Garment industry faces a global shake-up
By Guy de Jonquières
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One of the most highly globalised industries is about to be struck by an earthquake. It is set to sweep away an international division of labour and trade patterns that has endured for decades, sending tremors through communities and entire economies in the industrialised and developing worlds.

The upheaval will be triggered by abolition at the end of this year of the costly and complex import quotas that have long restricted flows of clothing and textiles principally from Asian countries, the world's main exporters, to the US and European Union, the largest markets, and to Canada.

The result is expected to be a brutal and messy restructuring of a basic manufacturing activity that is estimated to employ at least 40m people worldwide, most of them in poorer countries, and generates trade worth more than $350bn (€280bn) (£190bn) a year.

Elimination of quotas, agreed 10 years ago as part of the Uruguay world trade round, is expected to cut the prices western consumers pay for clothing. But in many poor countries - and in some rich ones - it will set off a scramble to survive in a business where trade barriers have long stunted competition.

The biggest winner is widely forecast to be China. In many areas of clothing, as in other manufacturing sectors, its efficient, large-scale production and low costs are expected to give it a decisive advantage.

"Everyone in the industry is talking about moving to China. We will see a huge shift after the end of the year," says Hagen Decker of Kurt Salmon Associates, a consultancy that works closely with the industry. He says demand will be so strong once the quotas end that it may temporarily swamp the country's production capacity.

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**Clothing and textiles**

- Estimated to employ at least 40m people worldwide
- Manufacturing generates trade worth at least $350bn a year
- More than 30 countries' exports are controlled by quotas
- Trade barriers have cut world

Indeed, China's impact is already being felt. Its clothing exports have grown to about a quarter of the world total since it joined the World Trade Organisation in 2001. Some industry experts forecast that share will double in less than five years.

For producers in many of the more than 30 other countries whose exports are controlled by quotas, it will be a tough struggle. A free-for-all will pose particularly acute challenges for the dozen or so poor economies that depend heavily on clothing and textiles production.

In Bangladesh, for example, the industry employs an estimated 3m people and generates more than three-quarters of exports of goods. "If clothing exports fall 20 per cent, it will be a national disaster," says one development expert.
income by $137bn, according to the IMF and World Bank.

- Removal of quotas is forecast to benefit China the most, followed by India.
- Bangladesh and other poor economies that rely heavily on clothing and textiles exports will be the most vulnerable to global competition.
- US clothing importers expect to buy most of their goods from five or six countries by 2007, down from about 50 today.

Rich economies such as the European Union, where 2.7m people work in clothing and textiles, are also in the line of fire. Research for the Institut de la Mode, a French industry body, suggests employment in the sector will fall 15 per cent in Britain and 13 per cent in Germany after quotas end.

Some producers in developing nations have yet to realise what is about to hit them. "Many small companies are still unaware of the implications of ending quotas," says Matthias Knappe of the International Trade Centre, a Geneva-based organisation that gives advice and technical assistance to developing countries.

Even the US garment trade has yet to adjust fully to a quota-free world. "People still don't really believe it is going to happen," says Laura Jones of the US Association of Importers of Textiles and Apparel. "They are stunned because they have lived with the system so long. It is an enormous shock to realise it is about to disappear."

Protectionism in clothing and textiles is almost as old as the industry itself. But since 1974 it has been formalised and greatly expanded by a web of curbs imposed by the US, Europe and other rich countries on imports from developing country producers.

The system, known as the Multifibre Arrangement (MFA), has not succeeded in its aim of stemming a steady fall in employment in the industry in the west. However, it has severely distorted trade and cost western consumers, as well as developing economies, dearly.

Unlike most other sectors, the clothing industry has globalised in response to closed - not open - markets. As exports from one developing country hit their MFA ceilings, the predominantly Asian companies controlling production shifted it to others not yet covered by quotas.

Such "quota-hopping" has led to clothing industries springing up in places such as Mauritius, where none existed before. The system has also fragmented the supply chain by forcing companies to spread different stages of production across plants in several countries.

Quotas have inflated clothing prices by creating scarcity and "rents", price premiums that act as taxes on trade. The annual cost to US consumers has been put at $70bn and has fallen hardest on poor families, which spend a relatively large share of income on clothing. Each job saved by quotas in the US industry is estimated to have cost consumers an average of $170,000.

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Global textiles and clothing exports

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For many years, developing countries castigated the MFA as flagrant protectionism. Indeed, their proudest achievement in the Uruguay round was to secure a commitment to its removal. Since then, they have repeatedly called for faster liberalisation.

But with the end of quotas in sight, some have done an about-turn. Bangladesh and Mauritius have campaigned to get the MFA extended, while producers in other developing countries have joined protectionist US and EU industry lobbies and US Congress members in fighting to preserve the barriers.

The reason is that, in practice, the system has suited many poor nations. By carving up the world market, it has shielded from competition weaker producers, which have often been unable to fill national quotas.

With China poised to grab their business, manufacturers elsewhere are trembling.

