the EU market, where only a few small producers have increased exports (see Table 2-2).

³ Eurostat Industry In Focus vol. 37/2008.

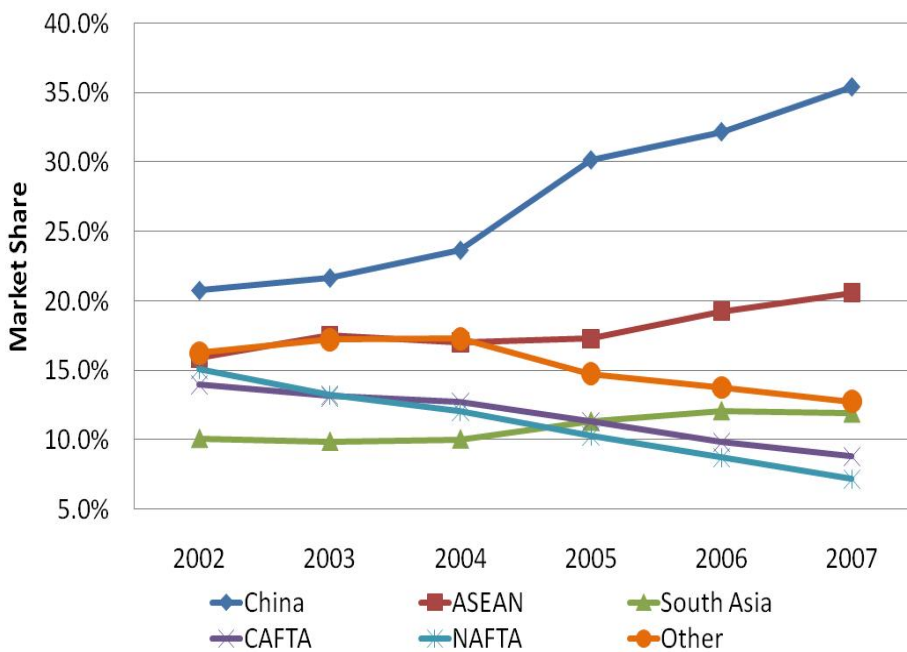
Figure 2-1
EU and U.S. Market Shares by Region

EU Market Shares



SOURCE: Data from Eurostat; analysis by Nathan Associates Inc.

U.S. Market Shares



SOURCE: Data from USITC; analysis by Nathan Associates Inc.

Table 2-1
Selected Suppliers of Apparel with US\$500 Million or Less in Exports to the United States

Country	Base 2002 -2004 High Water Mark (US\$ millions)	Growth from High Water Mark to 2007 (% change)
Egypt	422	65
Botswana	20	56
Haiti	328	38
Tunisia	45	34
Morocco	76	18
Lesotho	456	-16
Bolivia	39	-51
Mauritius	269	-57
Namibia	79	-64
Mongolia	227	-68
South Africa	233	-89
Oman	132	-92
Fiji	86	-98
Average (All small suppliers)		-34

SOURCE: Data from USITC; analysis by Nathan Associates Inc.

Table 2-2
Selected Suppliers of Apparel with €500 Million or Less in Exports to the EU

Country	Base 2002 -2004 High Water Mark (€ millions)	Growth from High Water Mark to 2007 (% change)
Macedonia	263	72
Moldova	85	63
Madagascar	159	55
Albania	109	49
Egypt	339	23
Nepal	30	-12
Jordan	10	-16
Croatia	483	-21
Syria	105	-31
Philippines	338	-41
Lithuania	562	-44
Myanmar	369	-57
South Africa	72	-71
Average (All small suppliers)		-22

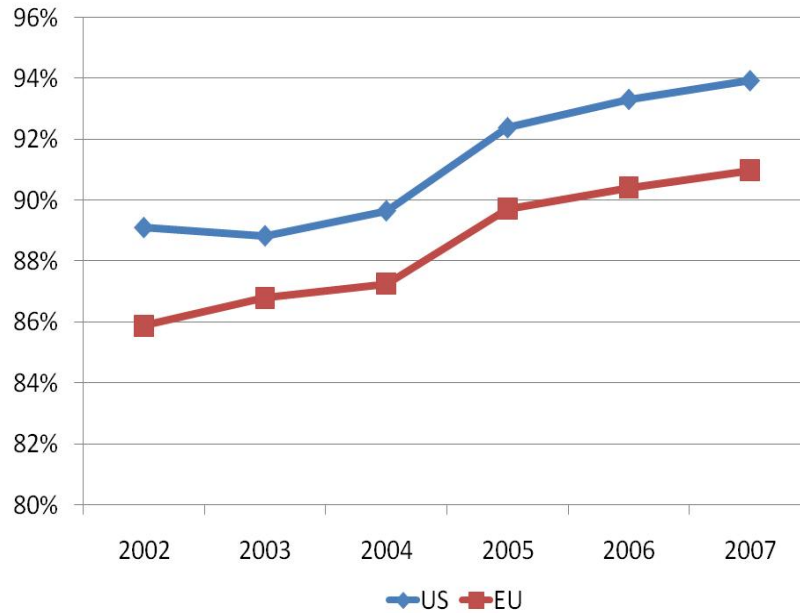
SOURCE: Data from Eurostat; analysis by Nathan Associates Inc.

INCREASING IMPORTANCE OF LARGE SUPPLIERS

In 2004, 28 exporters supplied the U.S. apparel market with exports valued at more than US\$500 million. In 2007, these large suppliers accounted for 94 percent of U.S. imports of apparel (Figure 2-2). Likewise, in 2004, 22 large exporters supplied the EU market with exports valued at more than €500 million; by 2007 they accounted for more than 90 percent of EU imports of apparel.

Figure 2-2

Market Share of Largest Suppliers in the EU and U.S. Markets, 2002–2007



SOURCE: Data from Eurostat and USITC; analysis by Nathan Associates Inc.

Although large suppliers dominate the U.S. and EU markets and their market share has grown since textile and apparel quotas were eliminated, even among these suppliers there have been winners and losers since 2005. Half of the 28 large suppliers to the United States have experienced losses and half experienced gains (see Table 2-3), with the largest tending to gain rapidly (e.g., China, Vietnam, Indonesia, India and Bangladesh). The losers include large regional producers such as Mexico, Honduras, the Dominican Republic, and non-regional producers such as Turkey and the Philippines. The Dominican Republic and Mexico both lost more than US\$1 billion in exports. Exporters in some countries, such as Turkey, compensated for the decline in exports to the United States with a rise in exports to the EU (see Table 2-4).

