EU seeks details on China steps to limit textile export

AFP, *Brussels*

The European Union wants to have more details about Chinese measures announced Friday to limit its booming textile exports, the EU's executive commission said.

Facing the threat of EU limits on Chinese textiles imports, Beijing announced it would raise export tariffs on 74 categories of textile products from June 1.

"This is something that we have to see more precisely from the Chinese," European Commission spokewoman Francoise Le Bail said.

The issue would be discussed when the Chinese negotiator on textiles comes to Brussels next week to see EU trade commissioner Peter Mandelson, she added.

"We will clarify with the Chinese what they intend to do, to have precision on this aspect of things. And also we will discuss with them the measures that we have proposed on a number of categories of products," Le Bail said.

The 25-nation EU has joined the United States in increasing pressure on China to rein in its exports to protect their own textile industries following the end in January of international quotas on the trade.

Mandelson said this week that imports of T-shirts with a 'Made in China' label had jumped by more than 160 percent from a year earlier, while flax-yarn imports had surged more than 50 percent.

Under WTO rules the formal consultations can last 90 days before the EU can launch safeguard measures. But in the meantime the EU can apply "interim import growth restrictions" if China does not take steps to rein in its exports.

PHOTO: **BRITISH AMERICAN TOBACCO**

M Mujibul Huq, chairman of British American Tobacco Bangladesh (BATB), presides over the company's 32nd annual general meeting (AGM) on Wednesday in Dhaka. Other senior officials are also seen in the picture. At the AGM, the company approved a 100 percent dividend for its shareholders for the year 2004.

Tea exports still top earner for Sri Lanka

ANN/THE ISLAND

John Keells Limited announced Thursday that Sri Lanka's net tea exports are on par with the country's net apparel exports. This was one of the findings reported in its recently published study of the countryinternationally renowned tea industry titled "Tea Review 2004".

The report states that although the Government recognized the importance of Agriculture in its annual budget process, fiscal levies are pushing the plantations to non-viability. Multilateral donor funding too has not reached the plantations adequately.

It has also been found that "Ceylon Tea" is the world's best and cleanest. Tea production has increased to 308 million kilograms per year and average tea prices reached Rs. 180.74 (US$1.82) per kg. Export earnings from tea had increased to Rs. 74.8 billion (US$751.75 million). Last year also saw tea exports passing the 300 million kilogram mark. The Low grown teas had enjoyed a record harvest that stood at over 183.9 million kilograms. The CIS remained Sri Lanka's largest export market and Ceylon Tea averaged the highest price in the world market.

PHOTO: **UNITED INSURANCE COMPANY**

M Moyeedul Islam, chairman of United Insurance Company Ltd, presides over the company's 20th annual general meeting (AGM) recently in Dhaka. Other senior officials are also seen in the picture.

CURRENCY

Following is Saturday's (May 21, 2005) forex trading statement by **Standard Chartered Bank**

Sell			Buy		
TT/OD	BC	Currency	TT Clean	OD Sight Doc	OD Transfer
64.1300	64.1600	USD	63.1250	63.1040	63.0619
81.6567	81.6949	EUR	78.3571	78.3309	78.2787
118.2557	118.3110	GBP	114.3825	114.3444	114.2681
49.5468	49.5700	AUD	46.7504	46.7348	46.7036
0.6002	0.6005	JPY	0.5784	0.5782	0.5778
52.4238	52.4483	CHF	50.6906	50.6737	50.6399
8.7688	8.7729	SEK	8.1574	8.1547	8.1492
51.0711	51.0950	CAD	49.4052	49.3887	49.3558
8.2411	8.2450	HKD	8.0917	8.0890	8.0836
38.9351	38.9533	SGD	37.7745	37.7619	37.7367
17.6022	17.6104	AED	17.0479	17.0422	17.0309
17.2379	17.2459	SAR	16.6997	16.6942	16.6830
11.2829	11.2882	DKK	10.2195	10.2161	10.2093
216.0617	216.1651	KWD	215.3608	215.3608	215.3608

Exchange rates of some currencies against US dollar

Indian rupee	Pak rupee	Lankan rupee	Thai baht	Nor kroner	NZ dollar	Malaysian ringgit
43.48	59.5	99.85	40.010	6.4703	0.7588	3.80

Local Interbank FX Trading
Local interbank FX market was sub-dued on Saturday. Dollar ended almost unchanged against Bangladeshi taka.

