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Extra-EU Imports of Clothing and EU Preferential Trade Policies in the Post-Quota Era: The Position of Asian Suppliers in the Largest World Market for Clothing Imports

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Contents

Abstract

The European Union (EU) became the largest single market for clothing imports in 2007, surpassing the United States (US). This paper examines the competitive position of suppliers from developing Asia in the expanded EU clothing market relative to other non-EU suppliers, including those receiving preferences under the complex system of EU preferential trade programs. The paper finds that competitive Asian suppliers, led by the People's Republic of China (PRC), have performed well in the EU clothing market since quotas were eliminated under the Agreement on Textiles and Clothing (ATC) in 2005. It also examines price movements in imported clothing under the ATC (2004) and after quotas were abolished (2005), and then examines how the imposition of safeguards on the PRC (2006–2007) affected prices. The relative position of various groups of suppliers in terms of unit prices is then compared with the PRC and the world as a whole. Finally, time trends in price movements are examined for the PRC and from all suppliers. The findings indicate that the end of quotas on the PRC on 1 January 2008 should bring renewed downward pressure on prices in the EU clothing market, and will require other suppliers to become more efficient, else they lose market share.

I. Introduction

The European Union (EU) became the largest importer of clothing in 2007 after overtaking the United States (US), which was the largest market through 2006.[1] The EU market for extra-EU clothing imports has expanded since the full implementation of the Agreement on Textiles and Clothing (ATC) on 31 December 2004. Imports by the EU grew to $70.96 billion compared with $80.07 billion in the US in 2005 according to the *International Trade Statistics 2006* (World Trade Organization 2006). The extra-EU market expanded further to $79.6 billion in 2006 compared with $83.0 billion for the US (World Trade Organization 2007). The expansion of the extra-EU market in volume terms was robust in 2005 and 2006 at 9% and about 7% respectively, although volume was flat in 2007 compared with 2006.[2]

Asian competitive and least developed country (LDC) suppliers have availed of the opportunities the EU market has offered since quotas were eliminated, despite some initial difficulties experienced in 2005 by a majority of the Asian countries. The EU imposed some restrictions on shipments from the People's Republic of China (PRC) beginning in the latter half of 2005, and these restrictions remained in place until 1 January 2008. Future growth opportunities appear to be good, although the complex system of EU preferences and rules of origin may complicate efforts of Asian suppliers to remain competitive.

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1 The EU market is roughly twice as large as the US market for clothing (using a broad definition) if one includes intra-EU trade, reaching $141.2 billion in 2006. However, the relevant indicator of size for nonmember suppliers is extra-EU imports. Exchange rate movements and the expansion to 27 members in 2007 reinforced the trend toward extra-EU clothing imports exceeding US imports in dollar value. In this study we use HS Chapters 61 and 62 as the (narrow) definition of clothing in order to make it comparable to US Office of Textiles and Apparel (OTEXA) data. Under this definition, EU clothing imports actually first exceeded those of the US in 2006 at $75.4 billion versus $73.9 billion.

2 Again we use the narrow definition of HS 61 and 62 in measuring volume in units of weight (kilograms). US OTEXA data are reported in square meter equivalents rather than in weight (James 2008).

II. Analysis of Abolition of Quotas on Extra-EU Clothing Imports

Extra-EU imports of clothing have shown strong growth since the removal of quotas at the end of 2004. World shipments in value terms (current prices in Euros) grew by an estimated 8.2% in 2005 and by an even more rapid 11.2% in 2006 (Table 1).[3] The volume of imports increased by 9.0% in 2005 and by 6.9% in 2006 (Table 3). The high growth in volume relative to value in 2005 indicates a beneficial effect to European consumers from falling unit prices as a result of the lifting of quotas on competitive Asian suppliers in compliance with the ATC. In 2006 this effect was partially reversed as the imposition of quotas on imports from the PRC in the latter half of 2005 began to impact unit prices.

Table 1: Extra-European Union Imports of Clothing (value in million Euros)

Supplier	2004	2005	Percent Change	2006	Percent Change	2007	Percent Change
Competitive Asian Suppliers							
PRC	11534.4	16960.8	47.0	18883.1	11.3	21838.4	15.7
India	2480.0	3238.9	30.6	3808.6	17.6	3837.3	0.8
Sri Lanka	814.2	797.4	−2.1	966.4	21.2	1039.9	7.6
Indonesia	1338.3	1200.1	−10.3	1413.2	17.8	1196.1	−15.4
Thailand	894.7	785.1	−12.3	878.8	11.9	794.8	−9.6
Pakistan	917.3	779.2	−15.1	906.7	16.4	903.7	−0.3
Viet Nam	634.5	689.6	8.7	1024.3	48.5	1112.4	8.6
Malaysia	270.4	258.5	−4.4	297.8	15.2	233.6	−21.5
Philippines	325.7	209.6	−35.7	236.7	13.0	187.4	−20.8
Subtotal	19209.6	24919.2	29.7	28415.7	14.0	31143.6	9.6
Asian Least Developed Country Suppliers							
Bangladesh	3721.4	3538.3	−4.9	4613.7	30.4	4376.9	−5.1
Cambodia	519.3	475.8	−8.4	552.2	16.1	521.3	−5.6
Lao PDR	118.2	119.5	1.1	123.8	3.6	108.0	−12.7
Myanmar	374.5	193.8	−48.3	210.3	8.5	160.0	−23.9
Subtotal	4733.4	4327.4	−8.6	5500.0	27.1	5166.4	−6.1
Former Large Quota Holders							
Hong Kong, China	1964.9	1705.2	−13.2	2511.5	47.3	1681.7	−33.0
Korea	608.5	320.7	−47.3	369.7	15.3	259.5	−29.8
Taipei,China	330.2	206.2	−37.6	218.2	5.8	189.3	−13.2
Macao, China	429.0	320.3	−25.3	378.9	18.3	278.3	−26.5
Subtotal	3332.5	2552.3	−23.4	3478.2	36.3	2408.8	−30.7

continued next page.

[3] These growth rates for the Euro value of imports in current prices are calculated based upon 2006 as the base year and exclude figures from Bulgaria and Romania in extra-EU trade, as these countries only joined the EU in 2007. The growth rates calculated for extra-EU trade including Bulgaria and Romania are 9.4% in 2005 and 12.7% in 2006 (year-on-year).