In the EU market, Bangladesh and India have done particularly well since 2005, while a number of regional producers in Tunisia, Morocco, and Romania have lost sales (see Table 2-4). Indonesia lost 18 percent of its sales in the EU, but a rise in sales to the United States created a net gain. Thus, the export situation remains complex as supply chains adjust to optimal positions.

Table 2-3
Selected Suppliers of Apparel with More than US\$ 500 Million in Exports to the United States

Country	Base 2002 -2004 High Water Mark (US\$ millions)	Growth from High Water Mark to 2007 (% change)
China	12,834	104
Vietnam	2,504	72
Indonesia	2,459	66
Bangladesh	1,872	60
India	2,352	40
Honduras	2,743	-6
Philippines	1,850	-7
Guatemala	1,965	-25
Colombia	590	-35
Mexico	7,680	-39
Costa Rica	729	-42
Dominican Republic	2,134	-51
Turkey	1,297	-55
Average (large suppliers)	--	18

SOURCE: Data from USITC; analysis by Nathan Associates Inc.

Table 2-4
Selected Suppliers of Apparel with More than €500 Million in Exports to the EU

Country	Base 2002 -2004 High Water Mark (€ millions)	Growth from High Water Mark to 2007 (% change)
China	12,168	84
Vietnam	682	61
India	2,764	49
Bangladesh	3,691	17
Turkey	7,712	14
Morocco	2,616	-3
Tunisia	2,902	-11
Indonesia	1,492	-18
Mauritius	613	-22
Romania	3,726	-30
Average (all large suppliers)	--	24

SOURCE: Data from Eurostat; analysis by Nathan Associates Inc.

3. Assessment of Safeguards on China

When China acceded to the WTO, it agreed to two strong provisions that could be invoked in response to surges in its exports of textiles and apparel. The *sector-specific safeguard* allows the importing country to restrict import increases that are “due to market disruption, threatening to impede the orderly development of trade in these [textiles and apparel] products.”⁴ This safeguard provides one year of protection and can be renewed. It may be invoked through 2008 and China does not have a right to retaliate as would normally be provided for under WTO rules governing violations of most favored nation status. The *product-specific safeguard* can be applied against any surge in imports from China⁵ but only after an investigation has determined that those exports are “the cause” of market disruptions. This safeguard has a higher threshold of evidence and proof than the sector-specific safeguard, can be maintained for three years, and can be extended for another two years. Producers may invoke it for up to 12 years after 2005. So far, this safeguard has not been applied in the textile and apparel industries.

IMPLEMENTATION OF SAFEGUARDS

Between January and June 2005, U.S. and EU imports of textiles and apparel from China surged, with growth rates between 200 and 500 percent over the previous year.

EU and China Voluntary Export Restraints. On June 10, 2005, China and the EU agreed to limit annual import growth in ten categories of textile and apparel products to between 8 percent and 12.5 percent (Table 3-1). Technically, this arrangement did not constitute application of a sector-specific safeguard, which can limit growth to 7.5 percent per year. In addition, China was permitted to retain most of the export growth it had achieved since quotas were eliminated. The agreement covered the period June 10, 2005–January 1, 2008. For that period and through 2008, the EU agreed to exercise restraint in applying safeguards. It is too soon to evaluate the impact of the expiration of the agreement because restrictions may be reinstated should imports again surge.

⁴ WTO Working Party Report on the Accession of China, paragraph 242 (a).

⁵ WTO Working Party Report on the Accession of China, section 13.

Table 3-1
*EU Textile and Apparel Imports from China Subject to Voluntary Export
 Restraint and Monitoring (June 2005–December 2007)*

EU Quota Category	Product
2	Cotton fabrics
4	T-shirts
5	Pullovers
6	Men's trousers
7	Blouses
20	Bed linens
26	Dresses
31	Brassieres
39	Table and kitchen linen
115	Flax or ramie yarn

SOURCE: <http://europa.eu>.

The agreement showed that both parties recognize the importance of a stable and predictable supply of textiles and apparel for EU retailers importing from China, and that China views export stability as more important than rapid gains in market share. This has set the tone for future relations between the EU and China to “jointly manage the trade in these products.” For example, China requires its traders to have export licenses for shipments to the EU. Such licenses act as an early warning system of export surges that could trigger additional actions by EU authorities, such as the application of antidumping or countervailing duties.

United States and China Memorandum of Understanding (MOU). On November 8, 2005, the United States and China signed an MOU limiting imports in 34 product categories through the end of 2008. The MOU, like the agreement with the EU, covers some common and highly traded products (see Table 3-2) but was imposed as a sector-specific safeguard. Still, the end result is similar: Chinese exporters must have export licenses, which the Chinese and U.S. governments monitor.

In the U.S. and EU markets, the product categories affected by the restraints comprise 50 percent or more of apparel imports—which means significant market distortions persist despite the official end of the quota system in 2005. Distortions in the textile market are far less significant as illustrated in Figure 3-1, where it can be seen that textile products affected by safeguards make up a fraction of U.S. imports.

PROSPECTIVE IMPACTS

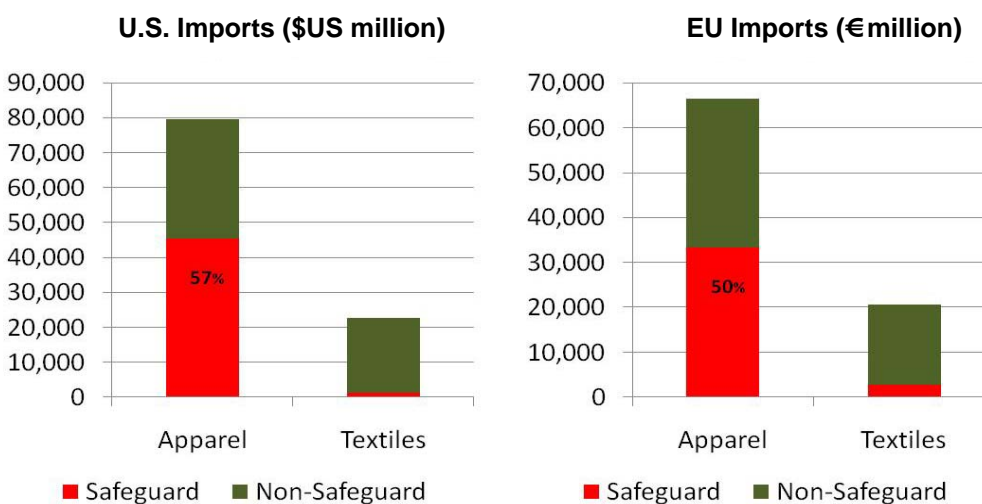
The extent to which a textile and apparel producing country will be affected by the elimination of safeguards against Chinese exports depend on a number of factors, but the more concentrated a country's exports are in the protected categories listed above, the more likely that the country will be affected.

