Future direction of global textiles & clothing trade: Issues in trade policy

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FUTURE DIRECTION OF GLOBAL TEXTILES & CLOTHING TRADE; ISSUES IN TRADE POLICY

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Faculty of Law, UNSW
Synopsis

Part 1
(BACKGROUND)
- Why T&C trade?
- Quotas in T&C trade
- Issues after Quotas

Part 2
(THEORETICAL FOUNDATIONS)
- Economic rationales
- Non-economic rationales
- Business school theories

Part 3
(FUTURE DIRECTIONS)
- Use of Trade remedies
- Shift in comparative advantage
PART-1
T&C Trade - Why is it important

Combined T&C Exports in 2007 was US $ 583 Billion.

Critical role in the developing and least developed countries. Provides livelihood to millions in the poorest countries of the world.

Engine of growth for developed countries in the past.

Heavy dependence in terms of export earning, poverty alleviation, provision of employment (especially to women).

One of the most controversial and regulated sectors of world trade along with Agriculture.

Even though the overall share in world manufactured exports for T&C appears small at 1.7% & 2.5% respectively, the importance of this sector cannot be discounted due to various factors.

Percentage Share of Manufactures in World Exports (2007)
Source: WTO International Trade Statistics 2008

- Clothing: 2.5%
- Textiles: 1.7%
- Automotive: 8.7%
- Office & Telecom Equipment: 11.1%
- Chemicals: 10.9%
- Iron & Steel: 3.5%

Even though the overall share in world manufactured exports for T&C appears small at 1.7% & 2.5% respectively, the importance of this sector cannot be discounted due to various factors.
What are Quotas in T&C Trade?

- In simple terms, Quotas are deliberately fixed share of imports by the importing country.
- In T&C trade, Quotas were used by the developed countries (US, EU) to restrict imports from developing country.
- Quotas and the Regulatory regimes that implemented them (STA, LTA, MFA & ATC) were deemed to be temporary measures.
- This temporary protection lasted more than 40 years!
- Quotas were lifted in 1 January 2005.
# Major Policy Issues That Affect Global T&C Trade

<table>
<thead>
<tr>
<th>Issue</th>
<th>Focus</th>
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<tbody>
<tr>
<td>Outward Production Processing (OPP);</td>
<td>See the combined impact of ROO/GSP in Annex-1/2</td>
</tr>
<tr>
<td>Counterproductive Rules of Origin (ROO) in Generalised System of Preferences (GSP) Schemes;</td>
<td></td>
</tr>
<tr>
<td>NAMA Negotiations &amp; Preference Erosion;</td>
<td></td>
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<tr>
<td>Reduction of Tariffs;</td>
<td>The focus of the presentation</td>
</tr>
<tr>
<td>Non-Tariff Barriers;</td>
<td></td>
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<td>Labour rights and human rights issues</td>
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<tr>
<td>Safeguards &amp; Anti-dumping measures;</td>
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<td>Role of large retailers.</td>
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<tr>
<td>Regional FTAs;</td>
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</tbody>
</table>
Historical Shift in T&C Production

Japan (1950’s & 1960’s)

Europe & North America (Industrial revolution)

Asian NICs, China, ASEAN and South Asia (1970’s-1980’s onwards)
PART 2
THEORETICAL RATIONALES

Classical rationale was MERCANTILISM
Use of trade regulation to maintain a favourable balance of trade in order to maximise national wealth
Exporting industrial output while maintaining restrictions on imports

Theory of Absolute Advantage, Theory of Comparative Advantage, Factor Proportions Theorem

Theory of Monopolistic Competition, Competitive Advantage Theory

Flying Geese Model, Product Cycle Theory

Stolper-Samuelson Theorem, Public Choice Theory
PART 3: Future directions

Various trade theories offer insights into the future direction

**PRODUCT CYCLE/FLYING GEESE MODEL** = Expansion of industries to other countries (China losing comparative advantage)

**THEORY OF MONOPOLISTIC COMPETITION** = Countries attempt to distinguish like products (e.g. Use of ethical quality mark, adherence to labour standards)

**COMPETITIVE ADVANTAGE THEORY** = Creation and sustenance of competitive advantage (e.g. India’s development of IT industry, advances in specialised textiles)

**COMPETITIVE ADVANTAGE THEORY** nexus with Product cycle, sustenance of advantage through use of AD measures to delay transfer of advantage to other nations.
So where do trade remedies fit in?

- Use of Safeguards?
- Use of Anti-dumping measures?
### Possible theoretical rationales behind safeguards  
*(Alan Sykes, Henrik Horn & Petros Mavroidis, Micheal Trebilcock and Robert Howse)*

<table>
<thead>
<tr>
<th>Rationale</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safeguards as ‘compensation’</td>
<td>Trade and economic liberalisation brings uneven effects for different groups. Safeguards acts as a compensatory mechanism for such groups.</td>
</tr>
<tr>
<td>Safeguards as a measure to restore ‘efficiency’ to domestic industries</td>
<td>Domestic industries require additional investments and trade protection to restore competitiveness with foreign imports. Safeguards provide time for local industries to raise investments in order to improve their competitiveness.</td>
</tr>
<tr>
<td>Safeguards as a measure to reduce ‘adjustment’ costs</td>
<td>Plain implementation of safeguards leads to no gain rather increases the costs of protectionism. Therefore, safeguards have to be implemented in such a manner that they slow the decline in local industries.</td>
</tr>
<tr>
<td>Safeguards as a ‘political’ instrument</td>
<td>Trade concessions that affect local industries lead to political pressures on governments/politicians in office. Safeguards can be imposed on imports to relieve this pressure, thereby dissipating political pressure being exerted by local industry groups and trade unions.</td>
</tr>
</tbody>
</table>
Possible application of Safeguards after quota expiration

