

III. STATUS OF PROTECTION FACING EXPORTERS OF TEXTILES AND CLOTHING FROM ASIA AND THE PACIFIC IN THE NORTH AND SOUTH MARKETS

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Introduction

Textiles and clothing were identified with export-oriented, manufacturing-led growth throughout East and South-East Asia in the latter half of the previous century. South Asian countries have initiated a similar process of growth in these critical sectors, by far the largest industrial branch within the South Asian region in terms of GDP, exports and employment. The emergence of China as a major textile and clothing producer and supplier to world markets has been facilitated by China's accession in late 2001 to WTO. All the countries in the region have been strongly affected by the achievement of global trade liberalization through ATC, which gradually reintegrated textiles and clothing into the multilateral trade regime during 1995-2004. A process of consolidation of the industry has unfolded with the abolition of the global system of quota restrictions on trade in textiles and clothing. Small and marginal clothing suppliers have exited the market, and market shares of competitive Asian suppliers in the markets of the OECD countries have consequently grown. Textiles production is also being consolidated, with only the largest suppliers likely to be left standing at the end of the process.

Predictions that Asian suppliers would collapse in countries such as Bangladesh, Cambodia, Indonesia, the Philippines, Sri Lanka, among others, have turned out to be unduly pessimistic. In fact, the performance of most developing Asian suppliers in world markets has been quite good (Asian Development Bank, 2006). Furthermore, even though China has attained a predominant position in world production and exports, textiles and clothing are occupying a shrinking proportion of China's national export basket as more sophisticated manufactures – especially in machinery and chemicals, and allied industries – become more important (Asian Development Bank, 2007).

A threat to the future development of the textiles and clothing industries within developing Asia and Pacific economies, however, exists in the increasing proliferation of preferential trade agreements involving major industrial markets and developing countries. It is estimated that more than 300 bilateral free trade agreements (FTAs) are likely to be in force by the end of 2008, many of which impose restrictive rules of origin and high margins of preference in the textiles and clothing industries with a view to protecting the domestic producers within each bilateral trade agreement (Asian Development Bank, 2006). Moreover, a recent study of FTAs entered into by Asia-Pacific countries noted that the agreements between an Asian partner and non-regional partners tended to provide more favourable market access in textiles and clothing than did agreements involving two Asian partners (James, 2006). For example, the Republic of Korea-Chile FTA offers immediate duty-free access to the Korean market for Chilean textile and clothing exports, but the Republic of Korea-Singapore FTA only phases out tariffs on textiles and clothing over a 10-year period. In addition, rules of origin tend to be more restrictive for intra-Asian trade partners than for non-regional partners. Hence, Asian bilateral agreements, such as those in Europe and the western hemisphere are creating a more complex and difficult trade environment for Asian suppliers of textiles and clothing.

The impasse in global trade negotiations in the Doha Round and the likely demise of the Trade Promotion Authority of the Bush administration in July 2007 mean that initiatives to further liberalize multilateral trade in these sectors are unlikely to take place any time soon. To some extent, unilateral initiatives taken by select OECD countries to provide duty-free and quota-free access to designated LDCs or to other designated low-income countries may offset the failure of Doha. However, these initiatives in themselves are unlikely to lead to greater integration within developing Asia, as they are usually capped at relatively small volumes of trade and do not provide any certainty for long-term investments.¹

The Association of South-East Asian Nations (ASEAN) has identified textiles and apparel as one of the dozen priority sectors for early liberalization in its efforts to create an ASEAN Economic Community by 2015. ASEAN earlier commissioned a study of non-tariff measures (NTMs) inhibiting the integration of textiles and clothing, which was completed early in 2007.² The investigation found that there was a significant incidence of NTMs and that a number of them were highly restrictive of the development of intra-ASEAN trade in intermediate textile products and of investment in textile and clothing industries. Similarly, a recent study prepared for the Asian Development Bank (ADB) on the textile and clothing sectors in the member countries of the South Asian Association for Regional Co-operation (SAARC) finds substantial and highly restrictive internal barriers to trade in textile intermediate products in the South Asian region.³

It is logical that the developing countries and customs territories of the Asian and Pacific region should consider textiles and clothing as sectors that are likely to be on the leading edge of trade and investment cooperation in the region.⁴ In South Asia, Bangladesh, India, Nepal, Pakistan and Sri Lanka all have a revealed comparative advantage in both textiles and apparel (James, 2007). Afghanistan and Bhutan have significant handicraft production, although mainly for the tourist trade but not yet for commercial exports. Afghanistan also has capacity in the production and exporting of carpets. It remains to be seen whether either of these SAARC members will become suppliers of clothing to world markets.

