



T&C Trade and Dynamic Products

A specific Look at LDCs

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Presentation by
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UNCTAD Expert Group Meeting on Strengthening
Participation of Developing Countries in Dynamic and New
Sectors of World Trade: Trends, Issues, Policies

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Structure

**Dynamic
Products
(clothing)**



**Dynamic
Products
in SSA?**



**How to Create
Dynamic
Products**



A Special Look at the LDC Clothing Sector

- Clothing & textiles are two different sectors
- Clothing:labour intensive; Textiles: capital intensive
- LDCs hardly produce any textiles
- Technical textiles are regarded as dynamic: but non-existent in LDCs
- Clothing is most critical for LDCs & small countries
- Important for Poverty Reduction
- Easy to develop (and to lose), and thus very dynamic



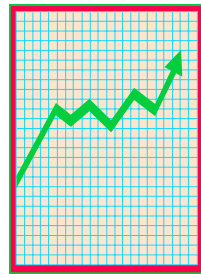
Possible Definitions of Dynamic Products

- Import side: High import growth in target markets
- Export side: High export growth
- Fashion Side: Fast changing & demand intensive products
- Development side: Employment creation
- Dynamic migratory industry

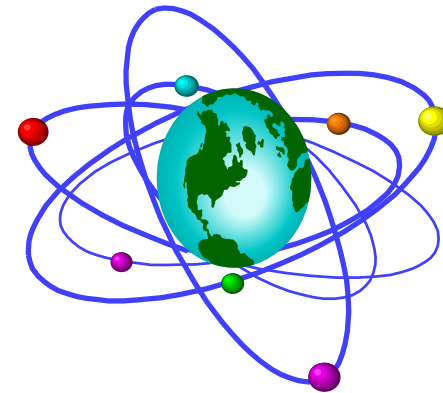


Export Performance of Clothing Products

- Assessment of the trade performance of all clothing products of HS 61 and 62
- The export performance of each product at the 4 digit level over the period 1999 - 2003 is reviewed in terms of:



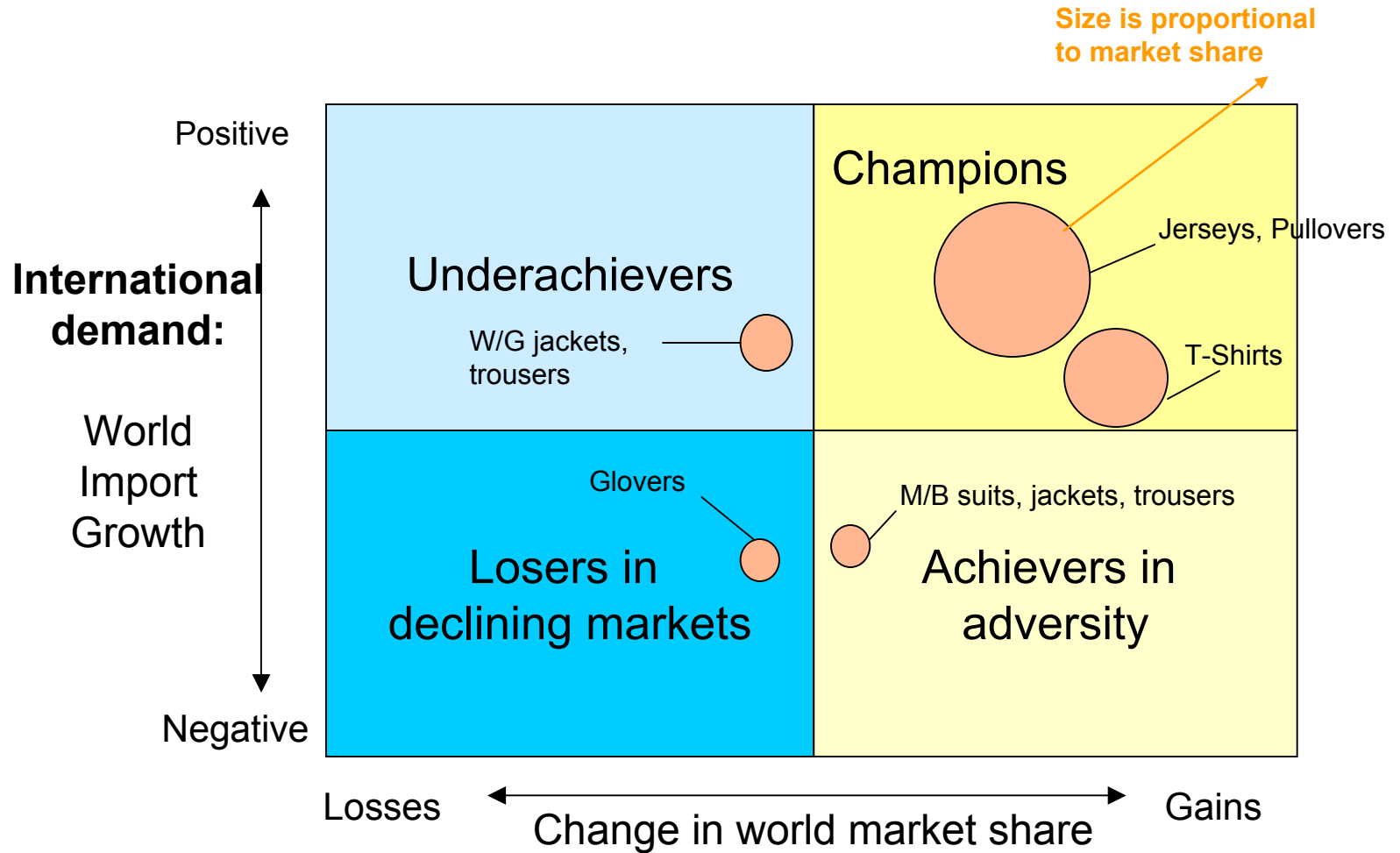
Growth of
leading export products



The dynamics of
International Demand



Clothing: Dynamic Growth of Imports





The Easy Solution: Look at Past Growth Rates

- [World Market Demand & China Export Growth.pdf](#)
- [World Market Demand & LDC growth.pdf](#)
- But: ATC distorted trade flows (export side)
- Suppressed opportunities will show its effects now and will then slow down



Summary: Clothing Trade Dynamics 1999 - 2003

- China and LDCs export similar « dynamic » products
- LDCs world market share is 5 times lower
- China operates mainly in « champion » products, while LDCs in « underachieving » products (high demand, low market share)
- ATC third stage effect is visible