Developing-to-Developing

T&C dependent Developing country imposes safeguards to protect domestic sector from a similarly dependent exporter

Such safeguard protection would be in addition to maintaining high tariffs

Developed-to-Developing

Restricting market access by Developed country that is not T&C dependent but is the primary target market of global T&C exports

Safeguards could possibly be used due to domestic political factors, pressure from import-competing industry groups and lobbying by preference receiving countries
Use of Anti dumping measures

See e.g. Annex-1/3
- Delays the inevitable
- Another producer fills the vacuum

Safeguards failed to control influx of imports

AD is the measure of choice after quotas

Overcomes weaknesses in Safeguards

Active use by developing countries

Longer duration
## Summary of Usage (Anti-Dumping Measures in T&C related products)

**Source:** Chad Bown (2009), 'Global Antidumping Database' [Version 5.0, July 2009], <www.brandeis.edu/~cbown/global_ad>

<table>
<thead>
<tr>
<th>Country</th>
<th>Applied AD Measures</th>
<th>Targeted in AD Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>22</td>
<td>1</td>
</tr>
<tr>
<td>Australia</td>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>Brazil</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Canada</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>China</td>
<td>18</td>
<td>107</td>
</tr>
<tr>
<td>Colombia</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>EU</td>
<td>83</td>
<td>2</td>
</tr>
<tr>
<td>India</td>
<td>53</td>
<td>31</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10</td>
<td>31</td>
</tr>
<tr>
<td>Japan</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Mexico</td>
<td>19</td>
<td>7</td>
</tr>
<tr>
<td>Pakistan</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Peru</td>
<td>41</td>
<td>1</td>
</tr>
<tr>
<td>Philippines</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>South Africa</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>South Korea</td>
<td>15</td>
<td>54</td>
</tr>
<tr>
<td>Taiwan</td>
<td>4</td>
<td>45</td>
</tr>
<tr>
<td>Thailand</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>Turkey</td>
<td>70</td>
<td>14</td>
</tr>
<tr>
<td>USA</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Venezuela</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>455</strong></td>
<td><strong>387</strong></td>
</tr>
</tbody>
</table>
Possible application of Anti dumping measures after quota expiration

**Developing-to-Developing**

- Endogenous Trade Policy theory
- Reactive and Pre-emptive use

**Developed-to-Developing**

- Countries with economic leverage may retaliate or approach DSB
- Lack of resources deter challenge in DSB
Domestic AD laws institutionalise a system of trade protection against imports.

This system is available to any industry that can spend resources to hire legal and financial experts.

These industries possess some typical characteristics.
**Pre-emptive & Reactive use of AD - Presumptions**

- Restricted (at the moment) to T&C only

- May be extendable to other sectors through proper analysis

- Developing-to-Developing use only

- Classification into Reactive or Pre-emptive users dependent on the development status of the user
Pre-Emptive use

- Involves combination of AD and tariffs
- Encourage import-consuming industries to use local inputs
- May also possess a cotton base but not necessarily
- Vertical integrated industries
- High tariffs on clothing
- Less development in other sectors
- AD used to pre-empt any effects on the heath of T&C sector
- Inflated definition of domestic industries may be adopted (similar to the US – Lamb case, AB Report)
- Any other sector (e.g. Chemicals, Synthetic Fibre) is monitored for indirect effects on T&C sector
- Surrogate sectors (e.g. Industrial machinery) are also protected if linked with T&C sector
- Pakistan, India, Indonesia, Turkey, Mexico
Reactive use

- More numerous than Pre-emptive users
- Do not possess comparative advantage in T&C
- Quotas provided incubated environment
- Feel compelled to protect T&C industries
- AD measures is used as a ‘reaction’ to trade liberalisation
- AD measures prompted by local industries
- Use of AD measures varies according to politico-economic influence of industries
- As economies transition from T&C to other sectors, Pre-emptive users become Reactive users
- Industrial diversification shifts protection to other sectors
- Protection by AD is held in reserve until influx of ‘unfair’ imports
- Latin American countries, Malaysia, Thailand, South Korea
Nexus of the Product Cycle Theory and the Theory of Competitive Advantage

INITIATION OF THE PRODUCT CYCLE BY THE DEVELOPED COUNTRIES

1. PRODUCTION EXPANDS TO TARGET DOMESTIC MARKET (Stage 1)
2. PRODUCTION EXPANDS TO TARGET FOREIGN MARKETS (Stage 2)
3. STANDARDISATION OF PRODUCTION TECHNOLOGY (Stage 3)
4. PRODUCTS EXPORTED BACK TO THE INITIATOR COUNTRY (Stage 4)

Application of trade remedies – “sustaining” competitive advantage

Quasi rents

Four queries posed by Theory of Competitive Advantage:
1) Source of competitive advantage?
2) How is it created?
3) How is it sustained?
4) Role of the state in creation and sustenance?
Future directions

- No new trade restraints were imposed in 2009-2010
- Good indicator of future trade trends as countries adjust to a liberalised environment
- Use of labour standards (e.g. US against Guatemala)
- Role of large retailers (public choice theory, SST)
- Role of FTA’s in a liberalised trading environment
- OPP dependent on competitive advantage (full package service, DTS model)
- Regional cumulation and reform of ROO
- Reduction of tariffs will affect developing countries/LDCs
- NTB’s to continue as barriers to entry