Table 1. *continued.*

Other Suppliers							
United States	280.6	335.8	19.7	371.8	10.7	361.8	−2.7
GSP Suppliers							
UAE	220.1	119.8	−45.6	132.5	10.7	95.3	−28.1
Ukraine	437.9	440.3	0.5	419.7	−4.7	368.7	−12.1
Moldova	87.7	94.3	7.5	132.9	40.9	147.4	10.9
Belarus	115.4	108.3	−6.1	99.0	−8.6	84.3	−14.8
Subtotal	861.2	762.7	−11.4	784.1	2.8	695.8	–11.3
ACP/EBA Suppliers							
Madagascar	158.3	180.8	14.2	230.8	27.7	245.8	6.5
Mauritius	514.3	441.6	−14.1	483.5	9.5	473.5	−2.1
Peru	63.4	76.5	20.7	81.1	6.1	91.1	12.3
Subtotal	736.0	698.8	−5.1	795.4	13.8	810.4	1.9
Suppliers with Free Trade Agreements or Customs Unions							
Turkey	7747.4	8098.1	4.5	8237.9	1.7	8917.9	8.3
Romania**	3841.4	3603.5	−6.2	3505.5	−2.7		
Tunisia	2603.5	2463.3	−5.4	2468.4	0.2	2566.1	4.0
Morocco	2428.0	2263.7	−6.8	2367.7	4.6	2516.2	6.3
Bulgaria**	1079.1	1103.3	2.2	1226.7	11.2		
Egypt	340.0	329.0	−3.2	379.8	15.4	415.3	9.3
Croatia	451.9	406.6	−10.0	382.0	−6.0	380.0	−0.5
Switzerland	551.9	519.0	−6.0	532.3	2.6	607.4	14.1
Serbia***	141.7	105.5	−25.5	221.1	109.6	274.3	24.1
Macedonia	263.7	282.5	7.1	346.0	22.5	455.5	31.7
Israel	131.3	102.7	−21.8	94.6	−7.9	78.1	−17.4
Albania	109.9	108.4	−1.4	124.3	14.6	161.5	29.9
Bosnia	111.3	111.7	0.4	120.8	8.1	127.1	5.2
Subtotal	19801.1	19497.4	−1.5	20007.0	2.6	16499.4	−17.5
World****	50121.4	54230.2	8.2	60283.9	11.2	58054.4	−3.7

GSP = Generalized System of Preferences, ACP = African Caribbean and Pacific group of states, EBA = Everything But Arms, PRC = People's Republic of China, UAE = United Arab Emirates.
**Romania and Bulgaria became EU members in 2007, hence they are excluded in YTD figures from extra-EU trade data.
***2004 data are for Serbia and Montenegro.
****Imports from World are exclusive of intra-EU trade.
Source: Eurostat website (epp.eurostat.ec.europa.eu), downloaded 5 May 2008.

In 2007 the growth rate of imports of clothing in value slowed to −3.7% compared with the same period in 2006 in Euro terms (but increased by 5.5% in US dollar terms thanks to the appreciation of the Euro). Shipments from the PRC to the EU grew extremely rapidly in 2005 at 47.0% but slowed significantly in 2006 to 11.3%, reflecting the effect of safeguard restrictions on the volume of shipments that were agreed upon in 2005. However, in 2007 the growth in the Euro value of shipments of clothing from the PRC recovered to 15.7%, although growth clearly tapered off in the second half of the year, even becoming negative in Euro value terms (ADB 2008). The Euro value of shipments from competitive Asian suppliers other than the PRC grew by 3.7% in 2005 and by 19.8% in 2006, but contracted by 2.4% in 2007 in value terms (rising however by 7.0% in US dollar terms). Asian LDC suppliers experienced negative growth in the Euro values of shipments in 2005 of −8.6%, but growth surged in 2006 to 27.1% before turning down again in 2007 to −6.1% (rising by 2.9% in US dollars).

The four former large quota holders of East Asia had sharp swings in growth rates of shipments to the EU, with negative values in 2005 and 2007 of −23.4% and –30.7%, respectively. However, in 2006, shipments from these former large quota holders rose by 36.3%, led by Hong Kong, China with over 47% growth. Non-Asian Generalized System of Preferences (GSP) suppliers had growth rates of –11.4% in 2005, 2.8% in 2006, and –11.3% in 2007. Non-Asian preferential suppliers performed relatively poorly in the extra-EU market even after restraints were placed on the PRC. Growth of these suppliers had fallen to –1.5 per cent but improved to 4.3% in 2006, before falling sharply to –17.5% in the first half of 2007 (down by 9.6% in US dollar terms). As in the US case, non-Asian preferential suppliers have not enjoyed success in clothing in the extra-EU market (James 2008).

III. Preferential Trade Programs of the EU: Differential Degrees of Discrimination

The EU operates a fairly complex system of trade preferences that are intended to benefit developing and transitional economies and to serve as precursors to EU enlargement in the case of neighboring developing and transitional economies. These preferential arrangements include the newly revamped EU Generalized System of Preferences (GSP 2006–2016), which provides a 20% tariff reduction for eligible countries that meet the rules of origin. Hence, instead of the most-favored nation (MFN) tariff rate of 12%, countries that are considered developing or transitional face GSP tariffs of 9.6% for clothing.[4] Asian suppliers other than the PRC and the former large quota holders are eligible for GSP preferences in the EU market (see Table 2). The GSP rules of origin of the EU as amended in 2001 also permit Asian suppliers to cumulate the specified process two-step test of producing garments from yarn or from unbleached cloth even if knitting, or weaving yarn, or dying and printing cloth takes place in one country, and garment cutting and sewing occurs in another—provided the two steps are both accomplished within member countries of the Association of Southeast Asian Nations (ASEAN), or South Asian Association for Regional Cooperation (SAARC) (Singapore is excluded from this treatment). However, if one of these processes is done in another non-ASEAN or non-SAARC country ineligible for GSP, then the garments are charged the MFN tariff rate of 12%. Note that the right to cumulate does not extend to stages accomplished between ASEAN and SAARC members, but only within these groupings.

[4] The European Commission has communicated this GSP tariff rate to the authors. See also export-help.cec.eu.int/.

