

MFA Phase Out: Implications for Asia-Pacific

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Main players in Asia Pacific

- **Labour-intensive RMG: Bangladesh, Cambodia, Fiji, Viet Nam, China, India**
- **High-end, fashion oriented RMG (triangular manufacturing): Republic of Korea, Taiwan Province, Japan, Hong Kong (China); Emerging: India, Sri Lanka, Thailand, China**
- **Textiles: Taiwan Province; China, Hong Kong (China) (declining), India, Pakistan, Indonesia; Emerging: Bangladesh**
- **Fabrics/yarns: India, Pakistan, Indonesia (quality is problem)**
- **Cotton, natural fibres: India, Pakistan**
- **Synthetic, blended fibres, silk: Thailand**

Implications of MFA Phase Out:

- More efficient global realignments of T&C industry on the basis of real rather than artificial competitiveness
- There will be winners and losers: China and India are expected to gain most while LDCs (whose competitiveness is based on quotas) may lose out; for others the prospects are uneven
- Consumers are main beneficiaries anywhere
- However, even for the potential “winners”, the gains are not automatic, while for the potential “losers” the long-term benefits may outweigh the short-term costs
- With adoption of appropriate policies and proper management of transition, everyone can gain
- The outcome may be that not every country will be able to remain competitive in the T&C industry; timely choices on industrial restructuring will have to be made

What identifies winners?

- **Having reasonably integrated T&C industry**
- **Hence, relatively low dependence on imports for inputs**
- **Strong investment climate and presence of foreign investors or linkages with foreign investors**
- **Strong backward and forward linkages, both domestically and internationally**
- **Low labour costs but also flexibility to adapt to changing conditions**
- **Diversified product and market structure (other than T&C)**
- **Rapid technology upgrading and adaptation and able to continually innovate**
- **Able to identify niche products and markets and/or develop brand name recognition**
- **Proximity to, and/or FTA with, principal buyer markets (Australia, US, EU, Japan)**
- **Being WTO member**

What are the main issues/threats?

- **Dependence on labour-intensive RMG for exports and employment, often under GSP, with little value added and high import content (e.g. Cambodia, Bangladesh, Fiji);**
- **Dependence on US and EU for markets**
- **High number of players, some of which benefit from FTA with principal buyer markets (e.g. Mexico-US under NAFTA, Turkey-EU Customs Union)**
- **Lacking supply-side capacity to strengthen national competitiveness (quality and marketing vs. price)**
- **Economies of scale vs. customization**
- **Large distance from main buyer markets**
- **Dominance of FDI (e.g. Cambodia). Will TNCs leave? Depends on prevailing investment climate/conditions**
- **Quota but not duty free; also: rules of origin, anti-dumping, technical standards, safeguards (e.g. transitional safeguard for China), social clauses**

What are the main issues/threats, cont.

- Preference erosion
- Tariff escalation (developed countries) and inverted tariff escalation (developing countries)
- Dominance of China (India); issue of fair trading practices (e.g. artificial currency values, dumping, labour conditions, environmental concerns etc.)
- Traditional overseas suppliers of inputs may divert to assist domestic industry (e.g. Indian/Chinese exports of fabrics to Bangladesh)
- Dependence on low labour costs/price as main determinants for competitiveness prevents development
- Attempts to delay quota phase out
- Non-WTO members: quotas still apply (e.g. Viet Nam)

What are the main benefits/opportunities?

- **Realignment of global production patterns on the basis of competitiveness, e.g. Bangladesh/Cambodia: RMGs; India, Sri Lanka, Thailand: high fashion, brands (cotton vs. silk); India, Pakistan: cotton, natural fibres, textiles, etc.**
- **Competitiveness is not determined by price alone!!**
- **Relocation of textile industry to developing countries**
- **Defining niche products/markets along the value chain (from raw materials to retailing and services), e.g. Sri Lanka: lingerie; Thailand: silk products, blended fabrics, high fashion garments; Indonesia: synthetic fibres**
- **Engaging China through FTAs and economic partnerships**

What are the main benefits/opportunities?, cont.

- **Triangular manufacturing; flying geese pattern: China may outsource low-end of supply chain to LDCs**
- **Development of T&C related services, equipment, retailing**
- **Strengthening of GSP (?); EU tariff alignment under GSP (12.5% market share ceiling for T&C to qualify for GSP)**
- **Not all buyers will put all their eggs in one basket (i.e. China may not dominate after all)**
- **Regional and subregional cooperation: AFTA, SAFTA, BIMSTEC, Bangkok Agreement help to diversify markets away from developed countries**

Disadvantages of GSP/RTAs

- They may lead to trade diversion and artificial competitiveness
- Restrictive rules of origin
- Market access is important but is useless without supply side capacities
- Overlapping RTAs: e.g. SAFTA vs. BIMSTEC vs. India-Sri Lanka BTA
- Hence: administration costs may be higher than benefits from trade liberalization

Issues in regional cooperation:

- **Integrate the whole supply chain at subregional level with clear focus and specialization by each country; joint branding and R&D**
- **Not only exports but domestic market also counts; regional cooperation makes markets larger**
- **Integrated investment and competition policies and trade facilitation help trigger benefits from trade**
- **Consolidation of RTAs: reduce their number, expand their membership and deepen/widen commitments, e.g move from PTA/FTA to Customs Unions**
- **Political will is essential; private sector can take the lead**

THANK YOU!