Table 3-2
Selected U.S. Import Categories Subject to Limits on Chinese Imports, 2006–2008

US Quota Category	Products
332\632	Cotton and man-made fiber hosiery
338\339\638\639	Men's, boys', women's, and girls' cotton and man-made fiber knit shirts
340\640	Men's and boys' non-knit shirts, cotton and man-made fiber
345\645	Cotton and man-made fiber sweaters
347\348\647\648	Men's, boys', women's and girls' cotton and man-made fiber trousers
352\652	Cotton and man-made fiber underwear
649	Brassieres
659	Other apparel
301	Combed cotton yarn
222	Cotton or manmade fiber knit fabrics

SOURCE: U.S. Department of Commerce, OTEXA. A complete list of products is available at <http://otexa.ita.gov>.

Figure 3-1
U.S. and EU Textile and Apparel Import Categories Affected by Restraints on China, 2007



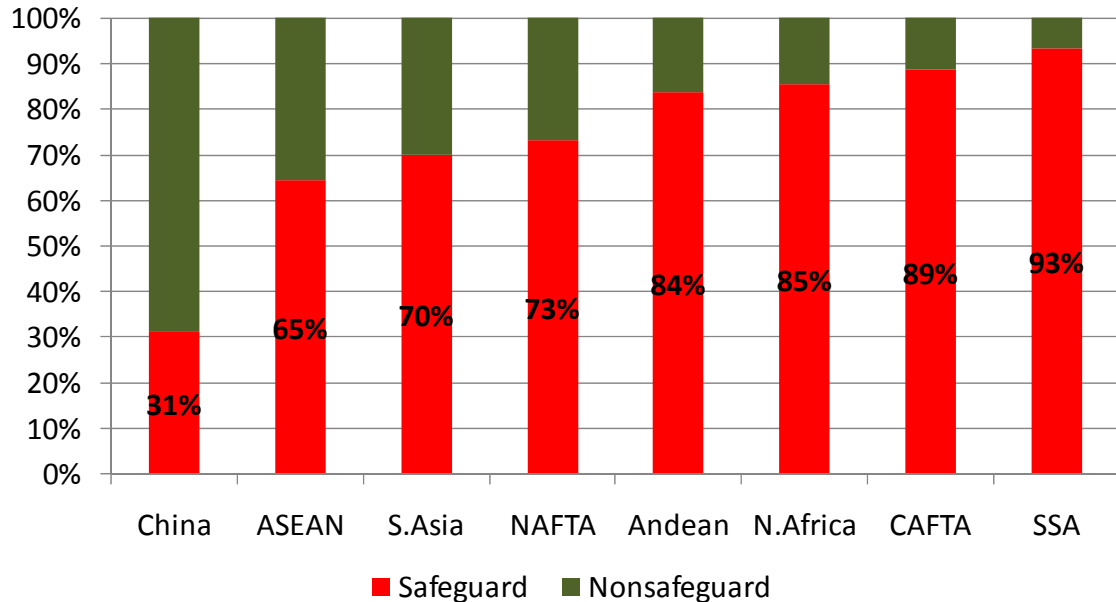
SOURCE: Data from USITC, Eurostat, and Nathan Associates Inc.; analysis by Nathan Associates Inc.

Figure 3-2 shows the extent to which eight apparel-exporting regions are protected by safeguards imposed on China in the U.S. market. China, presumably due to the restraints, claims by far the lowest share of safeguarded U.S. imports (31 percent). Eighty-five percent of exports from some suppliers—such as SSA and Central America—fall within safeguarded categories. Other producers, particularly in South Asia and ASEAN, have a large share of exports in safeguarded categories but also substantial shares in unprotected categories. These suppliers are expected to remain large suppliers to the U.S. market, but may experience lower growth rates or even a decline in sales if China expands its exports substantially. The pace at which China expands in

these protected categories will be as important as the elimination of safeguards. As evident in Figure 3-3, in the EU market China also supplies 31 percent of apparel imports in the safeguarded categories, but other suppliers seem less dependent on the safeguard effect. For example, 75 percent of apparel exports from African countries (outside North Africa) to the EU are in safeguarded categories, compared to 93 percent for SSA exporters to the United States.

Figure 3-2

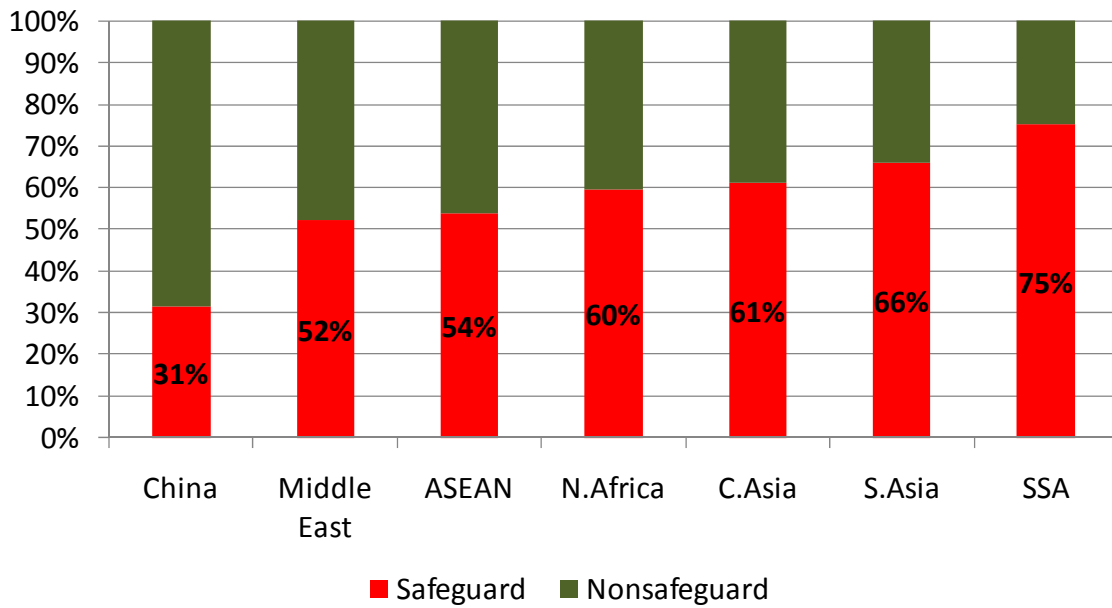
Safeguard Status of U.S. Apparel Imports as a Percentage of Exporters' Trade (US\$)



SOURCE: Data from USITC and Nathan Associates Inc.; analysis by Nathan Associates Inc.

