South Asia: Quota expiry and issues in global textiles & clothing trade

Umair H Ghori, University of New South Wales
SOUTH ASIA: QUOTA EXPIRY AND ISSUES IN GLOBAL TEXTILES & CLOTHING (T&C) TRADE

Umair Hafeez Ghori, PhD Candidate, Faculty of Law, UNSW
Why is this sector so important to South Asian nations?

Overwhelming reliance on T&C exports (lack of diversity in exports)

Percentage of Share in Total Merchandise Exports 2006
(Textiles and Apparel)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of Share</th>
<th>2006 (Textiles and Apparel)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nepal</td>
<td></td>
<td>13.1</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td></td>
<td>27.0</td>
</tr>
<tr>
<td>Pakistan</td>
<td></td>
<td>49.4</td>
</tr>
<tr>
<td>India</td>
<td></td>
<td>56.3</td>
</tr>
<tr>
<td>Bangladesh</td>
<td></td>
<td>74.0</td>
</tr>
</tbody>
</table>

Percentage of Share in Total Merchandise Exports 2007
(Textiles and Apparel)

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<th>2007 (Textiles and Apparel)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nepal</td>
<td></td>
<td>19.1</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td></td>
<td>44.7</td>
</tr>
<tr>
<td>Pakistan</td>
<td></td>
<td>65.1</td>
</tr>
<tr>
<td>India</td>
<td></td>
<td>86.6</td>
</tr>
<tr>
<td>Bangladesh</td>
<td></td>
<td>83.0</td>
</tr>
</tbody>
</table>
South Asia has an abundance of skilled and cheap labour force. This sector is a critical employer.

T&C sector employs 38 Million people in India, 15 Million in Pakistan, 2 Million in Bangladesh, 0.3 Million in Sri Lanka & 0.2 Million in Nepal (SOURCES: Ministry of Textiles, India; JAAF, Sri Lanka; World Bank, 2006; Centre for Policy Dialogue, Dhaka, 2007)
Extensive reliance on T&C trade increases vulnerability to change especially since the certainty afforded by the quota system is no longer available.

Combination of factors affect T&C trade including lack of innovation, limited diversity in products, little or no vertical integration and reduced competitiveness in the post-elimination period.

Most pre-elimination studies predicted that amongst the South Asian producers, INDIA (and to some extent PAKISTAN) would benefit from lifting of the quotas.

Countries that lacked vertical integration and concentrated predominantly on clothing exports (i.e. BANGLADESH, SRI LANKA, NEPAL, MALDIVES) would be on the losing end.

Four after quota expiry the results so far are mixed.

The performance figures from South Asian producers paint an interesting picture of contrasts where there are both winners and losers found in close proximity.

Lack of regional integration has also affected competitiveness of South Asian clothing exporters despite proximity with India & Pakistan (world’s second and fourth largest producer of cotton).
Pre and Post-Quota Elimination Growth Rates for Major South Asian Exporters and Combined US & EU Export Figures (in Million US $)
(Source: Calculated from ITCB Statistics for years 2004-07)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>2.41%</td>
<td>21.88%</td>
<td>4.90%</td>
<td>25.72%</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>3.00%</td>
<td>8.64%</td>
<td>3.53%</td>
<td>11.88%</td>
</tr>
<tr>
<td>India</td>
<td>18.00%</td>
<td>11.06%</td>
<td>7.51%</td>
<td>17.74%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>-0.38%</td>
<td>11.62%</td>
<td>5.77%</td>
<td>16.72%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exporters</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>6909</td>
<td>7080</td>
<td>8064</td>
<td>9532</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>2631</td>
<td>2715</td>
<td>2972</td>
<td>3081</td>
</tr>
<tr>
<td>India</td>
<td>9141</td>
<td>11148</td>
<td>12535</td>
<td>13553</td>
</tr>
<tr>
<td>Pakistan</td>
<td>5432</td>
<td>5412</td>
<td>6124</td>
<td>6499</td>
</tr>
</tbody>
</table>
Did India & Pakistan Capitalise on Safeguards on China?

Employing the US Market as an example and comparing Percentage of Market Share and any Change in Market Share of Top Apparel & Made up Exports (China V India V Pakistan) (June 2007- June 2008)

No Substantial Gains were Made.