In ASEAN, Cambodia, Indonesia, the Lao People's Democratic Republic, the Philippines, Thailand and Viet Nam all have a revealed comparative advantage in clothing; in addition, Indonesia, Thailand and Viet Nam have a revealed comparative advantage in textiles (James and others, 2007). The other member countries also have significant capacities in textile and clothing production and trade, as suppliers (Malaysia

¹ For a discussion of these unilateral preference programmes and their impact on Asian suppliers, see James, 2006.

² James and others, 2007. This study is one of three on measures inhibiting the integration of priority sectors: textiles and apparel, electronics and logistics.

³ James, 2007. This report is a precursor to a larger study of measures restricting trade integration and investment in SAARC textiles and clothing industries.

⁴ In both the European Union and North America, regional integration and cooperation began with the integration of an industrial sector at an early stage of the integration process. The Steel and Coal Community of 1952, comprising the six original members of the European Community, was the predecessor to the Treaty of Rome of 1957. In North America, the Auto Pact of 1965 was the predecessor to the Canada-United States Free Trade Agreement of 1989 and the North American Free Trade Agreement (NAFTA) of 1993 (Trebilcock and Howse, 2005).

and Brunei Darussalam) or potential suppliers (Myanmar), or as hubs for intraregional trade as well as between the region and the world (Singapore). China also has a very strong revealed comparative advantage in both textiles and clothing (James, 2007).

Despite the strong competitiveness of South Asian suppliers in world markets, trade integration within SAARC is barely developed. Specialized clothing exporters in Bangladesh and Sri Lanka make hardly any use of regional supplies of fabric from India or Pakistan. Trade integration is also very limited within ASEAN as extraregional fabrics are largely used by clothing exporters in Cambodia, Indonesia, the Philippines and Viet Nam, despite strong textile capacities in Indonesia, Malaysia, Thailand and, increasingly, Viet Nam. A recent study conducted for ADB shows that intra-industry trade within labour-intensive industries, including textiles and clothing, declined during 1995-2004, in contrast with rising intra-industry trade in technology-intensive and human capital-intensive industries (Asian Development Bank, 2007).⁵ The external trade environment in textiles and clothing has also been altered by the agreements between China and the European Union, and China and the United States to implement temporary quota restrictions on selected clothing and textile products. The new quota restrictions on shipments from China to the United States market are examined in section A below. In section B, market access conditions as well as external barriers to textile and clothing exports from Asia-Pacific suppliers in major markets are considered. Section C reviews internal barriers to increasing intraregional trade in the Asia-Pacific region. Section D looks at policy implications and makes recommendations.

A. Performance of Asian and Pacific suppliers in major markets in the post-quota era: Case study of the United States market

The member countries of ASEAN and SAARC comprise a major portion of world population, and a growing share of world production and trade. These countries were expected to be among the major beneficiaries of liberalization of world trade in textiles and clothing with the phasing out of the quota system under ATC. This expectation appears to be borne out in the case of the United States market – the largest import market for clothing in the world.⁶

The performance of ASEAN in the post-quota era in the United States market in terms of value (table 1) and volume (table 2) can be compared with overall world shipments (tables 5 and 6). ASEAN clearly outperformed the growth of world shipments in apparel during the first two years of the post-quota era in value, and although the growth in volume of shipments was below the world average in 2005, volume growth in 2006 was a multiple of world growth (16 per cent vs. 2.4 per cent). For the ASEAN member States, apparel is dominant in the value of shipments, up from 91.8 per cent in 2004 to more than 94 per cent in 2006. Textile intermediate products (yarn and fabric) accounted for just 2.4 per cent of the value of shipments of all textile and apparel items to the United States in 2006. However, textile shipments fell sharply in 2005 compared

⁵ The Grubel-Lloyd index of intra-industry trade is calculated in the case of SITC 3-digit product groups for 11 East and South-East Asian economies: China; Hong Kong, China; Taiwan Province of China; Japan; the Republic of Korea; Indonesia; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

⁶ United States apparel imports in 2006 reached US\$ 71.6 billion (Office of Textiles and Apparel, January 2007) compared with US\$ 59.9 billion for the EU25 (EmergingTextiles.com, 2007a).

with 2004, causing total ASEAN shipments in 2005 to grow more slowly than world total shipments in value in the first year of the post-quota era. In 2006, textiles showed modest growth in value and overall growth in value and volume of shipments from ASEAN outperformed world average growth in the United States import market.