However, pleas to prolong the system appear doomed to failure. The US and EU say they will end it on schedule and would face a barrage of WTO challenges if they did not. A WTO agreement to extend the MFA looks even less likely, because all 148 members would have to approve it.

Many trade experts say that once quotas finally go, the shock will be like "falling off a cliff". The transition will be particularly abrupt for two reasons.

One is US and EU foot-dragging. WTO rules have obliged both trade powers to phase out some quotas over the past decade. However they have done the minimum legally required, leaving almost half their imports by volume, including most "sensitive" products, to be liberalised at the end of this year. Although Washington and Brussels have been required steadily to expand the remaining quotas, they have been allowed to use special "safeguard" restrictions to block big rises in imports.

The second reason is structural change in western retailing. In the US, the world's biggest clothing market, which absorbs about a third of all imports, concentration of the trade has left Wal-Mart and a few other big chains dominating distribution. They say that once the MFA goes, they will stop shopping around in many different countries and streamline drastically their supplier networks.
"Quotas have made the supply chain very complex," says Mr Decker of Kurt Salmon. "There is no good reason to buy textiles from one country, have garments cut in another and sewn in a third."

Ms Jones of the US importers' association expects her members to buy most of their needs from only five or six countries by 2007, down from about 50 today. For most, China will be the supplier of choice, followed by India, which has a large, vertically-integrated industry, and Pakistan.

China does not compete just on price: indeed, it is not the lowest-cost producer of some clothing items. Its biggest advantages are its industry's rapid response, reliability, business-like attitude and keen understanding of customer demand. "It is very easy to do business there," says Ms Jones. Nonetheless, China may not sweep all before it, at least not immediately. Despite the country's formidable competitive strengths, it faces many political and commercial hurdles.

First, China's WTO accession agreement entitles other countries temporarily to reimpose quotas on its exports until 2008. The curbs, which the US has already activated on some Chinese clothing products, are in addition to the anti-dumping actions used against China by many trade partners.

US textiles producers are urging Washington to clamp down even harder once the MFA ends. Although employment in the industry has contracted sharply, it wields strong political clout in electorally important states and is expected to step up the pressure as this year's US presidential contest unfolds.

US and European importers fear protectionist western lobbies will also seek to use eco-labelling schemes, labour standards rules and other regulatory devices to keep out Chinese imports.

Many importers plan to hedge their bets by sourcing supplies from other countries as well. One is Vietnam, whose low labour costs and willing workforce are attracting foreign investments, even though the country faces exceptionally high trade barriers while it remains outside the WTO.

In addition, steep tariffs will continue to protect many countries' markets from imports. They range as high as 12 per cent in the EU and 33 per cent in the US, and higher still in many developing nations.

However, trade arrangements, such as the US African Growth and Opportunity Act (Agoa) and the EU's agreements with its Mediterranean neighbours, give many poorer countries preferential access to western markets. That may shield them, at least for a while, from the full force of Chinese competition.
Producers in regions such as central America and eastern Europe that are close to large western markets should also have an edge, particularly in fashion-sensitive clothing, where fast product turnaround and short delivery times are critical.

In southern Europe, where much clothing is sold through small shops, fragmented distribution channels may slow China's advance. The Association of European Textiles Retailers says many of its 500,000 members are too small to source supplies far beyond the EU's borders.

It is working closely with European clothing makers to improve supply chain management and tighten links between suppliers and customers.

All this suggests there will still be opportunities for suppliers that cannot match China's manufacturing muscle. To exploit them profitably, however, China's rivals will need to move fast.

Some developing countries have already got the message. Mexico's industry is moving up-market, while Mauritius has launched government-backed programmes to prepare clothing producers for competition and create new jobs for displaced workers.

Thailand, a leading silk producer, aims to become an important Asian fashion centre by developing new design skills. Cambodia, meanwhile, hopes to woo western consumers by emphasising its industry's compliance with international labour standards.

But in many developing countries, prospects look unpromising. "It is very easy to talk about diversifying, but it is very difficult to do," says a consultant to textiles and clothing producers in developing countries.

Furthermore, survival will involve more than closing the gap with China's productivity and service standards and finding market niches where it does not compete. It will also depend on access to good local transport infrastructure to get goods to market quickly and advanced telecommunications systems to link suppliers and customers.

Although parts of India's industry are modernising, it is handicapped by the country's congested highways, clogged ports and cumbersome bureaucracy. In many African countries, particularly landlocked ones, those problems are still more severe.

Even if they can be overcome, industry experts believe a worldwide shake-out is inevitable in a sector whose competitive structure has been frozen by trade barriers.

For some countries, that is likely to be a natural development. "Clothing and textiles is the first manufacturing activity industrialising economies get into," says Sheila Page of Britain's Overseas Development Institute. "It is also the first they get out of as they grow more prosperous."

But that will not make the pain of the coming adjustment any easier to bear, in rich or poor countries. It will be hardest of all for those that are stuck on the lowest rungs of the development ladder and struggling to haul themselves up.

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