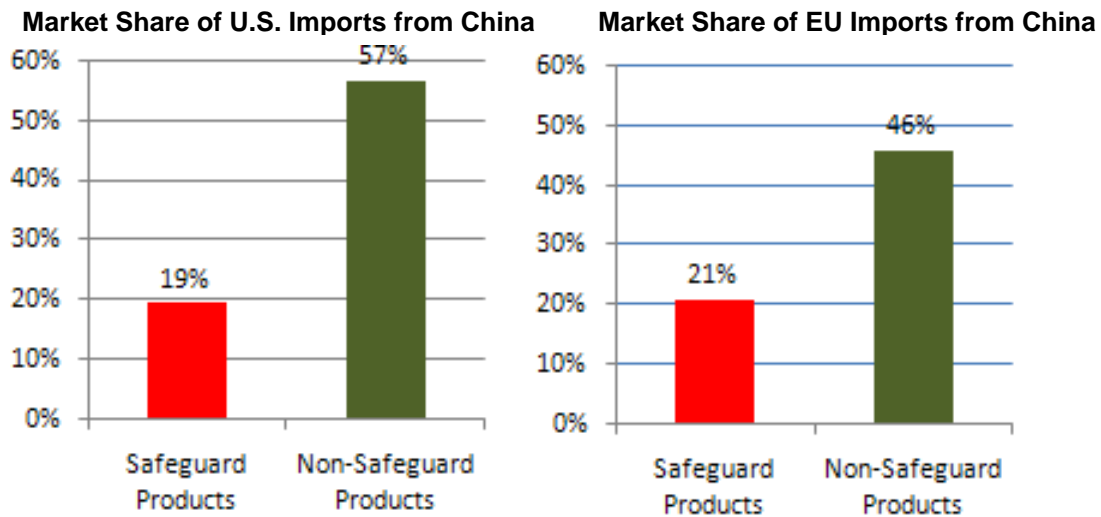
What will happen when safeguards are eliminated in 2009? China has claimed approximately 50 percent of import market share in the United States and EU for products not restrained by safeguards. Its share of restrained products is between 19 percent and 21 percent (see Figure 3-4). Because many of the restrained products are basic high-volume goods at which Chinese manufacturers excel, China could double or even triple its share of these product categories. To be sure, not all products in these categories will be affected equally, and each country should consider its competitive position on a country-by-country, product-by-product basis. But, in sum, African and regional producers are the most vulnerable to growth in Chinese exports in these categories.

Figure 3-3
 Safeguard Status of EU Apparel Imports as a Percentage of Exporters' Trade (€)



SOURCE: Data from Eurostat and Nathan Associates Inc.; analysis by Nathan Associates Inc.

Figure 3-4
 Chinese Market Share for Products under Safeguards and Products Free of Safeguards, 2007



SOURCE: Data from USITC, Eurostat and Nathan Associates Inc.; analysis by Nathan Associates Inc.

4. Preferential Trade

Preferential trade agreements and arrangements⁶ have stimulated apparel production and sometimes accelerated growth in textile and apparel exports, especially in beneficiary countries outside South and Southeast Asia and China. Free trade agreements, such as the North American Free Trade Area (NAFTA), the Dominican Republic–Central America–United States Free Trade Agreement (CAFTA-DR), and US–Jordan Free Trade Agreement provide reciprocal market access, so both parties benefit from lower tariffs. Preferential arrangements, such as the EU Everything But Arms Program and the United States African Growth and Opportunity Act, provide unilateral benefits that the granting country can revoke while free trade agreements provide long-term security of market access.

Before quotas were eliminated, producers in beneficiary countries enjoyed liberal quota access *and* tariff relief. They may still have tariff relief, but this benefit is far less significant than that conferred by quota access. Tariffs on textiles and apparel are high when compared to other traded manufactures, but are not as restrictive as quotas were. The average U.S. duty on apparel items is 17 percent and the average EU duty is 12 percent; the tariff equivalent of quotas has been estimated to have been more than twice that.⁷ In addition, preferential trade benefits usually require compliance with rules on sourcing of materials and fabrics; achieving compliance drives up costs. Thus, for many producers preferential access provides less than the full tariff rate advantage—and that advantage may amount to less than the production cost advantage enjoyed by many large Asian suppliers.

Countries with sizable apparel assembly operations linked to preferential access to the U.S. and EU markets are already losing apparel exports as buyers search for locations that offer lower production cost and other advantages. Figure 4-1 shows U.S. import market shares for preferential apparel suppliers from North America, the Caribbean, South America, Africa, and the Middle East. From 2002–2007, market share for these regions fell by a third, despite the growing number of countries receiving benefits (e.g., through the CAFTA–DR, the U.S.–Morocco Free Trade Agreement, or Egypt’s Qualified Industrial Zones). However, preferential suppliers Egypt,

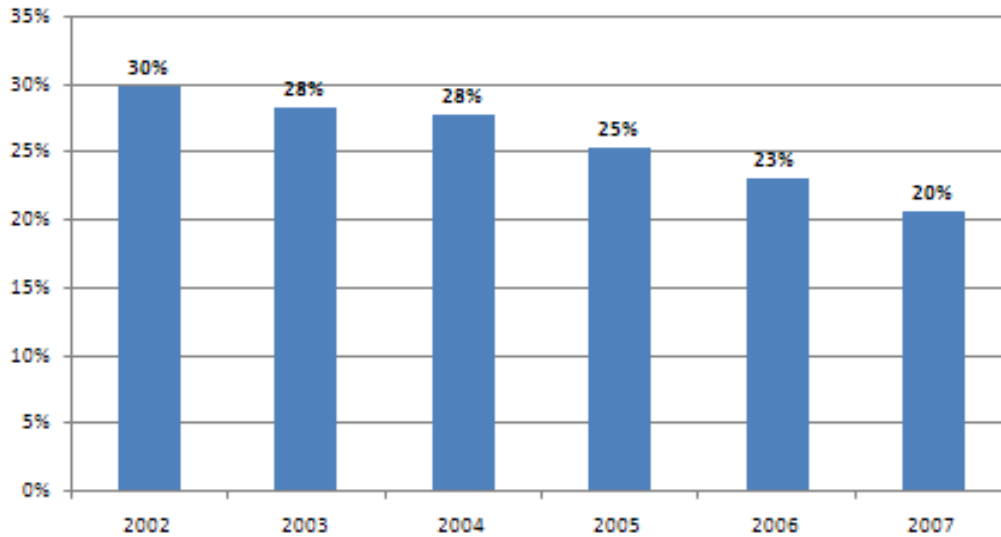
⁶ Trade agreements are jointly agreed upon, usually with reciprocal concessions. Trade arrangements may be unilateral and subject to the authority of the granting authority or government.