Local Money Market
Money market was active on Saturday. Call money rate was almost unchanged and most of the deals ranged between 10.00 and 20.00 per cent.

International Market
International Market was closed on Saturday due to weekend. US dollar rallied to fresh highs for the year against major European currencies on Friday after its resilience in the face of weak economic data triggered a technical breakout. US economic and inflation data has failed to hurt the dollar, reflecting the markets growing bullish sentiment toward the currency. The dollar also ended slightly stronger against Japanese yen.

This memorandum is issued by Standard Chartered Bank and is based on or derived from information generally available to the public from sources believed to be reliable. While all reasonable care has been taken in its preparation no responsibility or liability is accepted for errors of fact or any opinion expressed herein.

Adjusting to the MFA phase-out: Policy priorities

DEBAPRIYA BHATTACHARYA *AND* **KIMBERLY ELLIOTT**

In the years since developing countries succeeded in negotiating an end to rich-country quotas on textiles and apparel, excited anticipation has gradually turned to anxiety. Ending the Multi-Fiber Arrangement (MFA) was a major objective of developing countries in the international trade talks that ended in 1994. But that was before China joined the World Trade Organization (WTO) and before structural changes in the industry and in U.S. trade policy altered the competitive landscape. Now, it is not just workers and firms in high-wage countries that fear increased competition, lost jobs, and downward pressure on wages with the end of the MFA. Many poor countries that had expected a windfall now realize that a freer market also means more competition for them, with potential losses in market share and large adjustment costs for the low-wage, primarily female workers that dominate apparel assembly.

This brief reviews the Agreement on Textiles and Clothing (ATC) and the potential implications for the rest of the world of having to compete with China in a quota-free market. It examines the expected winners and losers among developing-country exporters as a result of phasing out the MFA trade restrictions and recommends steps that both rich and poor countries should take to ease the adjustment. We recognize that workers in the United States and other importing countries -- again, mostly low-wage and female -- will also suffer losses. Addressing these dislocations is an important policy issue, and we do not mean to slight this aspect of the adjustment process.

For purposes of this brief, however, we focus on potential disruptions in poor countries and the policy priorities for coping with them. In particular, we recommend that the United States, which is the only rich country that does not grant tariff-free access for imports from all least-developed countries, provide this access as quickly as possible. In addition, to take advantage of any resulting opportunities, beneficiary countries must adopt domestic reforms to encourage greater productivity.

Implementation of the Agreement on Textiles and Clothing

The MFA was a complex system of country- and product-specific quotas on textiles and clothing; it was an institutionalized aberration under the General Agreement on Tariffs and Trade (GATT). It contradicted core GATT principles that promote non-discrimination and prohibited the use of quantitative restrictions. Eliminating the MFA was the principal demand of developing-country trade negotiators in the Uruguay Round of multilateral trade negotiations (1986-93).

The resulting Agreement on Textiles and Clothing (ATC) relied on two mechanisms for phasing out these trade restrictions: gradually eliminating quotas by categories, and raising growth rates for remaining quotas. Importing countries that wanted to postpone adjustment of their domestic industries for as long as possible, insisted the phase-out be backloaded, so 49 percent of covered imports were left to the end (Table 1). Two other provisions allowed importers to slow the process even further. First, the annex that listed categories to be "integrated" included all textile and clothing products, not just those that were restricted under the MFA. Second, importing countries were permitted to choose the categories to be integrated in each phase. Because about a third of base-year imports in both the United States and the European Union were unrestricted under the MFA, these categories were "liberalized" first, and few binding quotas were included until Phase 3, beginning in 2002. Coincidently, this phase began just after China joined the WTO, adding to the adjustment pressures for both importing and exporting countries and raising concerns about the effects of quota elimination in Phase 4.

In addition to the ATC and to China's joining the WTO, another development affected the, patterns of textile and apparel trade in the 1990s. The United States and the European Union expanded and deepened regional and other preferential trade arrangements. Indeed, in the latter half of the 1990s, the U.S. textile industry's strategy for coping with the MFA phase-out included negotiating preferential arrangements with strict rules of origin. Given that the elimination of quotas was likely to accelerate the American apparel industry's long decline, the U.S. textile industry looked to regional arrangements to boost demand for its product. The key was to include rules of origin in trade agreements and other preference programs, stipulating that local or American-made materials had to be used from the "yarn forward" in order for apparel exports to receive tariff-free access in the U.S. market. For trading partners without domestic textile industries, however, having to incorporate relatively expensive U.S. inputs raises costs and reduces the value of preferential access to the U.S. market.