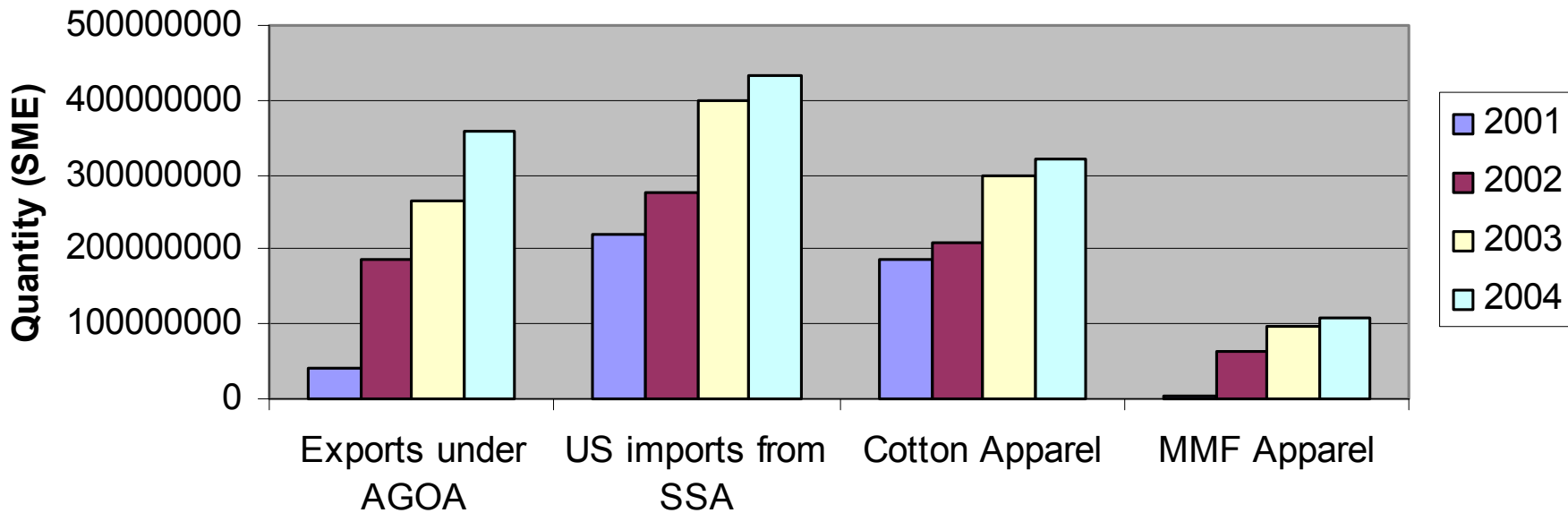
Structure





US Apparel Imports from SSA 2001 - 2004

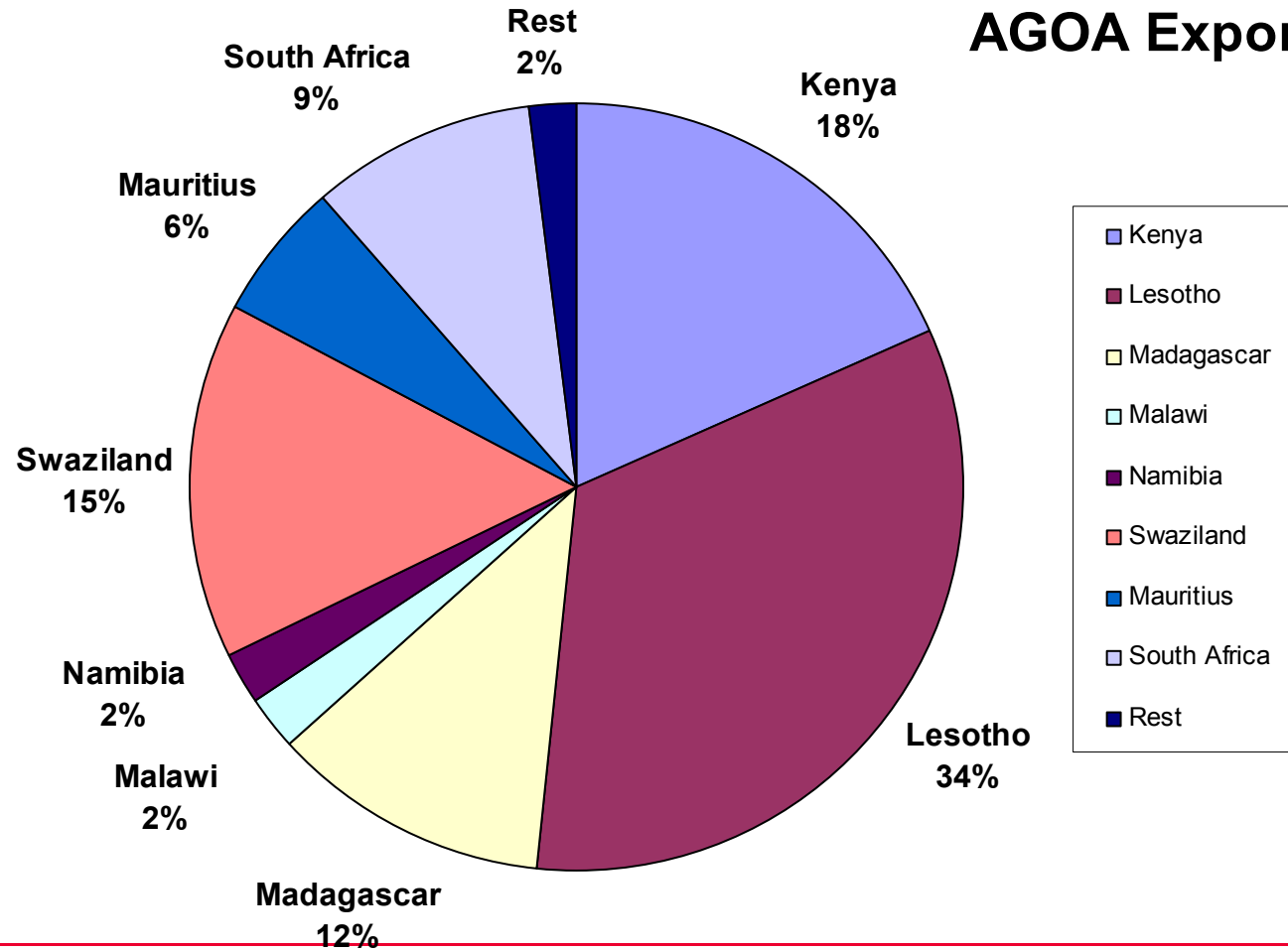
AGOA Performance 2001-2004





Who is Using AGOA Preferences?