Table 2: Market Share in Extra-EU Clothing Imports of Various Foreign Suppliers (percent of value)

Supplier	2004	2005	2006	2007	Preference Level
Competitive Asian Suppliers					
PRC	23.01	31.28	31.32	37.62	X
India	4.95	5.97	6.32	6.61	S
Sri Lanka	1.62	1.47	1.60	1.79	S
Indonesia	2.67	2.21	2.34	2.06	S
Thailand	1.79	1.45	1.46	1.37	S
Pakistan	1.83	1.44	1.50	1.56	S
Viet Nam	1.27	1.27	1.70	1.92	S
Malaysia	0.54	0.48	0.49	0.40	S
Philippines	0.65	0.39	0.39	0.32	S
Subtotal	38.33	45.95	47.14	53.65	
Asian Least Developed Country Suppliers					
Bangladesh	7.42	6.52	7.65	7.54	EBA
Cambodia	1.04	0.88	0.92	0.90	EBA
Lao PDR	0.24	0.22	0.21	0.19	EBA
Myanmar	0.75	0.36	0.35	0.28	EBA
Subtotal	9.44	7.98	9.12	8.90	
Former Large Quota Holders					
Hong Kong, China	3.92	3.14	4.17	2.90	X
Korea	1.21	0.59	0.61	0.45	X
Taipei,China	0.66	0.38	0.36	0.33	X
Macao, China	0.86	0.59	0.63	0.48	X
Subtotal	6.65	4.71	5.77	4.15	
Other Suppliers					
United States	0.56	0.62	0.62	0.62	X
GSP Suppliers					
UAE	0.44	0.22	0.22	0.16	S
Ukraine	0.87	0.81	0.70	0.64	S
Moldova	0.18	0.17	0.22	0.25	S
Belarus	0.23	0.20	0.16	0.15	S
Subtotal	1.72	1.41	1.30	1.20	
ACP/EBA Suppliers					
Madagascar	0.32	0.33	0.38	0.42	EBA
Mauritius	1.03	0.81	0.80	0.82	EBA
Peru	0.13	0.14	0.13	0.16	EBA
Subtotal	1.47	1.29	1.32	1.40	

continued next page.

Table 2. *continued.*

Suppliers with Free Trade Agreements or Customs Unions					
Turkey	15.46	14.93	13.67	15.36	FREE
Romania**	7.66	6.64	5.82		FREE
Tunisia	5.19	4.54	4.09	4.42	FREE
Morocco	4.84	4.17	3.93	4.33	FREE
Bulgaria**	2.15	2.03	2.03		FREE
Egypt	0.68	0.61	0.63	0.72	FREE
Croatia	0.90	0.75	0.63	0.65	FREE
Switzerland	1.10	0.96	0.88	1.05	FREE
Serbia***	0.28	0.19	0.37	0.47	FREE
Macedonia	0.53	0.52	0.57	0.78	FREE
Israel	0.26	0.19	0.16	0.13	FREE
Albania	0.22	0.20	0.21	0.28	FREE
Bosnia	0.22	0.21	0.20	0.22	FREE
Subtotal	39.51	35.95	33.19	28.42	
World******	100.00	100.00	100.00	100.00	

GSP = Generalized System of Preferences, ACP = African Caribbean and Pacific group of states, EBA = Everything But Arms, PRC = People's Republic of China, UAE = United Arab Emirates.
**Romania and Bulgaria became EU members in 2007, hence they are excluded in year-to-date figures from extra-EU trade data.
***2004 data are for Serbia and Montenegro.
****Imports from World are exclusive of intra-EU trade.
Note: Preference Level Key: X is no preference is provided; S is sensitive with a 20% reduction in MFN tariffs (from 12% to 9.6%); EBA is duty-free and quota-free through 2015; FREE is duty-free and quota-free with no time limit.
Source: Eurostat website (epp.eurostat.ec.europa.eu), downloaded 5 May 2008.

Asian LDCs (Bangladesh, Cambodia, Lao PDR, and Myanmar) are eligible for duty-free and quota-free treatment in the EU market under the Everything But Arms (EBA) unilateral preference program, which puts their shipments on a par with those of non-Asian LDCs. The EBA/GSP rules of origin allow subregions of ASEAN and SAARC to cumulate the two value-added jumps required to satisfy the rules governing preferential access that is free of duty. Sri Lanka was admitted a similar facility following the tsunami disaster of 26 December 2004. However, in the case of South Asia, the EBA/GSP rules of origin have been too stringent to provide much benefit to Bangladesh or Sri Lanka. Indeed, the rate of concession for imports from South Asia depends upon which country has the largest value addition in the two jumps. Hence, if fabric is sourced in India and is cut and sewn into readymade garments in Bangladesh or Sri Lanka, India will be the country of origin, given that fabric constitutes about 75% of the value addition, and the tariff concession will be under ordinary GSP (9.6%) rather than duty free (Tewari 2007). It is also likely that these rules of origin make it extremely difficult for garment producers in Lao PDR and Cambodia to take advantage of duty-free access to the EU market under the EBA/GSP. They are likely to obtain GSP treatment that Indonesia, Malaysia, Thailand, and Viet Nam are eligible for if they source fabric from within ASEAN. Again this implies a 20% tariff concession that lowers duty paid from 12% to 9.6% rather than duty-free access.

The EU offers additional tariff concessions under GSP to countries that choose to comply with special incentive arrangements. The special arrangements were in the areas of labor rights, environmental protection, and combating drug trafficking and production (European

Commission 2004). The concession under the special arrangements is to provide duty-free access for compliant countries. Pakistan was one beneficiary of this scheme under the special arrangement to combat illegal drugs. However, this arrangement has been challenged in the WTO successfully so the concession is no longer available.[5] A new set of simplified special arrangements is embodied in the new EU GSP under the rubric of "good governance" that replaces the previous special arrangements as of 1 July 2005. These arrangements are applicable to Sri Lanka provided it can meet the two step process rules of origin—an unlikely prospect since most of its garments are made of imported fabrics from East Asia (Tewari 2007).

Non-Asian suppliers with free trade agreements or customs union arrangements with the EU enjoy duty-free and quota-free access as well, with the important added benefit that preferences are permanent and are therefore on a par with EU member states themselves. This enables them to cumulate origin under the Pan-European Cumulation System (PECS) so that any two steps may take place in separate countries within the PECS. Hence, fabric sourced from any member of the EU or any country or customs territory that is part of the PanEuroMed System of cumulation of origin, and is produced into garments in another member, is eligible for duty-free access to the EU market (WTO 2007).

IV. Market Share Developments in the Post-Quota Era

The PRC has lifted its share of the extra-EU clothing market from 23.01% in 2004 to 37.62% in 2007 despite the imposition of safeguard quota limits on selected items beginning in the latter part of 2005. Asian competitive suppliers have also done relatively well, with a market share in value rising from 15.32% in 2004 to 16.03% in 2007, despite initial problems in 2005 when the share slipped to 14.67%. Suppliers in Asian LDCs have not quite maintained their share of the extra-EU clothing market with a share of 9.44% in 2004 slipping to 8.90% in 2007, although this is a recovery from the decline to just 7.98% in 2005. The dominant share in this group is that retained by Bangladesh (Table 2).