TABLE 1
IMPLEMENTATION SCHEDULE FOR THE AGREEMENT ON TEXTILES AND CLOTHING

Beginning date for each phase	Minimum import volume integrated, percent (cumulative total in parentheses)	Growth rate for remaining quotas, percent
i. January 1, 1995	16 (16)	16
ii. January 1, 1998	17 (33)	25
iii. January 1, 2002	18 (51)	27
iv. January 1, 2005	49 (100)	not applicable

Figure 1 US Imports of Textiles and Apparel

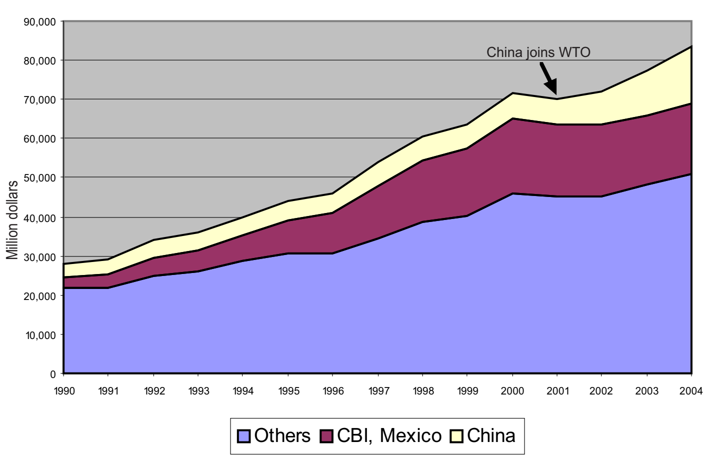
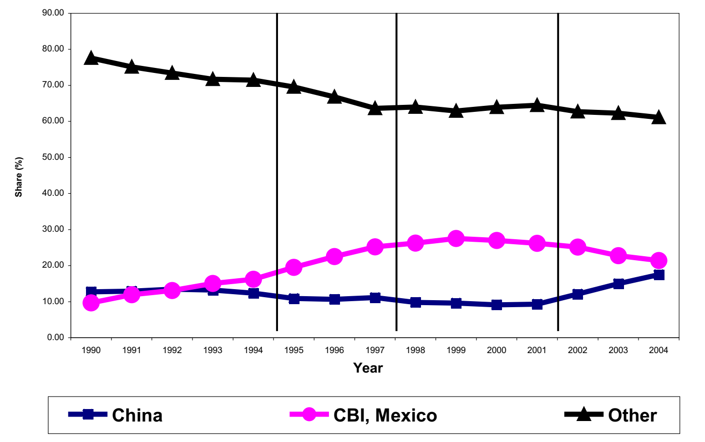


Figure 1 shows the effects of these trends on U.S. imports of textiles and apparel. Overall, the dollar value of U.S. imports increased 80 percent from 1994 to 2000. But the growth of imports from Mexico and from the Caribbean basin, including Central America, was nearly three times that from the rest of the world, while imports from China, which was not a WTO member at the time, grew far more slowly than either of these groups. Figure 2 shows the changes in market shares, with both China and the rest of the world losing relative to nearby U.S. partners with preferences in this period.

Figure 2 Share of US Imports of Textiles and Apparel



After China joined the WTO late in 2001, however, its market share increased sharply, doubling from 9 percent to 18 percent in 2004, while that of Mexico and the Caribbean dropped by a similar amount. In the European Union, China's market share rose more modestly, from 16 percent in 2000 to 19 percent in 2003. Table 2 shows even more vividly the combined impact on the U.S. market of Chinese accession and Phase 3 liberalization. While total U.S. imports in liberalized categories grew by almost half, Chinese exports of those products to the United States grew four-fold, and its share in those categories increased from 15 to 45 percent. Moreover, although some analysts predicted that the combination of proximity and preferences would preserve market share for Mexico and other Latin American exporters, that has not been true across the board, at least so far. Mexican exports of Phase 3 products dropped 11 percent. Central America saw an overall decline in exports in these categories as well, though within the region, El Salvador, Honduras, and Nicaragua saw modest increases.