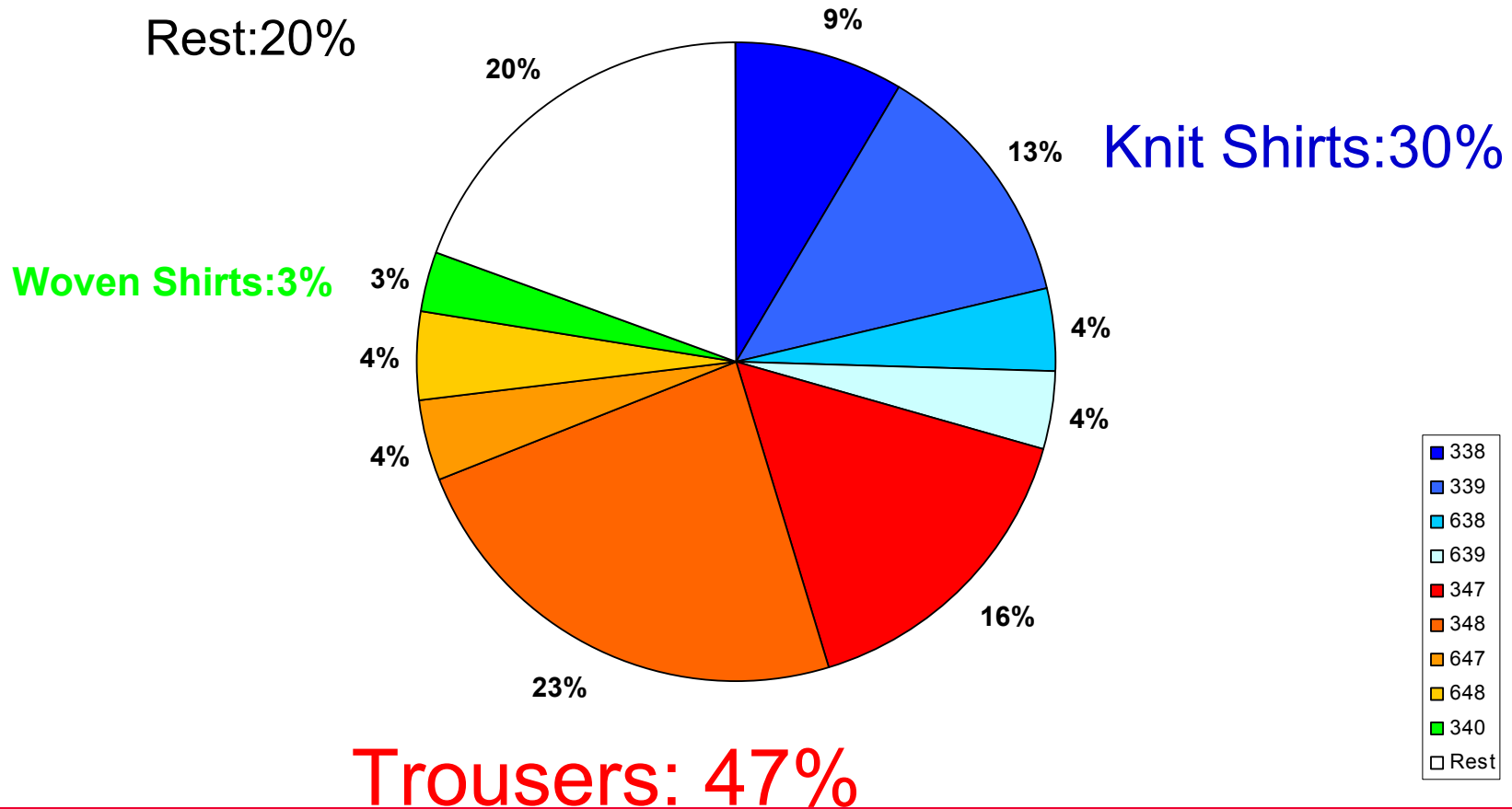
AGOA Exports in 2004



Source Otexa; * Year endings 11/2004



US Clothing Imports from Africa by Product in 2004*





Summary: African Trade in T&C in 2004

- Exports to the US dominate & increased steadily from 2000: dynamic?
- 95% of all T&C exports in 2004 were clothing
- 81% of exports under AGOA
- 89% third country fabric; 11% regional fabric
- (in 2003; 84% third country; 16% regional)
- Future of third country sourcing provision vital
- Weak diversification: 80% of total SSA T&C exports to US in only 3 constraint quota categories



SSA Clothing Exports: Are These Dynamic Products?

Yes because:

- Exports increased over several years from zero
- Created employment & f.x. earnings
- Enterprises are very dynamic (Asian investors)

No, because:

- Purely driven by duty-free market access (trade policy)
- FDI driven which could as easily leave again
- Exports only in products, which were quota protected
- Neither fashion nor « creative » products were exported



Structure





What are Dynamic Clothing Products in African LDCs?

- Products benefitting from preferential market access and easy rules of origin requirements
- FDI played a major role

But:

- Dynamic foreign investors are not linked to the local industry
- Knowledge transfer is crucial

What are Barriers and Constraints?

Indigenous:

- Lack of Capacity at all levels
- Distance to the main markets
- Business is driven by outside decision makers

Exogenous:

- Market access (RofO when duty-free market access; high tariff in larger DCs)
- Private industry standards: Social Compliance
- Supply Chain Security
- Environmental issues



How Should Policies and Enterprises in LDCs Respond to Barriers/Constraints?

Indogenous:

- Increase competitiveness
- Capacity building (incl. through TA)

Exogenous:

- Business/trade advocacy for market access, incl. GSP & GSTP
- Effective negotiations in MTS/RTAs/FTAs
- Open FDI regulations which target technology/know-how transfer



Could ATC-affected Countries Benefit from Dynamic Products?

- Individual positive (product) examples
- But: to have an impact on employment creation & poverty a holistic reform approach is needed
- Dynamic products cannot be looked at independently from competitive environment, and from