India and Viet Nam are the most successful performers among competitive Asian suppliers (other than the PRC) as both steadily increased market shares between 2004 and 2007. Sri Lanka and Bangladesh experienced deterioration in market share in 2005, but after the initial shock of quota removal had worn off, both gained market share in 2006 and 2007. Other countries in the competitive Asian group, however, have lost market share including Indonesia, Malaysia, Pakistan, Philippines, and Thailand.

The market share of other large Asian quota holders (suppliers afforded no preferences) is shrinking despite a temporary recovery in 2006. This mirrors the situation of these

[5] See World Trade Organization (2003, 2004a, 2004b).

suppliers in the US clothing market (James 2008) and underscores the impact of discriminatory tariff treatment coupled with rising labor and other costs of production.

Among non-Asian preferential suppliers with GSP, market shares have steadily fallen. In contrast those non-Asian suppliers with EBA duty-free access have clawed back some market share since 2005, with Madagascar and Peru actually making small gains, and with Mauritius holding steady after an initial drop in 2005.

Among non-Asian suppliers with free access under bilateral agreements, however, market shares are edging down from 39.51% in 2004 to 35.95% in 2005 and 33.19% in 2006. Market shares in 2007 are not directly comparable because Romania and Bulgaria are excluded since they became EU member states that year. This erosion in shares is less pronounced than is the case for the US market for clothing imports, but still indicates that competitive Asian suppliers are unbowed by less than equal access to a major market.

V. Price Dynamics in the EU Market

Volume data are available for clothing shipments annually for 2004–2007 (Table 3). These data were then used to calculate unit prices for HS chapters 61 and 62 for all major suppliers in Euros per kilogram of shipments (Table 4) for each of the four years. Unit prices from all suppliers ("world" in Table 4) for both HS 61 and 62 were down slightly in 2005 with the elimination of quotas, but this was reversed in 2006 as safeguards imposed upon several important categories of clothing shipments from the PRC starting in the latter half of 2005 took hold. Unit prices of clothing imports in both HS 61 and 62 from the PRC show an increase in both years, but the price increase was more substantial in 2006 at nearly 9% than in 2005. Despite the increases in unit prices of clothing in 2005 and 2006, the PRC still sets the standard for competitive prices of clothing imports in the EU. Bangladesh and Pakistan appear to be the only suppliers with consistently lower prices than those of the PRC in both HS 61 and 62, with Viet Nam appearing to have lower prices in HS 61 but higher prices in HS 62 in 2004 and 2005 (Table 4). Viet Nam after 2005 has lower prices than the PRC in both categories in 2006 and 2007. Malaysia has lower prices than the PRC in 2006 for HS 61 and for 2006, and 2007 for HS 62. Statistical tests for the significance of differences in the mean values of unit prices between various groups of suppliers and those of the world and the PRC are reported below.

Table 3: Extra-European Union Imports of Clothing (volume in 1000 kg)

Supplier	2004	2005	Percent Change	2006	Percent Change	2007	Percent Change
Competitive Asian Suppliers							
PRC	1160640	1659343	42.97	1700556	2.48	1951561	14.76
India	178320	212599	19.22	226569	6.57	239228	5.59
Sri Lanka	58869	51603	−12.34	59057	14.45	64854	9.81
Indonesia	95791	87617	−8.53	106283	21.30	83272	−21.65
Thailand	59260	53427	−9.84	51364	−3.86	49174	−4.26
Pakistan	116378	105775	−9.11	122287	15.61	117881	−3.60
Viet Nam	58235	65231	12.01	152112	133.19	187272	23.11
Malaysia	20879	20419	−2.20	29536	44.65	22169	−24.94
Philippines	25127	15130	−39.79	18371	21.42	13879	−24.45
Subtotal	1773499	2271144	28.06	2466136	8.59	2729289	10.67
Asian Least Developed Country Suppliers							
Bangladesh	456264	455170	−0.24	545192	19.78	535578	−1.76
Cambodia	38830	35533	−8.49	40949	15.24	40808	−0.35
Lao PDR	10034	10204	1.69	11179	9.56	9766	−12.64
Myanmar	39233	17888	−54.41	21583	20.66	13669	−36.67
Subtotal	544362	518795	−4.70	618903	19.30	599820	−3.08
Former Large Quota Holders							
Hong Kong, China	121515	101998	−16.06	147309	44.42	94855	−35.61
Korea	47288	23038	−51.28	27114	17.69	17426	−35.73
Taipei,China	17727	10793	−39.11	12860	19.15	11157	−13.24
Macao, China	23782	20048	−15.70	25263	26.01	15565	−38.39
Subtotal	210311	155877	−25.88	212545	36.35	139003	−34.60
Other Suppliers							
United States	9045	10479	15.86	10966	4.65	10229	–6.72
GSP Suppliers							
UAE	23381	11795	−49.55	12442	5.49	8173	−34.31
Ukraine	29080	28116	−3.32	23893	−15.02	22807	−4.55
Moldova	5932	6127	3.28	8163	33.24	8143	−0.25
Belarus	5953	5640	−5.25	5016	−11.06	3970	−20.87
Subtotal	64346	51678	−19.69	49514	−4.19	43092	−12.97
ACP/EBA Suppliers							
Madagascar	5703	6116	7.24	7105	16.17	7363	3.63
Mauritius	27467	23885	−13.04	25419	6.43	24129	−5.08
Peru	2302	2562	11.29	2525	−1.47	2912	15.34
Subtotal	35472	32563	−8.20	35049	7.63	34404	−1.84
Suppliers with Free Trade Agreements or Customs Unions							
Turkey	469380	467647	−0.37	454608	–2.79	469797	3.34
Romania**	182731	160336	−12.26	146125	–8.86		
Tunisia	113619	102041	−10.19	98178	–3.79	98783	0.62
Morocco	134706	123679	−8.19	122215	–1.18	121104	−0.91
Bulgaria**	53902	52617	−2.38	54098	2.82		
Egypt	21372	20819	−2.58	24602	18.17	27903	13.42
Croatia	14225	12915	−9.20	12129	–6.09	12006	−1.02
Switzerland	5995	5406	−9.83	14721	172.34	5566	−62.19
Serbia*	7884	9447	19.83	13034	37.97	17764	36.29

continued next page.