⁷ Peter J. Minor, *Economic and Employment Impacts on the Dominican Republic of Changing Global Trade Rules for Textiles and Apparel*. USAID Research Report under contract number PCE-I-00-98-00016-00, Task Order 13, Nathan Associates Inc., 2003.

Morocco, Jordan, Haiti, and Nicaragua have gained or maintained their sales in nominal terms. All other preferential suppliers from Africa to South America have lost sales in dollar and market share terms, underscoring that a major benefit of preferential access was eliminated with the end of quotas that restricted most of the largest suppliers.

Figure 4-1

Share of U.S. Imports of Apparel by Preferential Suppliers to the U.S. Market



SOURCE: Data from USITC; analysis by Nathan Associates Inc.

The reduction in quota benefits for preferential suppliers has put more emphasis on rules of origin, which specify the source of fabrics and yarns that confer tariff preferences on products entering the U.S. and EU markets. Rules of origin require suppliers to purchase materials from certain countries that may or may not be the most competitive suppliers as determined by cost, delivery, and quality. Flexible rules of origin permit purchases from the most competitive suppliers. The interest in using such rules to manage trade is apparent in the current EU debate over revising its rules of origin to include value-added criteria that can be tailored to a country's stage of industrial development.⁸ As competition in the major markets increases, more countries can be expected to seek more flexible preferential benefits by negotiating special exceptions (derogations), tariff preference levels, and liberal value-added requirements. However, it should be noted that improved market access is rarely a substitute for competitiveness based on efficiency, delivery, and service and instead complements these factors. This fact was underscored in the prior section, where it was shown that many countries that lack preferential access are realizing the highest growth rates in the post-quota world (e.g., China, India, Vietnam, Indonesia). A strategy based on preferential access alone cannot be sustained in a continually changing global market.

⁸ Michiel Scheffer, *Study of the Application of Value Criteria for Textile Products in Preferential Rules of Origin*, Tender 06-H13, EU Commission.

5. New Challenges

Supply chains that were formerly structured around quota rights are now being reconfigured to meet market demand for lower costs, rapid shipment, and higher quality. Apparel markets are also undergoing a separate but equally profound metamorphosis driven by the U.S. and EU retail sectors. Supply chains are being restructured to meet retail demands for frequent and rapid changes in style and to apply advanced production technology. Another development may also have increasingly significant effects on developing country textile and apparel producers: the rising use of antidumping and countervailing duties in these industries.

MASS CUSTOMIZATION AND FASTER STYLE CYCLES

Twenty years ago retailers and consumers were content to change style once every season with a few new items added mid-cycle, but generally following a steady rhythm of design and production. The cycle then began to speed up, with four “seasons” becoming six product lines and more new items. Now a new type of retailer has arrived, offering competitive prices and completely new styles and lines of clothing every 4-6 weeks: Zara, a Spanish clothing chain, has led the industry in raising consumers’ expectations.

Although production cycle acceleration has not penetrated the U.S. market to the extent it has elsewhere, it is the model for the concept-to-consumer cycle affecting all segments of apparel retailing, from specialty to large mass market sellers such as the GAP, Limited Brands, and large department stores. Retailers are adjusting by using technology to capture consumers’ reactions to new products and by providing immediate feedback through the supply chain, sometimes before customers have even left the store.⁹ These new electronic data systems transmit information about sales trends almost instantly to suppliers, who are expected to respond immediately, refilling inventory for hot-selling items and reducing production for low-selling styles. The end result is that producers everywhere are being asked to shorten delivery cycles by improving in-factory skills and managing supply chains, including fabric production, material sourcing, and finishing. Garment factories that require six weeks to cut and sew an order are not competitive for this trade.

Developing countries are feeling the impact of these trends in three ways. First, proximity to materials, especially for finishing and printing, is increasingly important. Sewing alone will not meet buyers’ demands. The proximity requirement favors countries with integrated supply chains,

⁹ Many retailers were already implementing lean inventory methods, and the Zara model was just the latest progression in the trend.

or at least companies that can manage the logistics and coordinate production in multiple countries. Second, factory workers, from sewing operators to managers, must perform to a higher standard, even as the prices of their goods decline. Third, rapid and reliable transport networks and minimum customs clearance times are now as critical as the cost of labor and materials.

In short, lead time and supplier capabilities are becoming more important as buyers assess the production potential of low-cost supplier countries and regions. Suppliers who can readily gear up or down have an advantage. Developing this advantage puts a premium on management and technology, which in turn requires that managers and office workers have more education and more sophisticated skills.

SHORT LEAD TIMES AND LOWER INVENTORIES (CUTTING COSTS THROUGH LOGISTICS)

The new retail model features shorter lead times and improved cost management, including management of inventory costs, through the supply chain. Apparel suppliers far from fabric and materials suppliers inherently have longer lead times and higher inventory and transportation costs. Developing countries can respond to these challenges by (1) streamlining import/export processes; (2) stimulating regional or even local sourcing of materials; and (3) encouraging an environment that promotes stable and reliable industrial relations.

ORDER CONCENTRATION

Quotas put pressure on buyers to spread sourcing over more suppliers in more countries; in fact, the single most important service a supplier provided before 2005 was access to quota. Since 2005, however, buyers have been pursuing relationships with far fewer “strategic suppliers” who provide critical services. In a 2005 Nathan Associates Inc. survey¹⁰ of U.S. apparel retailers and wholesalers, the sourcing executives of 20 high-volume importers described the desired qualities of a strategic partner:

- Creative ability to contribute to product design.
- Expertise to add value to product development.
- Manufacturing expertise and market knowledge to identify and manage factories able to meet the buyer’s standards for quality and social responsibility.
- Procurement skills to manage acquisition of inputs such as fabrics and trims.
- Financial strength to share liability.

Strategic partners who provide value-added services command higher prices and retain a larger share of profits from the garment trade. Thus, manufacturers and smaller countries have an incentive to offer buyers more value but face difficulty in doing so for a number of reasons. First, the low profits of most apparel firms limit their ability to invest in lengthening the value chain. Second, their direct customer is often an agent or broker who is already a strategic partner

¹⁰ Survey available from authors upon request.

offering the same services to buyers; a parent company or investor in the factory might also offer the same value-added services. The factory may have an incentive to upgrade and go directly to the buyer, but existing relationships may work against doing so by creating conflicts of interest, redundancy, and reduced utilization of services.