- The MTS with its possibilities for preferential and differential treatment



Key determinants in Effective Trade Participation & Pro-development Holistic Approaches

- A holistic approach is needed, covering
 - 1) Competitiveness at the sector and enterprise level
 - 2) Trade facilitation
 - 3) Trade policy incentive
 - 4) Closer regional cooperation
 - 5) South-south trade development



1) Competitiveness at the Sector and Enterprise Level

- Consolidation of the industry demands a strategic approach
- Need for product and market diversification
- Knowledge about the competitive environment
- Full-package service development
- E-business developments



2) Trade Facilitation

- Overall value chain perspective
- Trade logistics
- Infrastructure development



3) Trade Policy Incentives (Distortions!)

Negative:

- Discriminatory policies against efficient competitors

Positive:

- Open market access for LDCs with meaningful Rofo
- New EU GSP scheme
- Larger DCs to provide also duty-free access



4) Closer Regional Cooperation

- Small countries will not be able to develop a vertically integrated industry
- A regional vertical approach is needed
- Working along the regional (or inter-regional) value chain: from cotton to clothing
- Present RofO requirements demand regional cooperation
- Example: AFTEX: developing regional complementarities & exploiting synergies

5) South-South Trade Development

a) DCs as a market;

- QUAD market: 80% of world imports; post-ATC growth rate expected to be 1-5%
- Large DC will grow much faster
- But high tariff protection; cultural barriers
- GSTP could be a door-opener

b) VC cooperation to jointly tap traditional QUAD markets

- From cotton to clothing using comparative advantages of different regions



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In Sum

- Many clothing products have a high growth rate in QUAD markets
- But SSA LDCs do benefit only in traditional clothing items (very limited – dynamic?)
- In order to exploit dynamic products a holistic approach is needed consisting of:
 - Improving Competitiveness at the enterprise level
 - Trade facilitation
 - Trade policy incentives
 - Closer regional cooperation
 - South-south trade development



THANK YOU !