Table 3. *continued.*

Macedonia	12348	12393	0.36	13796	11.32	21354	54.78
Israel	4711	3583	−23.95	3030	–15.42	2304	−23.98
Albania	14121	14006	−0.82	15327	9.43	15731	2.64
Bosnia	5429	5518	1.65	5420	–1.78	5672	4.64
Subtotal	1040423	990405	−4.81	977282	–1.33	797983	−18.35
World* **	3865368	4213583	9.01	4503005	6.87	4487445	−0.35

GSP = Generalized System of Preferences, ACP = African Caribbean and Pacific group of states, EBA = Everything But Arms, PRC = People's Republic of China, UAE = United Arab Emirates.
*Data for Serbia include Montenegro in 2004 and are for Serbia alone in 2005 and 2006.
**Romania and Bulgaria became EU members in 2007.
***Imports from World are exclusive of intra-EU trade.
Source: Eurostat website (epp.eurostat.ec.europa.eu), downloaded 5 May 2008.

Table 4: Unit Values of EU Clothing Imports (Euros per kilogram)

	HS 61 Articles of Apparel Knit or Crocheted						
Supplier	**2004**	**2005**	**Percent Change**	**2006**	**Percent Change**	**2007**	**Percent Change**
Competitive Asian Suppliers							
PRC	9.32	9.48	1.71	10.27	8.37	10.38	0.99
India	11.20	11.68	4.33	13.26	13.56	13.18	−0.67
Sri Lanka	13.11	14.58	11.23	15.49	6.26	15.49	0.02
Indonesia	12.64	12.12	−4.18	11.97	−1.18	13.07	9.14
Thailand	14.12	13.28	−5.98	15.78	18.87	15.53	−1.59
Pakistan	7.60	6.79	−10.68	6.63	−2.42	7.08	6.85
Viet Nam	6.27	6.58	4.95	4.19	−36.26	3.87	−7.74
Malaysia	11.09	11.58	4.41	9.73	−16.02	10.48	7.73
Philippines	10.72	10.70	−0.19	10.00	−6.53	10.02	0.15
Asian Least Developed Country Suppliers							
Bangladesh	7.66	7.18	−6.27	8.09	12.59	7.75	−4.22
Cambodia	13.43	14.29	6.38	13.88	−2.88	13.09	−5.67
Lao PDR	11.02	10.31	−6.44	9.95	−3.48	10.15	2.01
Myanmar	9.13	9.21	0.89	7.32	−20.54	8.60	17.51
Former Large Quota Holders							
Hong Kong, China	16.36	18.54	13.27	18.65	0.60	18.73	0.42
Korea	12.31	13.43	9.12	13.50	0.51	14.53	7.67
Taipei,China	18.35	19.28	5.12	17.73	−8.07	17.03	−3.94
Macao, China	20.75	16.79	−19.07	17.00	1.22	18.87	11.04
Other Suppliers							
United States	25.95	25.13	−3.13	31.39	24.90	31.20	−0.62
GSP Suppliers							
UAE	9.31	9.30	−0.08	10.65	14.52	11.71	9.92
Ukraine	13.28	14.50	9.14	16.08	10.91	10.96	−31.80
Moldova	15.94	16.14	1.23	15.88	−1.58	17.38	9.44
Belarus	13.85	14.69	6.06	13.79	−6.13	11.28	−18.17
ACP/EBA Suppliers							
Madagascar	31.86	33.86	6.25	35.65	5.29	36.67	2.86
Mauritius	18.11	17.58	−2.94	18.58	5.70	19.23	3.51
Peru	26.65	29.38	10.23	31.53	7.34	31.07	−1.46

continued next page.

Table 4. *continued.*

Suppliers with Free Trade Agreements or Customs Unions							
Turkey	15.52	16.13	3.93	16.74	3.79	17.71	5.75
Romania**	19.12	19.59	2.44	19.66	0.36	52.61	167.58
Tunisia	21.84	22.61	3.53	23.60	4.38	24.48	3.73
Morocco	13.70	13.25	−3.28	14.12	6.58	16.13	14.25
Bulgaria**	16.43	17.89	8.90	18.31	2.30	22.40	22.35
Egypt	14.28	14.07	−1.47	13.64	−3.08	12.92	−5.28
Croatia	26.98	27.34	1.34	26.70	−2.35	27.28	2.18
Switzerland	56.23	62.12	10.47	15.02	−75.83	69.68	364.01
Serbia*	15.49	14.63	−5.57	13.20	−9.78	11.72	−11.20
Macedonia	15.01	16.92	12.73	21.06	24.49	12.91	−38.70
Israel	24.55	25.05	2.04	29.40	17.40	31.87	8.37
Albania	6.21	5.71	−8.10	6.51	14.08	9.44	44.99
Bosnia	15.49	16.50	6.52	17.41	5.54	18.52	6.35
World* **	11.81	11.56	−2.12	12.03	4.12	12.07	0.30

HS 62 Articles of Apparel Not Knit or Crocheted							
Supplier	**2004**	**2005**	**Percent Change**	**2006**	**Percent Change**	**2007**	**Percent Change**
Competitive Asian Suppliers							
PRC	10.34	10.77	4.10	11.68	8.46	11.79	0.93
India	18.30	20.78	13.54	22.12	6.45	20.43	−7.64
Sri Lanka	14.71	16.52	12.33	17.44	5.58	16.75	−3.99
Indonesia	15.76	15.82	0.36	15.17	−4.09	16.05	5.81
Thailand	17.13	17.78	3.82	20.06	12.79	17.30	−13.74
Pakistan	8.16	7.85	−3.88	8.17	4.10	8.19	0.29
Viet Nam	13.90	13.20	−5.02	8.99	−31.87	7.52	−16.41
Malaysia	19.07	16.08	−15.67	10.88	−32.36	10.70	−1.68
Philippines	16.95	19.29	13.81	17.85	−7.47	19.08	6.85
Asian Least Developed Country Suppliers							
Bangladesh	8.98	8.99	0.14	9.20	2.27	9.14	−0.68
Cambodia	13.22	10.81	−18.19	11.94	10.45	11.30	−5.34
Lao PDR	12.58	13.97	11.01	13.11	−6.15	12.17	−7.22
Myanmar	9.91	11.63	17.45	11.09	−4.70	12.48	12.60
Former Large Quota Holders							
Hong Kong, China	16.04	14.97	−6.62	15.43	3.06	16.16	4.72
Korea	14.75	16.07	8.96	14.27	−11.22	18.72	31.21
Taipei,China	19.53	18.54	−5.08	15.05	−18.83	16.73	11.19
Macao, China	15.80	15.09	−4.47	12.70	−15.84	15.92	25.37
Other Suppliers							
United States	36.94	39.81	7.77	35.82	−10.04	39.62	10.63
GSP Suppliers							
UAE	9.53	10.92	14.50	10.65	−2.43	11.62	9.12
Ukraine	15.47	15.92	2.91	17.85	12.13	17.68	−0.96
Moldova	14.32	15.14	5.74	16.44	8.55	18.42	12.09
Belarus	22.24	21.27	−4.34	22.54	5.99	23.60	4.66
ACP/EBA Suppliers							
Madagascar	24.03	24.50	1.94	27.84	13.67	28.66	2.93
Mauritius	21.56	22.99	6.60	20.92	−8.98	21.04	0.59
Peru	35.10	33.51	−4.52	36.83	9.88	33.12	−10.06

continued next page.