AD/CVD CASES AND MARKET DISRUPTION

In theory, antidumping duties (AD) and countervailing duties (CVD), known as trade remedies, may be used unilaterally by governments to ensure fair competition and protect domestic industries against unfair trade practices. In reality, the expense of AD/CVD cases and the market uncertainties they introduce are so punitive that even the threat of an investigation is enough to end trade in a product between two countries. The threat of an AD/CVD case is even more trade-distorting in textiles and apparel because risk-averse buyers maintain a flexible supplier base so that they can switch orders quickly between countries.

The number of cases worldwide directed at the textile and apparel industry has been growing. Between 1995 and 2005, textiles and apparel made up 7.99 percent of investigation initiations notified to the WTO, but in 2005, after the elimination of quotas, they made up almost 15 percent.¹¹ With the elimination of safeguards against China in 2009, actions may increase in the coming years.

Trade remedy cases can have consequences that extend beyond the countries subject to the actions, as is evidenced in the EU dumping cases against footwear from Vietnam that resulted in Vietnamese investment in neighboring Cambodia. The ultimate impact of these powerful tools cannot be predicted with any certainty.

Top Ten Countries Subjected to Anti-dumping Cases, 2005

China—57
Indonesia—14
Taiwan—13
India—13
Malaysia—13
Thailand—12
Korea—11
Japan—11
United States—7
European Union—6

¹¹ Cliff Stevenson, *The Global Trade Protection Report 2007 (October 18 Update)*, www.antidumpingpublishing.com. Figure includes WTO notifications pertaining to fibers, fabrics and apparel.

6. USAID Assistance to Restructuring Countries

The first chapter underscored the fact that textiles and apparel trade will be an important part of international trade for many developing countries—even if the position of the industry is often under threat from global changes. Often textiles and apparel offer the best opportunity for developing countries to diversify their exports away from basic agricultural production and into industry and traded goods.¹² For countries facing drastic reductions in textile and apparel exports, missions may consider enhancing traditional micro, small and medium enterprise development programs to help provide new opportunities for displaced workers in the local economies. At the same time, missions can weigh carefully the potential benefits of shoring up what remains of the countries' textile and apparel basis, helping them retain jobs and even moving them onto new growth paths in the post-quota world.

Competitiveness in the textile and apparel industries will continue to be driven by traditional forces such as labor costs (including the regulatory environment), access to materials, electricity, rent, logistics, and the business enabling environment. USAID programs that address these country level constraints will contribute to the health and viability of these industries. Some missions may wish to take a more direct approach to assisting these industries because the industries are important to the country or, perhaps, to leverage them for development purposes (e.g., creating a skilled industrial workforce leading to further industrial diversification or providing a focal point for addressing regulatory and policy constraints).

This chapter describes programs in six areas that USAID has undertaken to help countries adjust to the phase-out of textile and apparel quotas and to shore up and leverage these industries for development purpose. Program activities involve sector assessments, workforce development, value-added business services, labor organization and standards, export promotion and diversification, and development of support services. We briefly summarize the rationale behind each type of activity, describe typical approaches, and offer suggestions for how to design and deliver activities most effectively. The appendix describes selected activities in each category.¹³

¹² Paul Brenton and Mombert Hoppe, *Clothing and Export Diversification: Still a Route to Growth for Low Income Countries?* World Bank, Policy Research Working Paper #4343, September 2007.

¹³ These categories are not official USAID classifications. Some USAID programs could be classified in more than one category. Also, many programs not described here facilitate development of the textile and

SECTOR ASSESSMENTS

Sector assessments include analysis of markets, supply chain strategies, and sector development plans. An assessment is usually conducted by sector specialists over a period of 4-6 weeks. Depending on the country and the industry's stage of development the assessment may include analysis of trade agreements, trade rules, and global market trends; market operations and business development and linkages; industry competitiveness; and supply chain organization and efficiencies/deficiencies. Depending on goals and funding, the assessment may involve a literature review, factory surveys, buyer surveys, research on the business environment, and benchmarking. The most effective assessments involve visiting factories to conduct interviews and review production practices, and involve multiple stakeholders, such as government, buyers, labor and factory managers.

An assessment clarifies the status of the industry and how it contributes to economic stability and employment, and may even stimulate strategic thinking and action. The value of identifying opportunities, threats, and constraints, however, depends very much on well-designed interventions. The assessment report should discuss activities most likely to produce results, provide insight into other donors' field activities, and identify possible roles for local organizations and institutions.

WORKFORCE DEVELOPMENT

For more than 30 years, restrictions on textile and apparel trade resulted in a steady stream of orders to firms that had little to offer other than access to quota rights. Governments used quota allocations to prop up inefficient producers in remote areas so as to boost rural employment and to stem labor migration to production centers and cities. In the post-quota era, workforce education and capabilities are increasingly important to competitiveness. Companies previously sustained by quotas now struggle to overcome deficiencies in basic education that constrain workforce efficiency and skill levels. As buyers require more services and more technology from all suppliers, and at a lower cost, even a country with wages twice those of its neighbor can make twice the sales because its workers produce two or even three times the number of garments, lowering the cost of each garment. Workers lacking basic reading and mathematics skills are at an extreme disadvantage in adapting to new tools, work methods, and organizational requirements.

All developing countries need to jumpstart workforce training and education on a broad spectrum that ranges from basic education, critical thinking, and production skills to economics, management, and marketing. Such skills take time to develop. Employers may be highly critical of workforce capacity and even provide some training, but they rarely consider basic education and workforce development to be their responsibility. Instead, they can simply move to where these services are provided by the government.

In addition, most second- and third-tier textile and apparel producing countries lack supervisory and technical personnel. Their industries grew quickly on the basis of quota availability, so they

apparel sector, including programs to improve the business enabling environment, reduce corruption, improve transportation linkages, or raise levels of basic education.

have long operated with unskilled labor and lack training facilities of any sort. As a result, the local workforce holds the lowest level jobs with the least compensation and no opportunity for advancement.

VALUE-ADDED BUSINESS SERVICES

As firms adjust to global competition many are being asked to provide business services they have never before provided, such as fabric sourcing, pattern making, and financing materials for work in progress. For a small- or medium-sized firm accustomed to steady orders based on quota allocation, developing these skills or finding people with them may be impossible without assistance. Here, USAID has provided a number of business support services such as training in financing, in pattern making and basic design, and in working directly with international buyers. Many countries have trade associations representing the industry's interests that may be able to able to organize and manage such training, but that may themselves need capacity building to ensure effective program development and implementation.