<table>
<thead>
<tr>
<th>Categories</th>
<th>China</th>
<th>India</th>
<th>Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men’s/Boys Cotton Shirts, Not Knit (340)</td>
<td>19.27</td>
<td>9.02</td>
<td>0.51</td>
</tr>
<tr>
<td>Women’s/Girls Cotton Blouses (339)</td>
<td>12.9</td>
<td>3.92</td>
<td>1.5</td>
</tr>
<tr>
<td>Men’s/Boys Cotton Shirts, Knit (338)</td>
<td>8.74</td>
<td>8.78</td>
<td>8.36</td>
</tr>
<tr>
<td>Cotton Sweaters (345)</td>
<td>53.33</td>
<td>0.99</td>
<td>0.13</td>
</tr>
<tr>
<td>Floor Coverings of Wool (465)</td>
<td>17.02</td>
<td>36.8</td>
<td>9.33</td>
</tr>
<tr>
<td>Cotton Terry &amp; Other Pile Towels (363)</td>
<td>20.82</td>
<td>28.85</td>
<td>19.16</td>
</tr>
<tr>
<td>Men’s/Boy’s Cotton Trousers (347)</td>
<td>8.48</td>
<td>4.55</td>
<td>4.56</td>
</tr>
<tr>
<td>Cotton Bed Linen (362)</td>
<td>58.08</td>
<td>7.15</td>
<td>17.46</td>
</tr>
<tr>
<td>Cotton Hosiery (332)</td>
<td>14.34</td>
<td>0.63</td>
<td>16.12</td>
</tr>
<tr>
<td>Women’s/Girl’s Cotton Trousers etc. (348)</td>
<td>15.54</td>
<td>4.25</td>
<td>1.8</td>
</tr>
</tbody>
</table>

| Percentage of Market Share in the US Percentage change in Market Share in the US |
|-----------------------------------------------|---------------------------------|
| China                                        | India                           | Pakistan                        |
| 39.27                                        | 2.54                            | -36.41                          |
| -4.43                                        | 7.17                            | 7.82                            |
| -7.68                                        | 0.94                            | -7.47                           |
| 83.55                                        | 28.35                           | -4.79                           |
| -3                                           | 0.43                            | -13.59                          |
| 15.26                                        | 26.92                           | 22.43                           |
| -25.32                                       | 1.09                            | 26.76                           |
| 16.4                                         | -7.67                           | 2.51                            |
| 48.35                                        | -26.42                          | -0.62                           |
| -21.22                                       | 20.4                            | -12.02                          |

Source: US Department of Commerce, Office of Textiles & Apparel (OTEXA)
What About Performance of India & Pakistan in the EU Market?

EU Imports of Some Categories Restricted by EU-China MoU & the Shanghai Agreement (China V India V Pakistan) Percentage of Value Share (1st Quarter 2008)

Source: EmergingTextiles.com

<table>
<thead>
<tr>
<th>Category</th>
<th>China</th>
<th>India</th>
<th>Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2) Cotton Denim Fabric</td>
<td>1.00%</td>
<td>7.74%</td>
<td>3.84%</td>
</tr>
<tr>
<td>(4) T-Shirts</td>
<td>20.02%</td>
<td>11.78%</td>
<td>-30.77%</td>
</tr>
<tr>
<td>(5) Pullovers</td>
<td>31.93%</td>
<td>3.18%</td>
<td>1.15%</td>
</tr>
<tr>
<td>(6) M/B Trousers</td>
<td>37.22%</td>
<td>5.74%</td>
<td>6.32%</td>
</tr>
<tr>
<td>(7) Blouses</td>
<td>15.84%</td>
<td>11.93%</td>
<td>0.92%</td>
</tr>
</tbody>
</table>
Did the LDCs fare any better?

- The LDCs can be divided into two groups i.e. The Survivors (Bangladesh & Sri Lanka) and the Victims (Nepal & Maldives)
- Both the Survivors were predicted to be the foremost casualties of the quota expiry.
- Not only did they survive but in some categories have demonstrated stellar growth.
- Also, the Survivors did not experience significant drop in prices as was predicted by many analysts.
The Survivors

**BANGLADESH**

- Combined exports to the EU & US were US $ 9.532 Billion (greater than combined exports of Pakistan @ US $ 6.5 Billion) in 2007.
- Competes in low-end, mass produced, market items.
- Managed to establish critical backward linkages in spinning & weaving which has enabled 80% of knitwear inputs to be met locally. This is critical to qualifying for the EU GSP.
- 7.6% share in the EU apparel market & 3.43% share in the US market.
- Primary target market is EU where growth rate was 17.8% (2004-07).