Table 4. *continued.*

Suppliers with Free Trade Agreements or Customs Unions							
Turkey	18.32	19.51	6.51	20.90	7.11	21.43	2.56
Romania**	21.79	23.69	8.71	25.93	9.46	39.46	52.18
Tunisia	23.33	24.75	6.05	25.82	4.35	26.61	3.04
Morocco	20.54	21.35	3.91	22.49	5.38	23.49	4.45
Bulgaria**	21.97	22.71	3.37	25.61	12.77	41.34	61.42
Egypt	20.06	20.94	4.36	21.04	0.50	20.00	−4.96
Croatia	38.77	38.29	−1.24	41.76	9.08	41.88	0.28
Switzerland	140.04	131.86	−5.84	119.43	−9.43	145.55	21.87
Serbia*	21.13	22.19	5.05	25.31	14.06	28.02	10.71
Macedonia	22.20	23.61	6.32	25.56	8.26	24.86	−2.73
Israel	54.94	53.89	−1.91	43.44	−19.40	45.47	4.69
Albania	8.79	9.25	5.30	9.43	1.93	10.96	16.16
Bosnia	22.70	21.88	−3.63	24.91	13.84	24.57	−1.35
World* **	13.84	13.84	0.04	14.30	3.33	14.29	−0.11

GSP = Generalized System of Preferences, ACP = African Caribbean and Pacific group of states, EBA = Everything But Arms, PRC = People's Republic of China, UAE = United Arab Emirates.
*2004 data are for Serbia and Montenegro, 2005 and 2006 for Serbia alone.
**Bulgaria and Romania became EU members in 2007.
***World is exclusive of intra-EU trade.
Source: Eurostat website (epp.eurostat.ec.europa.eu), downloaded 5 May 2008.

A. Statistical Tests for Significance of Price Levels and Changes

Unit prices of various groups of suppliers (mean values for HS 61 and HS 62) were compared with those of the world and of the PRC in 2004, 2005, 2006, and 2007 (Tables 5 and 6).[6] For HS 61 in each year, former large Asian quota holders and two groups of non-Asian preferential suppliers (both ACP/EBA and FTA/CU suppliers) were found to have statistically significantly higher unit prices than the world and the PRC. Non-Asian GSP suppliers also had significantly higher prices than the PRC in 2004 and 2005 in HS 61, but for 2006, this was not found in the case of comparison between these GSP suppliers and the world. There were no significant differences between prices of competitive Asian suppliers and Asian LDC suppliers versus the world and the PRC in HS 61 in 2004, 2005, and 2006. However, in 2007, Asian LDC suppliers have *significantly lower* prices than those of the PRC.

Mean unit prices of HS 62 were significantly higher for former Asian large quota holders than for the world in 3 of the 4 years, with no significant difference for 2006. There was no significant difference in mean unit values between Asian competitive suppliers as a group and the world in each year, which was also the case for non-Asian GSP suppliers. In the case of Asian LDC suppliers, however, mean unit prices were significantly lower than prices from the world in each year. Non-Asian suppliers with ACP/EBA or FTA/CU preferential suppliers had significantly higher prices than the world for HS 62 in each year. Virtually all supplier groups were found to have significantly higher mean unit prices in HS 62 compared with the PRC in all four years, with the single exception of Asian LDCs, which have no significant difference from the PRC in all four years.

[6] Unit prices are denominated in Euros per kilogram of clothing imports. Given the massive US dollar depreciation in 2007 against the Euro, US dollar prices would have increased sharply in 2007 compared with 2006. However, for EU consumers, the relevant price is denominated in Euros so the analysis is conducted using Euro-based prices.

Table 5: Mean Prices of Shipments to the EU of HS 61 and HS 62 Compared to the World (Euros per kilogram)

Supplier	2004	2005	2006	2007
HS 61 Articles of Apparel Knit or Crocheted				
World	*11.81 (Benchmark unit price)*	*11.56 (Benchmark unit price)*	*12.03 (Benchmark unit price)*	*12.07 (Benchmark unit price)*
Competitive Asian Suppliers	10.67 (No significant difference)	10.75 (No significant difference)	10.81 (No significant difference)	11.01 (No significant difference)
Asian Least Developed Country Suppliers	10.31 (No significant difference)	10.25 (No significant difference)	9.81 (No significant difference)	9.90 (Significantly lower**)
Former Large Quota Holders	16.94 (Significantly higher*)	17.01 (Significantly higher*)	16.72 (Significantly higher*)	17.29 (Significantly higher*)
Other Suppliers–United States	25.95 (Cannot perform mean test)	25.13 (Cannot perform mean test)	31.39 (Cannot perform mean test)	31.20 (Cannot perform mean test)
GSP Suppliers	13.10 (No significant difference)	13.66 (No significant difference)	14.10 (Significantly higher**)	12.83 (No significant difference)
ACP/EBA Suppliers	25.54 (Significantly higher*)	26.94 (Significantly higher*)	28.59 (Significantly higher*)	28.99 (Significantly higher*)
Suppliers with Free Trade Agreements or Customs Unions	20.06 (Significantly higher*)	20.91 (Significantly higher*)	18.10 (Significantly higher*)	25.20 (Significantly higher*)
HS 62 Articles of Apparel Not Knit or Crocheted				
World	*13.84 (Benchmark unit price)*	*13.84 (Benchmark unit price)*	*14.30 (Benchmark unit price)*	*14.29 (Benchmark unit price)*
Competitive Asian Suppliers	14.92 (No significant difference)	15.34 (No significant difference)	14.71 (No significant difference)	14.20 (No significant difference)
Asian Least Developed Country Suppliers	11.17 (Significantly lower*)	11.35 (Significantly lower*)	11.33 (Significantly lower*)	11.27 (Significantly lower*)
Former Large Quota Holders	16.53 (Significantly higher*)	16.17 (Significantly higher*)	14.36 (No significant difference)	16.88 (Significantly higher*)
Other Suppliers–United States	36.94 (Cannot perform mean test)	39.81 (Cannot perform mean test)	35.82 (Cannot perform mean test)	39.62 (Cannot perform mean test)
GSP Suppliers	15.39 (No significant difference)	15.81 (No significant difference)	16.87 (No significant difference)	17.83 (No significant difference)
ACP/EBA Suppliers	26.90 (Significantly higher*)	27.00 (Significantly higher*)	28.53 (Significantly higher*)	27.61 (Significantly higher*)
Suppliers with Free Trade Agreements or Customs Unions	33.43 (Significantly higher*)	33.38 (Significantly higher*)	33.20 (Significantly higher*)	37.97 (Significantly higher*)

* At 5% one-tailed test.
** At 10% one-tailed test
Source: Eurostat website (export-help.cec.eu.int/), downloaded 16 November 2007.