TABLE 2
US IMPORTS OF PRODUCTS LIBERALIZED UNDER PHASE 3 (MILLION DOLLARS)

	2001	2004	% change
Total	12,552	18,074	44.0
China	1,930	8,362	333.3
All other suppliers	10,622	9,712	-8.6
Chinese share	15.4%	46.3%	
Selected suppliers:			
Mexico	1,396	1,240	-11.2
CAFTA	757	715	-5.5
India	559	719	28.6
Pakistan	449	557	23.9
Bangladesh	522	304	-41.7
Sri Lanka	385	200	-48.1

US Imports of Phase 2, 3 Products Subject to Safeguards (million dollars)

	2001	2003	% change
China	163	753	362.1
ROW	3,091	2,950	-4.6
Chinese share	5.0	20.3	

NB: The categories subject to safeguards are knit fabrics (222), bras (349/649), dressing gowns (350/650), and socks (332/432/632).
Sources: US Department of Commerce, Office of Textiles and Apparel (OTEXA), Major Shippers Report database; Vivan C. Jones, "Safeguards on Textile and Apparel Imports from China," CRS Report for Congress, Washington, Congressional Research Service, January.

China and the Implications of Eliminating the MFA

The complex web of country-specific quotas under the MFA added substantially to the distortions in trade flows. In addition to protecting high-cost producers in the rich countries by limiting overall imports, MFA quotas restricted the exports of the most efficient suppliers and forced international buyers to look elsewhere to meet consumer demand. With the MFA gone, firms will seek to reduce costs by consolidating supply chains. Less efficient suppliers that were able to export only because of the maze of quotas now face potentially large adjustment costs. While many predict, or fear, that China will now become the global supplier of choice, firms will not source everything there because of the risk of supply disruptions. An executive of J.C. Penney, for example, said that his firm would continue to source from at least a dozen countries. But he also noted that the company had already contracted its supply chain from 5,000 plants in 51 countries to 1,800 in 23 countries. So who are the winners and losers likely to be?

Overall Trends

Most analysts agree that China stands to gain the most from quota elimination because it has the workforce and the infrastructure to deliver high-quality apparel products at competitive prices on a timely basis. Many Chinese firms are "full-package suppliers," meaning they manage the process from procuring materials through apparel assembly to labeling, packaging, and shipping the product to stores. India, and perhaps Pakistan, are also expected to do well because they have access to local inputs and large supplies of low-cost labor. A few other countries are expected to survive primarily as suppliers of niche products, but Mexico and much of Latin America could lose market share because these countries have both relatively high wages and producers that have not made the move to providing full-package services.

But experts on the textile and clothing industries caution that many of these models are missing important elements of industrial structure and hence may be overly pessimistic, at least with respect to the impact on regional trading partners. These analysts argue that countries closer to the major markets, especially to the United States, will continue to benefit from the shift in the industry toward "lean retailing," which makes proximity an advantage for reasons of time, as well transportation costs. Retailers and other apparel marketers in the United States, and increasingly in Europe, do little production themselves and seek to hold as little inventory as possible, pushing these costs and risks onto suppliers. While labor, material, traditional shipping costs, and tariffs obviously matter, "lean retailers" also look for suppliers that can guarantee timely delivery, particularly of products that need to be replenished frequently, such as jeans, tee-shirts, and undergarments. Moreover, the natural advantage of proximity is often reinforced by preferential market access under regional trade agreements.

Some support for the advantages of proximity and preferences can be found in Table 3, which shows the top 10 exporters to the United States and the European Union. Regional partners generally held their own in Europe, with Turkey and Romania actually seeing more rapid export growth than China in Phase 3 of the MFA phase-out. The only major exporters to the EU to see exports decline were high-wage Hong Kong and far-away Indonesia.

But the results are more mixed for the United States. China was a much bigger winner in this market while Mexico, once in the top position, saw its exports decline. Ready access to quality inputs and the effective use of information and communications technologies can at least partly offset the benefits of proximity. Several studies show East Asian suppliers are in the lead in adopting technologies that allow them to operate as full package suppliers and provide rapid response to orders. Mexican wages are high relative to other apparel exporters, and many analysts believe Mexico has squandered the benefits of proximity and preferential access through poor management and failure to exploit the crucial technologies.