Cotton apparel accounted for 63 per cent of total apparel shipments to the United States in 2006, thus showing faster growth than any other product group during 2004-2006 (in both value and volume). A major development in 2006, compared with 2005, was the strong performance of synthetic fibre apparel. The positive trend in shipments of synthetic fibre apparel appears to be carrying over into 2007 and partially makes up for a stagnation in cotton apparel shipments in the first month of 2007.

In the SAARC member countries (Bangladesh, India, Nepal, Pakistan and Sri Lanka) that supply textiles and apparel to the United States, performance in terms of growth in the post-quota era has been clearly superior to world average growth in value (table 3) and volume (table 4). Apparel shipments to the United States from SAARC are also predominantly cotton apparel, accounting for more than 79 per cent of total apparel shipments in 2006. Indeed, with the elimination of quotas, shipments of non-cotton apparel (with the exception of silk apparel in 2006) have shrunk as SAARC suppliers specialize in cotton fabric apparel. In marked contrast to ASEAN, SAARC suppliers of textiles performed quite well in the United States market, with shipments growing by 15 per cent in 2005 and 11 per cent in 2006. Moreover, textiles account for between 25-30 per cent of SAARC total shipments to the United States, a much higher share than for the ASEAN countries. This helps to highlight a possible complementary relationship between SAARC and ASEAN that might provide a basis for increased integration of the two subregions. Fabric shipments from SAARC are dominated by those of India and Pakistan, and are much larger than ASEAN fabric shipments to the United States market.

At present, fabric imports in ASEAN are mainly from East Asian suppliers (China, Hong Kong, China, Japan, the Republic of Korea and Taiwan Province of China). However, scope may exist for increased trade in intermediate products from South Asian suppliers if shipments are timely, of good quality and competitive in cost. Barriers that obstruct the development of intraregional trade are discussed in section C below.

China's performance in the United States market in terms of value and volume (tables 7 and 8) was very strong in 2005, with extremely rapid growth in apparel shipments of almost 70 per cent in value and 98 per cent in volume. For textiles, growth in value (29 per cent) exceeded growth in volume (25 per cent) in 2005. Overall shipments were up in 2005 by 54 per cent in value and 44 per cent in volume. The imposition of restrictions on selected clothing and textile items began in the second half of 2005; this may have cooled off the rate of increase in the latter half of the year, as in the first six months of 2005 shipments of apparel grew by over 140 per cent in value (Asian Development Bank, 2006). A comprehensive agreement to restrict shipments of clothing and textile products in most of the fastest growth categories was reached between the governments of the United States and China in November of 2005, and restrictions were implemented thereafter, strongly affecting shipments in 2006. The restrictions are implemented through agreed limits on the volume of shipments, and it can be seen that apparel shipments in all of 2006 slowed to just over 10 per cent (table 8) while growth of textile shipments was limited to just over 11 per cent.

However, unit prices are not regulated by the agreement and these rose somewhat (unit values of China's clothing items that were restricted increased in the United States by an estimated 21.3 per cent in 2006). Despite that fact, unit values of China's products remained a good deal cheaper than those from other ASEAN suppliers. For example, unit values of Indonesian shipments to the United States comprising items for which China faced quota restrictions in 2006 remained nearly 37 per cent higher than Chinese unit values.⁷

In 2007, China's shipments have gained momentum as the system for allocating quotas apparently has become more efficient – the volume of apparel shipments increased by nearly 68 per cent in January of 2007 compared with January 2006.⁸ However, shipments of textiles grew by less than 5 per cent in January 2007 compared with January 2006 (table 8). Unit values of shipments by China continue to increase, with an expected growth rate in both clothing and textile items of about 10 per cent in 2007 compared with 2006. The likelihood is that China will be able to increase shipments in terms of volume up to the allowable limits in 2007; however, actual growth in value will be determined by unit values, which may be expected to rise somewhat.