Table 6: Mean Prices of Shipments to the EU of HS 61 and HS 62 Compared to the PRC (Euros per kilogram)

Supplier	2004	2005	2006	2007
HS 61 Articles of Apparel Knit or Crocheted				
PRC	*9.32 (Benchmark unit price)*	*9.48 (Benchmark unit price)*	*10.27 (Benchmark unit price)*	*10.38 (Benchmark unit price)*
Competitive Asian Suppliers	10.67 (Significantly higher*)	10.75 (Significantly higher**)	10.81 (No significant difference)	11.01 (No significant difference)
Asian Least Developed Country Suppliers	10.31 (No significant difference)	10.25 (No significant difference)	9.81 (No significant difference)	9.90 (No significant difference)
Former Large Quota Holders	16.94 (Significantly higher*)	17.01 (Significantly higher*)	16.72 (Significantly higher*)	17.29 (Significantly higher*)
Other Suppliers– United States	25.95 (Cannot perform mean test)	25.13 (Cannot perform mean test)	31.39 (Cannot perform mean test)	31.20 (Cannot perform mean test)
GSP Suppliers	13.10 (Significantly higher*)	13.66 (Significantly higher*)	14.10 (Significantly higher*)	12.83 (No significant difference)
ACP/EBA Suppliers	25.54 (Significantly higher*)	26.94 (Significantly higher*)	28.59 (Significantly higher*)	28.99 (Significantly higher*)
Suppliers with Free Trade Agreements or Customs Unions	20.06 (Significantly higher*)	20.91 (Significantly higher*)	18.10 (Significantly higher*)	25.20 (Significantly higher*)
HS 62 Articles of Apparel Not Knit or Crocheted				
PRC	*10.34 (Benchmark unit price)*	*10.77 (Benchmark unit price)*	*11.68 (Benchmark unit price)*	*11.79 (Benchmark unit price)*
Competitive Asian Suppliers	14.92 (Significantly higher*)	15.34 (Significantly higher*)	14.71 (Significantly higher**)	14.20 (Significantly higher**)
Asian Least Developed Country Suppliers	11.17 (No significant difference)	11.35 (No significant difference)	11.33 (No significant difference)	11.27 (No significant difference)
Former Large Quota Holders	16.53 (Significantly higher*)	16.17 (Significantly higher*)	14.36 (Significantly higher*)	16.88 (Significantly higher*)
Other Suppliers– United States	36.94 (Cannot perform mean test)	39.81 (Cannot perform mean test)	35.82 (Cannot perform mean test)	39.62 (Cannot perform mean test)
GSP Suppliers	15.39 (Significantly higher**)	15.81 (Significantly higher*)	16.87 (Significantly higher**)	17.83 (Significantly higher*)
ACP/EBA Suppliers	26.90 (Significantly higher*)	27.00 (Significantly higher*)	28.53 (Significantly higher*)	27.61 (Significantly higher*)
Suppliers with Free Trade Agreements or Customs Unions	33.43 (Significantly higher*)	33.38 (Significantly higher*)	33.20 (Significantly higher*)	37.97 (Significantly higher*)

* At 5% one-tailed test.
** At 10% one-tailed test
Source: Eurostat website (export-help.cec.eu.int/), downloaded 16 November 2007.

B. Statistical Tests for Time Trends in Average Prices

Tests for time trends in prices were conducted using combined average prices in HS 61 and 62 for the world and the PRC. In comparing world unit prices in 2004 with those in 2005 and 2006, it was found that there were no significant trends up or down in mean values (Table 7). However in comparing mean unit prices of the world between 2005 and 2006, 2004 and 2007, and 2005 and 2007, it was found that mean prices were significantly lower in the first year compared with the next in each case. For 2006 and 2007, no significant difference was again found for world mean unit prices (Table 7).

Table 7: Testing for Equality of Mean World Prices of Clothing Shipments to the EU across Time (price = Euros per kg)

Ho: Underlying prices have the same mean across relevant years
H1: Underlying prices do not have the same mean across relevant years

	2004 World Price	**versus**	**2005 World Price**
Average price of HS 61 and HS 62	12.83		12.70
Paired, P(T<t)	0.25		
Conclusion	Cannot reject Ho, 2005 mean prices not significantly lower than 2004 mean prices		
	2004 World price	**versus**	**2006 World Price**
Average price of HS 61 and HS 62	12.83		13.17
Paired, P(T<t)	0.11		
Conclusion	Cannot reject Ho, 2004 mean prices not significantly lower than 2006 mean prices		
	2005 World Price	**versus**	**2006 World Price**
Average price of HS 61 and HS 62	12.70		13.17
Paired, P(T<t)	0.00		
Conclusion	Reject Ho, 2005 mean prices significantly lower than 2006 mean prices		
	2004 World Price	**versus**	**2007 World Price**
Average price of HS 61 and HS 62	12.83		13.18
Paired, P(T<t)	0.08		
Conclusion	Reject Ho, 2004 mean prices significantly lower than 2007 mean prices		
	2005 World Price	**versus**	**2007 World Price**
Average price of HS 61 and HS 62	12.70		13.18
Paired, P(T<t)	0.02		
Conclusion	Reject Ho, 2005 mean prices significantly lower than 2007 mean prices		
	2006 World Price	**versus**	**2007 World Price**
Average price of HS 61 and HS 62	13.17		13.18
Paired, P(T<t)	0.33		
Conclusion	Cannot reject Ho, 2006 mean prices not significantly lower than 2007 mean prices		

In the case of the PRC's shipments to the EU in 2005 compared with 2004, there was no difference in mean unit price. However, mean unit prices in 2006 and 2007 were significantly higher compared with both 2004 and 2005, implying that the impact of safeguard quotas had a statistically significant impact in raising the PRC's unit prices (Table 8). There was no significant difference in mean unit prices for the PRC comparing 2006 and 2007. The impact of quota elimination in 2005 on unit prices may have been muted by the existing quota-free preferential access of various suppliers and by the imposition of new restrictions on some categories of clothing from the PRC in the latter half of 2005. In 2007 (data for the first 6 months) unit values of shipments of the PRC declined in 14 of 17 HS 4-digit clothing tariff classifications in both HS 61 and HS 62 as volumes of shipments rose relative to values (Emerging Textiles.com 2007). The downward pressure on prices is likely to increase substantially in 2008 when remaining safeguard quotas are lifted on clothing from the PRC in the following categories: 4/4C T-shirts (knit); 5 Pullovers; 6 Trousers; 7 Women and Girls Shirts; 29 Women and Girls dresses; and 31 Brassieres.