For more information

<http://www.intracen.org/textilesandclothing>

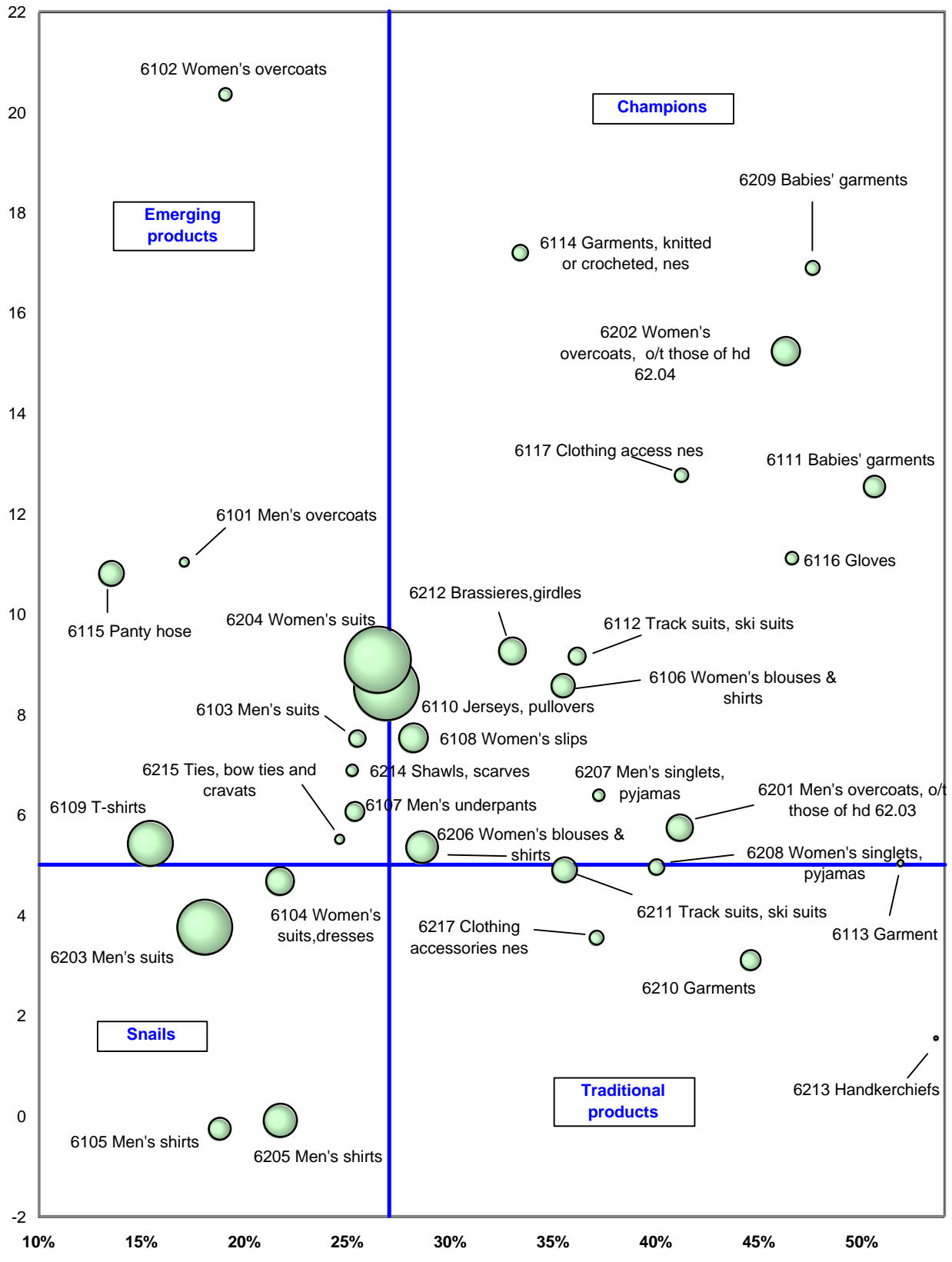
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World import growth, volume terms (1999-2003)

