

# Pressure builds on EU sanctions on import of Chinese apparels: WTO nations to reduce HK hopes

AFP, Geneva

Pressure was building among trading nations on Tuesday to reduce their aims for a crucial World Trade Organisation conference in Hong Kong in December because of ongoing differences over a treaty to slash barriers to international commerce.

The WTO's 148 members were regrouping in Geneva to hear about the outcome of an attempt by Brazil, the European Union, India, Japan and the United States to drive ahead deadlocked global trade talks at a meeting in London on Monday.

With just over a month to go before the WTO's keynote ministerial conference, India's Commerce and Industry Minister Kamal Nath -- who hosted the London talks at his country's embassy -- hinted Monday that the goals for Hong Kong may have to be downgraded.

Nath, who appeared to have the backing of Brazil, insisted that this would not affect the overall Doha Round, which trading nations hope to complete in 2006 in an attempt to boost developing countries.

Brazil's foreign minister told AFP as he was leaving London that he

expected a decision to be made by the WTO Director General Pascal Lamy in Geneva on Tuesday.

"That's something we'll have to decide today, we'll make an evaluation. But if that happened it doesn't mean lowering the ambition of the round," Amorim said.

"This decision will basically be taken by Lamy, I think he'll make an evaluation today," he added.

However, EU Trade Commissioner Peter Mandelson urged countries to press ahead.

"I am not in the business of scaling down ambition. If we do not deliver ambitiously on the Doha Round as a whole we risk losing or compromising Doha's key development component. That is not acceptable to Europe," he said in a statement.

Mandelson said he was "encouraged" by the signs that emerged from the meeting of the five key WTO powers -- which represent a broad cross section of trade interests.

"I have been warning for months of the dangers of restricting our negotiations to agriculture. We have now broadened the discussions, without losing sight of agricultures importance."

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(CONTINUED FROM NOVEMBER 8)

The EU is confronted with an uncomfortable dilemma. On the one hand, there is tremendous pressure from the retailers, particularly small ones, who cannot afford to go for alternative sourcing, at least in the short term. The consumers would also favour access to cheap, good quality (Chinese) apparels. On the other hand, the EU also would not like to give a wrong signal to the Chinese to the effect that it is ready to compromise on decisions that it has made only recently (with regard to quota on Chinese export). The EU also has to keep in mind the interests of the other developing countries whose exports were being seriously threatened by the export surge from China. These countries, under threat from increasing Chinese competition, are putting pressure on EU to stand firm on the agreement.

However, facing growing pressure from retailers and from China, Brussels had to demonstrate some flexibility as regards the quotas. China appeared eager to see the EU expand the June quotas, to at least allow goods already shipped to enter Europe. A total of 6 categories out of 10 covered by the agreement had surpassed their quota allotment. The Chinese negotiators were urging to (a) borrow "placement" from the next year's quotas or (b) allow entrance of the products that were ordered on/before June 10, 2005. Such a move would also bail out EU retailers who have already paid for the imports and save them costly storage and reshipment expenses.

Even though EU Trade Commissioner Peter Mandelson was in favor of unblocking the goods from the port there was a lot of horse-trading. The question of how to deal with the logjam divided EU member states, roughly between southern European countries whose manufacturers fear the flood of cheap imports, and northern countries where retailers want fresh stocks. Some five EU states, including Italy, Spain and

Portugal, were at first reluctant to allow the products into the bloc. In the end a deal was reached in Brussels to resolve the standoff. The political accord struck by ambassadors of EU member states in Brussels opened the way for experts to work on the legal document which would allow the blocked clothes to be released by customs. Under the deal struck in Beijing between Mandelson and Chinese Commerce Minister Bo Xilai, the EU and China would share the burden caused by the stockpiles. About half of the estimated 80 million textile products which were being held up would enter the EU outside the quotas, while the other half would be added to China's 2006 textile limit.

The resolution of the tension, however, can not dissuade from the conclusion that the deal remains 'a short term fix to a long-term problem and that better solutions were required.' The export quota for the second half of the year (July-December, 2005) have almost been used up, and the decision 'to borrow' from next year's quotas will put China under increased pressure next year.

## SECTION IV: EU-CHINA DISCORD AND IMPLICATIONS FOR BANGLADESH'S APPARELS EXPORT TO THE EU

The EU quota on Chinese exports and the way the recent confrontation was resolved has important implications for Bangladesh. For some of the concerned categories, such as T-shirts (category 4), pullovers (category 5), men's trousers (category 6) and blouses (category 7) on which quotas on Chinese export has been imposed are also major export items of Bangladesh in the EU market (Table 3). As the table bears out, major exportable items of Bangladesh to the EU during 2000-2004 were Jerseys (HSC 6110), T-Shirts (HSC 6109) and Suits (HSC 6203, HSC 6204), which accounted for almost 78.0 percent of the total apparels export to the EU. Bangladesh's exports of many of these items to the EU market have been quite robust in recent years.