LABOR ORGANIZATION AND STANDARDS

Apparel factory jobs are a first step out of the informal or agricultural sector for many poorly educated, unskilled workers, but such workers also risk being exploited. While it is recognized that workers in the informal sector have few protections, the mistreatment of workers producing goods in the formal sector for export to consumers in developed countries is of concern to development experts, activists, buyers, and consumers alike.

Most apparel makers adhere to the basics of the host country's labor laws, or they risk prosecution by local authorities and the loss of their international buyers. The quality of these laws and their enforcement may vary, but factories can be held to two other sets of workplace standards: (1) buyers' labor and safety standards as documented in codes of conduct, and (2) standards of private nonprofit groups and international organizations, of which the International Labor Organization (ILO) is the best known. Ideally these mechanisms complement each other, but they can cause confusion.

Labor issues involve not only individual worker protections but also organized labor rights. Unionization can be a powerful means for ensuring the rights of the individual, and unions can be a step towards good economic governance. However, organized labor often enters the political realm, especially in newly emerging democracies. The results are not always positive. In Cambodia, for example, there are more than 1,000 registered apparel labor unions and approximately 300 apparel firms. Even responsible factory owners must negotiate with more than a dozen unions, some of which represent only a handful of workers but can still call a strike, disrupting factory operations, causing financial losses, and casting thousands of workers into the street.

USAID has partnered with organizations such as the ILO and the American Center for International Labor Solidarity (ACILS) to help build effective labor unions. Contributions take the form of technical support, capacity building, and guidance in collective bargaining, conflict

management, and the skills needed to foster a healthy balance between unions and businesses needs and collaborative, rather than combative, industrial relations.

This support is often critical to the industry's competitiveness. If the textile and apparel industry does not comply with labor standards it cannot attract or retain a base of international customers. Support for labor standards when they include the right to organize can be balanced with capacity building for government agencies charged with establishing and enforcing the law and policy governing unions.

EXPORT PROMOTION AND DIVERSIFICATION

When quotas were in effect buyers sought producers. Now producers must seek buyers, often in unfamiliar countries. Medium-sized firms need to be able to identify new markets, develop resources to track the industry's direction and trends, seize opportunities to participate in niche markets well-suited to their production capacity, and tap new markets and customers through agents and wholesalers or go directly to retail or branded buyers. Such firms often require assistance in understanding market requirements, finding key decision makers, and building relationships with new customers.

USAID has helped by providing marketing assistance in the form of industry experts familiar with international markets and customer needs, and by financing sales trips to major markets. Marketing assistance, however, should be rooted in a market and capacity assessment and integrated with the training of local associations to ensure such assistance can be sustained.

DEVELOPMENT OF SUPPORT SERVICES

As orders become concentrated among the most capable and largest suppliers, what opportunities do local businesses have? Many apparel firms require a host of services and supplies, including recruiting and logistics, boxes and packaging, buttons, thread, and office supplies. When local businesses provide these services and goods, they strengthen the local economy by creating jobs and developing entrepreneurship.

USAID has supported small- and medium-sized firms in preparing to supply textile and apparel firms with services and supplies. Effective support is based on an evaluation of potential and features a strong role for local trade associations, training of association staff, training to help businesses understand and meet their potential customers' requirements, and training in business-to-business meetings and other standard marketing activities.

7. Conclusions and Recommendations

USAID's support for the garment industry strengthens fragile economies and preserves jobs for the unskilled and minimally skilled, and that support is even more important as the industry adjusts to the elimination of textile and apparel quotas. The trade statistics presented above strongly suggest that the period of adjustment is not over, and that more support will be needed in countries where apparel production has provided an entry point to global trade. In fact, production is foundering where it once thrived under the quota system, as reflected in the declines of the textile and apparel industry in South Africa, Nepal, and Fiji. USAID should continue providing the kinds of assistance described above, but to make its programs more effective should consider adjusting how it approaches scoping studies and assessments, workforce development, business support services, and labor standards and labor organization.

SCOPING STUDIES/ASSESSMENTS

Any program to improve the textile and apparel industry in a developing country should be based on a balanced, objective assessment that guides program scope. To improve assessments in the post-quota era consider the following:

- **Analyzing commercial viability.** An assessment preceding a competitiveness project should analyze commercial viability. For example, if a particular industry was founded solely in response to the quota system, the assessment might analyze potential market niches or alternative products or sectors.
- **Incorporating a regional perspective.** An assessment that incorporates a regional perspective is often more revealing than one that focuses solely on a single country.
- **Coordinating donor studies.** Since 2003, the number of studies by various donors has escalated and the studies are often redundant. Donors, governments, and the industry should coordinate studies through an appropriate focal point, such as a senior ministry official important to the industry, a public/private working group, or one or more industry associations.

WORKFORCE DEVELOPMENT

Workforce development may be the single greatest and most consistent area of need in least developed countries, and USAID's support for it is often vital. To make workforce development projects more effective, consider the following:

- ***Basing training on industry interests.*** To engage stakeholders in development activities, base training on industry interests as well as independent assessments.
- ***Developing workforce entry programs.*** In at least one country receiving USAID support, garment industry employers seek employees with some basic education and a work ethic appropriate to the industry.¹⁴ Often, workers exiting rural or informal economies must adjust to the distinctly different pace and requirements of industrial work. Workforce entry programs can help these individuals prepare for a new mode of work.
- ***Localizing training design and delivery.*** To have a long-lasting effect, a workforce development activity should (1) be designed, at least in part, by appropriate local champions—ministries, business associations, post-secondary education providers; (2) develop local trainers; and (3) involve native speakers to ensure that technical concepts are explained fully to trainees.

BUSINESS SUPPORT SERVICES

Along with small and medium enterprises, even large companies that functioned well enough in a quota-driven market now need business support services to improve their management and profitability. As with workforce development, provision of business support services should be made sustainable at the local level by

- ***Ensuring knowledge transfer to the host country.*** Trade associations are important providers of business support services and can benefit greatly from concentrated knowledge transfer and staff training.
- ***Enabling knowledge exchange in a region.*** Where possible—and in many cases it may not be—regional exchanges of knowledge and capabilities through business alliances should be encouraged and supported.