**SRI LANKA**

- Combined exports to the EU & US were US $ 3.081 Billion in 2007.
- Competes in niche market of specialised items e.g. women’s apparel & swimwear, body armour & flak jackets for military clients.
- Post-expiry strategy encompasses around projecting an “ethical” image.
- No indigenous cotton growth – dependent on cotton imports which is reflected in low textiles tariffs.
- Lacks backward/forward linkages. Benefitted from EU GSP programme.
- 1.80% share in the EU market & 1.60% share in the US market. Competes equally in the US & EU market.
## The Victims

### MALDIVES
- Industry originally established to undertake Outward Processing Production (OPP) to take advantage of low costs and preferential access.
- Majority of workers were foreigners.
- No indigenous cotton base and no backward/forward linkages.
- Apparel industry was 1/3rd of total merchandise exports in 2003. By 2006 there were no exports from Maldives in this sector.
- Total T&C exports went from US $ 81.4 Million in 2004 to US $ 4.8 Million in 2005 (a decline of 94%)!

### NEPAL
- Established to undertake OPP and to take advantage of low costs & preferential access.
- In 2003, accounted for 35% of all merchandise exports.
- No indigenous cotton base and no backward/forward linkages.
- Primarily targeted US market where quota system insulated its exports from foreign competition. Nepalese exporters did not diversify from low value added products.
- Total exports fell from US $ 95.7 Million in 2006 to US $ 70.5 Million in 2008.
- The only viable export product in this sector (i.e. Traditional, handcrafted, woollen carpets) remains unaffected by quota expiry.
- Few hopes for revival!
Major South Asian Producers compared with Leading ASEAN, African, Caribbean & Central American Producers in the US Apparel Market (2006-08)

Source: OTEXA (Data in Million US $)


Source: OTEXA

* Cambodia, Indonesia, Malaysia, Philippines, Thailand & Vietnam
** Bangladesh, India, Pakistan & Sri Lanka

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>ASEAN-6</td>
<td>12,459,570</td>
<td>14,307,009</td>
<td>15,772,669</td>
</tr>
<tr>
<td>SAARC-4</td>
<td>11,654,953</td>
<td>12,981,977</td>
<td>13,055,967</td>
</tr>
<tr>
<td>CBI</td>
<td>9,661,125.9</td>
<td>8,992,726.2</td>
<td>8,456,794.1</td>
</tr>
<tr>
<td>CAFTA</td>
<td>9,168,684.2</td>
<td>8,466,262.9</td>
<td>7,948,953.2</td>
</tr>
<tr>
<td>AGOA</td>
<td>1,486,237.8</td>
<td>1,315,454.6</td>
<td>1,316,241.0</td>
</tr>
</tbody>
</table>
QUESTION> Did Quota Expiry Force South Asian Exporters to Reduce Prices in order to Compete in the Quota-Free Environment?

ANSWER> Not Necessarily! In many cases the prices actually increased! Another prediction proved wrong.

**Change in Unit Prices of South Asian Textiles & Apparel Products in the EU (2004-06) (in percentage)**

Source: South Asian Yearbook 2006

*Articles of Apparel Knit or Crocheted; **Articles of Apparel Not Knit or Crocheted*
The Benefits of Proximity?
So Why Not Conclude a Regional FTA?

- South Asia Free Trade Agreement (SAFTA) was concluded in 2006;
- However, T&C items have been included in sensitive lists. Total exclusion in T&C for SAFTA numbers 389 for BANGLADESH, 300 for INDIA, 494 for NEPAL, 291 for PAKISTAN & 20 for SRI LANKA (Source: http://www.saarc-sec.org).
- Additional non-tariff barriers such as bureaucratic process, transportation, energy & port costs also make it costly for garment producers to source directly from India & Pakistan.
In absence of an effective SAFTA regime, South Asian countries would either prefer a bilateral trade agreements (e.g. India-EU FTA) or seek preferential access for their exports.

Effectiveness of preferential trade schemes are questionable in the quota-free era.

Current global financial crisis to affect buying power of US/EU consumers in niche items. Low-end market segment would not be significantly affected.

Price impact on exports due to increase in fuel costs and other inputs.

Political instability affects export performance (e.g. Pakistan losing foreign orders).

Conflicting interests in NAMA and ongoing tariff reduction negotiations *may favour India and Pakistan* but not Sri Lanka and Bangladesh.

ASEAN and South Asia to be amongst leading exporters in the coming years along with China. Might even take the lead from China as costs rise in China and OPP further shifts to other Asian countries.