In FY 2005, export of apparels to the EU, at USD 3.95 billion accounted for 61.5 percent of Bangladesh's total

global apparels export. China continues to remain major competitor of Bangladesh in EU member countries, particularly in Germany, France, UK, Italy, Belgium, Spain and Netherlands. Till now both China and Bangladesh has taken advantage of the growing EU market (Table 3). As is seen from annexure 3, table A particularly with respect to knitwear items such as T-shirts, pullovers and Jerseys, Bangladesh has been able to register significant growth in the EU market (43.5% and 31.4% respectively). However China's export was even more robust (67.4% and 36.6% respectively). To the contrary, it is also to be noted that, in case of woven items (table 4) indeed Bangladesh's export to the EU has declined in FY 2005 compared to FY 2004.

Given the emerging situation, Bangladesh will need to keep an

current deal may have for Bangladesh's export to the EU during the rest of 2005, and also in 2006 and beyond.

If the EU import data is analysed, it is found that at least four of the 10 categories on which quota has been imposed on import from China, are also important exports from Bangladesh. These include: Category 4 -- T-shirts; Category 5 -- men's and boy's and women's and girls jerseys and pullovers, Category 6 -- men's or boys; women's and girls' trousers; Category 7 -- women's or girl's blouses. Accordingly, the quota on Chinese exports to the EU should create enhanced market opportunities for Bangladesh, or at the least should give Bangladesh some breathing space. The recent events have unnerved EU importers who will be somewhat wary about sourcing all

EU market for these same products, her opportunity as a major alternative source of import of these items is likely to give her some advantage over the next years, during the time when quotas will be in place on Chinese exports (at least till 2008).

It also needs to be borne in mind that even within the same categories the price levels vary quite significantly, even at disaggregated 8-digit level. This is indicative of wide variance in quality within the same product group. Thus, as table A (annexure 3) shows, for T-shirts the average price of exports from Bangladesh, even at disaggregated 8-digit Category of 61091000 was USD 20.75/ton in 2004, whereas that of China for the same year the average price was USD 60.34. As Annexure 3 also bears out, though China and Bangladesh competes in many

on low-price segment of the demand curve, whilst China has concentrated on the medium-price segment.

## SECTION V: CONCLUDING REMARKS

The above analysis has two policy implications. Firstly, for export of items where Bangladesh has revealed comparative advantage in the EU, particularly in the knitwear sector, the threat of market displacement by China is not immediate, since Bangladesh appears to enjoy relative price advantage over Chinese goods. Secondly, since there will be quotas in place on China, and it is known on which particular categories, Bangladesh should be able to take advantage of the situation. The emerging scenario should also induce Bangladesh's knitwear producers to try and move up-market and capture a segment of the EU market through intra-knitwear export-diversification. Accordingly, market intelligence, increased contact with major buying houses catering to the EU market, and more emphasis on fashion and design in the knitwear should be given due urgency to enable our producers to take advantage of the emerging scenario in the expanding EU market. Signs of substantial new investments in Bangladesh's knitwear and sweater sectors are already visible. This needs to be supported through continuation of the support for backward linkage and renewed support in several areas. For facilitating forward linkages marketing support and activating commercial sections in Bangladesh's embassies is essential. Environmental concerns need also be addressed. Producers will need to give more attention to productivity-enhances factors. A medium term policy to enter into the mid-level fashion and design segment of the market is becoming increasingly important to take advantage of the emerging opportunities.

CONCLUDED

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## CURRENCY

Following is Tuesday's (November 8, 2005) forex trading statement by Standard Chartered Bank						
Sell	BC	Currency	TT Clean	Buy	OD Transfer	
TT/OD				OD Slight Doc		
66.2200	66.2500	USD	65.2000	65.1783	65.1348	
78.4641	78.4996	EUR	75.6059	75.5907	75.5303	
115.8188	115.8713	GBP	112.3070	112.2896	112.1947	
49.2809	49.3033	AUD	46.7288	46.7133	46.6821	
0.5686	0.5689	JPY	0.5491	0.5490	0.5486	
50.8719	50.8950	CHF	49.0816	49.0652	49.0325	
8.3972	8.4010	SEK	7.5920	7.5895	7.5844	
56.1805	56.2060	CAD	54.2474	54.2294	54.1932	
8.5602	8.5641	HKD	8.3898	8.3870	8.3815	
39.7121	39.7301	SGD	38.2091	38.1964	38.1709	
18.1758	18.1841	AED	17.6078	17.6020	17.5902	
17.7982	17.8063	SAR	17.2478	17.2420	17.2305	
10.8183	10.8232	DKK	9.8503	9.8470	9.8404	
223.2582	223.3617	KWD	222.2455	222.1737	222.0302	
Exchange rates of some currencies against US dollar						
Indian rupee	Pak rupee	Lankan rupee	Thai baht	Nor kroner	NZ dollar	Malaysian ringgit
45.77	59.67	101.86	41.050	6.6445	0.6765	3.78

## STOCK