Table 8: Testing for Equality of Mean PRC Prices of Clothing Shipments to the EU across Time (price = Euros per kilogram)

Ho: Underlying prices have the same mean across relevant years
H1: Underlying prices do not have the same mean across relevant years

	2004 PRC price	**versus**	**2005 PRC price**
Average price of HS 61 and HS 62	9.83		10.13
Paired, P(T<t)	0.14		
Conclusion	Cannot reject Ho, 2004 mean prices not significantly lower than 2005 mean prices		
	2004 PRC price	**versus**	**2006 PRC price**
Average price of HS 61 and HS 62	9.83		10.98
Paired, P(T<t)	0.05		
Conclusion	Reject Ho, 2004 mean prices significantly lower than 2006 mean prices		
	2005 PRC price	**versus**	**2006 PRC price**
Average price of HS 61 and HS 62	10.13		10.98
Paired, P(T<t)	0.02		
Conclusion	Reject Ho, 2005 mean prices significantly lower than 2006 mean prices		
	2004 PRC price	**versus**	**2007 PRC price**
Average price of HS 61 and HS 62	9.83		11.09
Paired, P(T<t)	0.05		
Conclusion	Reject Ho, 2004 mean prices significantly lower than 2007 mean prices		
	2005 PRC price	**versus**	**2007 PRC price**
Average price of HS 61 and HS 62	10.13		11.09
Paired, P(T<t)	0.02		
Conclusion	Reject Ho, 2005 mean prices significantly lower than 2007 mean prices		
	2006 PRC price	**versus**	**2007 PRC price**
Average price of HS 61 and HS 62	10.98		11.09
Paired, P(T<t)	0.46		
Conclusion	Cannot reject Ho, 2006 mean prices not significantly lower than 2007 mean prices		

VI. Policy Implications and Conclusions

A number of Asian suppliers are competitive in the sense that they are exporters of clothing to the EU with at most a small reduction in MFN tariffs under GSP and in the case of the PRC with no preference whatsoever. India and Viet Nam have performed well despite having less beneficial market access than other non-Asian suppliers under ACP/EBA or FTA/CU preferences. Sri Lanka has also done well even though it has difficulty complying with rules of origin in the GSP and EBA/GSP schemes. However, a number of Asian suppliers that are potentially strong competitors have faltered in the EU market since the ATC was implemented and quotas eliminated including among the competitive Asian suppliers (Indonesia, Malaysia, Pakistan, Philippines, Thailand). Cambodia and Lao PDR have also experienced a retreat in their share of the EU market for clothing.

Looking ahead to 2008, as the PRC is freed from current quotas, it is very likely that competition will become even fiercer in the EU marketplace. In particular, other than low-cost suppliers in Bangladesh, Pakistan, and Viet Nam, most Asian suppliers will have to compete on the basis of quality and service orientation. The ASEAN and SAARC member countries have some advantages that could be more fully taken advantage of if their own internal barriers to trade in intermediate textile products and related accessories could be relaxed or removed. This would enable them to locate production activities in the most efficient locations within each grouping using the right to cumulate production under the two-step rule of origin. The use of outward processing arrangements has perhaps been somewhat of a luxury in the past but is now becoming a necessity as unit prices are set to decline in the EU market. Exchange rate movements in a number of Asian countries such as India, Philippines, and Thailand may have some important impacts in this regard and will drive some relocation of production activity to other countries that have remained more firmly pegged to the US dollar, such as Indonesia and Viet Nam. Exchange rate movements in some of the former large quota holders may also lead to outward investment in clothing at the high end of the market in other more competitive Asian economies.

The EU is currently reviewing its rules of origin as many of the LDCs have been unable to comply with the double jump or double transformation rule. For example, about 90% of firms that export garments in Bangladesh are cut-make-trim producers, and only about 20% of woven fabric can be sourced locally. Hence, most export shipments are unlikely to benefit from duty-free access to the EU market. In contrast, Canada's GSP scheme for LDCs requires only 25% value-added content, and almost all garment exports from Bangladesh to Canada enjoy duty-free access (Rahman et al. 2007). Hence, it would be in the interest of Asian LDCs to lobby for a low value-added rule, and to also have it cumulate value across the region. This appears to be a realistic prospect as the EU is currently reviewing its GSP rules of origin and is likely to implement a single value-added rule that permits broad cumulation in the region sometime in 2008 (EC 2005).

Some Asian countries are also exploring more formal reciprocal preference agreements with the EU in order to "lock-in" market access, including India, which is engaged in free trade negotiations and ASEAN as a group. Pakistan has seen its market access erode as a result of a successful challenge to its special GSP access to the EU market under the special arrangements to combat drug production and trafficking in the WTO. It may also, therefore, bilaterally negotiate improvement in access through a free trade agreement.

The EU is closely monitoring imports of clothing products from the PRC and may find that new measures are warranted in order to restrain shipments of clothing in 2008 and beyond, including countervailing duties and antidumping measures. While these may provide windfall relief to other Asian suppliers, they cannot afford to sit idly by. Efforts to improve services, facilitate trade and investment, and upgrade product quality and speed delivery times are all likely to be necessary to remain competitive in the EU market.

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About the Paper

William E. James and Juan Paolo Hernando examine how the European Union's (EU) complex system of trade preferences has influenced the competitive situation of Asian clothing exporters relative to other groups of suppliers in the world's largest import market for clothing. In particular they compare the situation in a year prior to the end of quotas (2004) with subsequent years 2005–2007. The imposition of safeguards on clothing shipments from the People's Republic of China (PRC) in 2006 and 2007 are also considered in evaluating price trends across suppliers and over time. The paper finds that safeguard quotas have a significant impact of raising the average prices of shipments from the PRC in 2006 and 2007. Market share gains by Asian competitive suppliers have been achieved relative to other groups of suppliers that have free access to the EU market, and indicate that preferences have had only a modest impact.

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