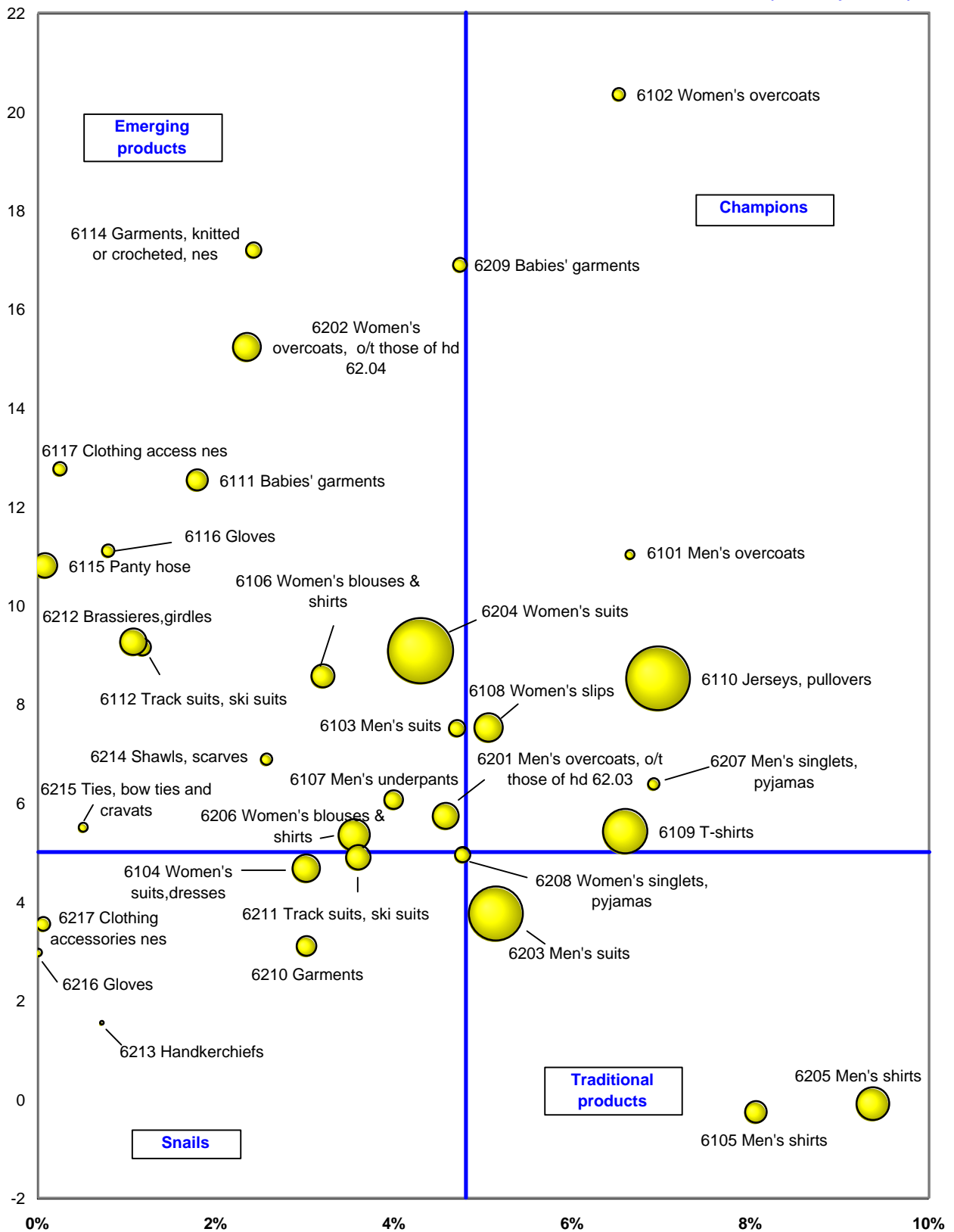
China's world market share in the sector = 27% (8% all products)



China's world market share in 2003

World import growth, volume terms (1999-2003)

LDCs' world market share in the sector = 4.8% (0.5% all products)



LDCs' World Market Share in 2003