LABOR ORGANIZATION AND STANDARDS

International buyers require that workplaces in developing countries meet standards for social responsibility. In helping countries and firms meet such standards, USAID can introduce good governance concepts while protecting workers. Unionization can be an aspect of that protection. Projects to develop labor organization and institute standards can be improved by

- ***Balancing the requirements for worker protection with those of competitiveness.*** Strengthening an organized labor movement in a country without a tradition of governance and responsibility can erode competitiveness. In deciding on a type of support and on funding objectives, take into account the maturity of the labor movement, the experience of its leaders, and the maturity of local laws to manage labor disputes and regulate the occurrences of strikes.
- ***Supporting healthy relationships between labor and industry.*** Effective labor organizations are rooted in good relationships with industry. Here, capacity building for

¹⁴ Author's interviews of members to the Garment Manufacturers Association of Cambodia, 2008.

labor leaders and even for employer representatives by parties perceived as neutral (i.e., neither pro-labor or pro-capital) can be especially beneficial as can establishing arbitration councils and other mechanisms for resolving conflict between organized labor and industry.

- ***Building legal capacity.*** Government officials and legislators who make, pass, and enforce labor laws can also benefit from training in these areas.

No one-size-fits-all solution exists for developing countries involved in textiles or apparel production. In addition to the previously presented interventions, some countries will seek to shore up their production capabilities in these industries by addressing more traditional areas of competitiveness including

- Creating free trade zones to reduce the cost of using higher quality and cheaper imported components;
- Lowering import duties on raw materials and inputs;
- Streamlining duty drawback programs;
- Aligning labor regulations, such as restrictions on employee severance, wages and mandatory benefits, with world standards;
- Improving labor productivity through worker training and labor legislation (permitting piece work for example); and
- Improving physical infrastructure (e.g., electricity, transportation, water).

Many less-competitive countries will also need to focus on strategies for diversifying into other labor-intensive sectors where they may be more competitive. Either approach can help cushion the impact of the changes in the global environment for trade in textiles and apparel. Countries that do not take either approach will be unprepared for the adjustments that will be forced upon them.

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Appendix. Selected USAID Assistance Programs in Apparel Sector

Country/Region	Sector Assessment	Labor Standards	Workforce Development	Business Support Services	Export Diversification or Promotion	SME Support
Armenia				Business and capital planning		Market development SME networking
ASEAN	Assessment of regional supply chains for textile and apparel production		Creating regional job certifications and standards	Linking regional suppliers of fabric and garments		
Bangladesh				Training in new technology and production techniques Enhancing business management practices	Identification of promising new sectors	Linkages between large exporters and SMEs
Bolivia	Assessment of post-MFA impact SWOT analysis and inputs for industry strategy			Training in assembly production system, machinery procurement, and industrial design		Linking with foreign buyers and large domestic producers
Brazil					Expanding export base by linking firms with U.S. buyers	Linking with large domestic producers through subcontracts
Bulgaria						Grants for entrepreneurs in communities with ethnic minorities
Cambodia	Value chain analysis of garment industry Garment industry salary survey Competitiveness of Cambodia's garment industry Garment industry workforce assessment	Funding through ILO for better factory standards and labor dispute resolution Capacity building for labor leaders	Training of trainers in production skills Customized training for individual factories Providing technical training to nationals Developing university level courses for local institutions	Automated pattern-making/ marker system Participation in job recruitment fairs Assistance for internship programs Support for public/private sector working groups		Diagnostic productivity assessment of individual factories
Dominican Republic	Assessment of impact of end of global quotas on employment and exports and the benefits of a regional trade agreement		GDA for establishment of a multipurpose garment industry training center		Assessment of sectors with high potential for export diversification: footwear and tourism	

Country/Region	Sector Assessment	Labor Standards	Workforce Development	Business Support Services	Export Diversification or Promotion	SME Support
Egypt	Impact estimation of MFA expiration Potential effects of preferential trade agreements					
Indonesia		Raising awareness for improved worker rights and improved working conditions	Worker skills trainings	Improved business management and manufacturing practices	Export expansion by linking foreign buyers with key value chain stakeholders	
Jordan	Labor working conditions Enterprise surveys on labor compliance	Training of labor inspectors Support of labor reform to enhance compliance Formation of government bodies to monitor compliance	Vocational training program for recent university graduates		Participation of local firms in international trade shows	Internship programs in SMEs for recent university graduates
Lesotho	Post-quota market preparedness				Linking regional buyers and suppliers of apparel inputs	
Macedonia				Training and certification on full-package brand production Training on monitoring production	Participation of local firms in international trade shows	
Madagascar	Potential for export diversification into man-made fiber apparel post-MFA Competitiveness Audit of cotton, textile & garment sector				Participation of local firms in international trade shows	
Malawi	National sector assessment on production capacity					
Moldova		Public-private dialogue on international codes and standards		Revised branding and marketing strategies		Develop business clusters in the garment sector
Mongolia	Assessment of likely effects of MFA expiration					

Country/Region	Sector Assessment	Labor Standards	Workforce Development	Business Support Services	Export Diversification or Promotion	SME Support
Morocco				Training local suppliers to respond to U.S. market demand	Participation of local firms in international trade shows Identification and promotion of new export business opportunities	
Mozambique	Mozambique textile and garment industry strategy Textile and garment value chain analysis					
Namibia	Potential for backward linkages stemming from large-scale textile and apparel sector in Namibia Implications of AGOA for textile/apparel industry					
Nigeria	Assessment of apparel export sector's readiness to take advantage of AGOA					
Peru	Potential impact of quota elimination					
Serbia	Opportunities and constraints study of textile and apparel sector			Human resource and financial planning	Participation of local firms in international trade shows	Professional sales agents assistance to showcase firm designs
South Africa			Training in haute couture and operations	Enhancing business skills of individual companies		Establishment of informal networks for pooled resources and skills for large-scale orders
Southern Africa	Assessment of potential AGOA benefits with triple transformation rule of origin Comprehensive study of the region's garment and textile production capacity U.S. apparel retail/distributor/ brand survey			Development of a prototype marketing and production database	Participation of local firms in international trade shows Linking cross-national supply chains to increase regional competitiveness	SME outsourcing
Swaziland	Assessment of post-quota markets					

Country/Region	Sector Assessment	Labor Standards	Workforce Development	Business Support Services	Export Diversification or Promotion	SME Support
Ukraine	Sector diagnostics of textile products and clothing industry Competitiveness strategy of textile and apparel sector			Assistance with brand development, quality control, IT solutions and product testing	Establishment of commercial linkages with foreign partners Participation in international trade fairs	
Worldwide	Assessment of countries particularly vulnerable to labor standards pressure post MFA	Formation of public-private working groups to manage buying practices that support labor standards.	Development of multi-stakeholder work programs to build responsible competitiveness into the textile sector.		Created the basis for a systematized approach to addressing specific country needs on responsible competitiveness.	