TABLE 4
DEVELOPING COUNTRIES MOST DEPENDENT ON APPAREL EXPORTS (AVERAGE 1997-2002)

	Apparel exports as percent of total exports	Exports of apparel to US (million $)	Exports of Apparel to US as Percent of total Apparel exports	Change in Phase 3 exports to US	Change in Phase 3 exports to EU"	Preference eligibility		Per capita income, 2003 (dollars)
Bangladesh***	81	1,808	42	-6	19		EBA	400
Cambodia***	84	638	65	-53	49		EBA	310
Dominican Republic	50	2,289	95	-9	-52	CBI/CAFTA*		2,070
El Salvador	58	1,404	94	7	-40	CBI/CAFTA*		2,200
Haiti***	77	214	92	50	22	CBTPA	EBA	380
Honduras	62	2,133	93	14	1	CBI/CAFTA*		970
Lao PDR***	59	10	8	-43	-8		EBA	320
Lesotho***	85	163	132	112	-42	AGOA	EBA	590
Maldives***	62	68	71	-16	-69		EBA	2,300
Mauritius	58	232	25	-5	-19	AGOA	ACP	4,090
Sri Lanka	57	1,362	59	3	-17			930
Other LDCs								
Madagascar***	39	77	26	82	-51	AGOA	EBA	290
Nepal***	37	157	86	-34	-51		EBA	240

Note: a. 12 months through November 2004 compared to calendar year 2001.
b. Calendar year 2003 compared to calendar year 2000.
c. Duty- and quota-free with varying rules of origin.
d. World Bank Atlas method.
*** UN-designated least developed countries; LDC status has a percapita income threshold of $750-900 but also includes criteria indicating economic vulnerability on other measures or weak human resource indicators.
Sources: TRAINS; Department of Commerce, Office of Textiles and Apparel, Major Shippers Database; Eurostat.

TABLE 3
TOP 10 APPAREL EXPORTERS TO THE EUROPEAN UNION AND UNITED STATES, 2003-04

Top Exporters to the EU, 2003	Million euros	Change in Phase 3a	Top Exporters to the US, 2004	Million dollars	Change in Phase 3
China	9,658	30	China	8,928	94
Turkey	7,166	35	Mexico	6,685	-14
Romania	3,642	42	Hong Kong	3,849	-9
Bangladesh	3,065	19	Honduras	2,673	14
Tunisia	2,712	6	Vietnam	2,563	5250b
Morocco	2,466	5	Indonesia	2,403	9
India	2,316	16	India	2,217	29
Hong Kong	2,020	-35	Dominican Republic	2,059	-9
Indonesia	1,319	-27	Bangladesh	1,978	-6
Bulgaria	964	24	Guatemala	1,947	21

Note: a. Calendar year 2003 compared to calendar year 2000.
b. Vietnam's exports to the US surged after the signing of a bilateral trade treaty that granted Vietnam most-favored nation status, thereby substantially lowering duties imposed by US customs.
Source: Eurostat; US Department of Commerce, Office of Textiles and Apparel, Major Shippers Database.

Challenges for the Least Developed Countries

The countries that are most vulnerable to be intensified competition in the post-MFA environment are those that 1) are far from major markets, 2) lack preferential access, 3) lack adequate investments in information technology and in communications and transportation infrastructure, or 4) are politically unstable. If strong growth in the major import markets continues, the relatively more competitive countries of this group could see exports continue to grow, though perhaps more slowly and with losses in market share. For many of the least developed, the prospects are grimmer and the adjustment costs daunting because many of these countries are highly dependent on apparel exports, have few alternative sources of employment in the short run, and have few resources to cushion the adjustment.

Table 4 provides information on 11 developing countries where apparel exports averaged more than half of total merchandise exports in 1997-2002. Half are designated as Least Developed Countries (LDCs) by the United Nations and three of those (Bangladesh, Cambodia and Lesotho) depend on apparel for more than 80 percent of export revenues. Two other LDCs, Nepal and Madagascar, depend on apparel for nearly 40 percent of merchandise exports (70 percent for Nepal if textiles, which are not important for the others, are included).

Among these 11 countries, only Sri Lanka is currently ineligible for preferential access in either the U.S. or the EU market. Although strict rules of origin reduce the benefits, the LDCs on the list have had duty-free and quota-free access to the EU market since 2001 for most products under the Everything But Arms initiative (EBA). Haiti, Honduras, El Salvador, the Dominican Republic, and Mauritius have preferential access to the U.S. market under various regional arrangements, again with strict rules of origin for textiles and apparel. These preferences provide a substantial advantage because apparel tariffs average around 12 percent in the United States and European Union, compared to 3 to 4 percent for other manufactures.

(TO BE CONTINUED)

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