Does the improvement in China's performance in 2007 mean that other competitive Asian suppliers will be displaced in the United States market? In looking at this issue, market shares were calculated for value and volume for ASEAN (tables 9 and 10) and SAARC suppliers (tables 11 and 12). These tables show that ASEAN has steadily improved its share in the United States market for apparel during 2004-2007, with the value share topping 20 per cent in the first month of 2007 (up from 17 per cent in 2004). The tables also show that market shares of ASEAN in items on which China faces restrictions are rising even faster than for all apparel shipments, from just under 18 per cent in 2005 to almost 22 per cent in January 2007.

Value shares in textiles have continued to fall for ASEAN. Volume shares have increased for ASEAN apparel although cotton apparel shows a slight drop in 2007, which is more than compensated for by an increase in the share of synthetic fabric apparel. The market share, in terms of volume, of textile shipments, however, continued to fall and was under 5 per cent in the first month of 2007 (table 10). The overall volume share is stable for all shipments compared with all United States imports at around 11 per cent for ASEAN. This indicates that unit prices of ASEAN shipments are rising and that ASEAN suppliers are attempting to move up in terms of quality of products rather than compete in low-end products in the United States market.

SAARC members have also steadily increased their market share of apparel in the United States market between 2004 and 2007. Cotton apparel from SAARC has increased its market share from 13 per cent in 2004 to more than 20 per cent in 2007. This pattern is different from ASEAN where the share of synthetic fabric apparel is rising sharply. In contrast to ASEAN, SAARC is also increasing its share of the United States textile market with an 18.2 per cent share of all textile items (value), up from 16 per cent in 2004 (table 11). SAARC suppliers have also taken advantage of limits on China's shipments in restricted items with a jump in market share from 10 per cent in 2004 to almost 15 per cent in the first month of 2007. The volume share of SAARC

⁷ These estimates are available upon request from the author.

⁸ EmergingTextiles.com (2007b) reports quota fill rates as much higher in 2007 than in 2006 for China's shipments in restricted items.

products has risen sharply since restrictions were imposed, but the trend in share is upward over the entire period of 2004-2007 (table 12).

The market share data indicate that ASEAN and SAARC suppliers are still competitive in the United States market. In addition, the market share of the China has increased in the United States market (tables 17 and 18). China's share in terms of value rose to 19 per cent in 2006 compared with 13 per cent in 2004. In terms of volume, the rise over the same period was from 22 per cent to just over 30 per cent. The question is, then, which suppliers to the United States market are being displaced? Aside from former large quota suppliers in East Asia (the Republic of Korea, China, Taiwan Province of China, Hong Kong, China, and Macau, China), the big losers in the United States market have been preferential suppliers to that market under various bilateral and unilateral preference agreements. The growth in the value and volume of shipments by major preferential suppliers of textiles and clothing in the United States market have consistently been negative since the system of quotas was eliminated. The value of shipments from NAFTA partners (Canada and Mexico) has fallen each year (table 13) and volumes of NAFTA partners are also consistently negative (table 14). The members of the African Growth and Opportunity Act (AGOA) preference scheme had large negative growth in both value and volume (tables 13 and 14). The members of the Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR) recorded negative growth in the value of shipments as well. United States preference programmes with restrictive rules of origin (particularly NAFTA) have performed poorly since quotas were eliminated. The relaxed rules of origin used in agreements with Egypt and Jordan have allowed these preferential suppliers to increase shipments to the United States market, although from a low base and in amounts that cannot reverse the overall trend for preferential suppliers as a whole. Whether or not this trend will continue may crucially depend on the implementation of the CAFTA-DR agreement, which was delayed by legal difficulties in some of the member countries. CAFTA-DR has more liberal rules of origin than NAFTA in that it allows cumulation across members, and between CAFTA-DR and NAFTA itself.

Market shares of major preferential suppliers in the United States market have deteriorated since 2004 in both value (table 15) and volume (table 16). Restrictions on China's shipments appear to have had little positive effect on United States' preference-receiving suppliers except perhaps to have slightly slowed down the pace of decline in market shares. Further analysis of market share trends over time will help to verify whether the trend can be reversed, as CAFTA-DR is a huge supplier and has advantages over Asian suppliers in terms of proximity and delivery time to the United States.

B. External tariff and non-tariff obstacles facing Asian and Pacific suppliers in major markets

The United States and the European Union constitute by far the largest markets for textile and apparel imports globally, and together they account for the bulk of shipments from suppliers in Asia and the Pacific. The main form of protection in these two large markets, aside from the recently introduced safeguard quotas on selected products from China, is in the form of tariffs. United States tariffs on cotton apparel are typically in the range of 10 per cent to 20 per cent; however, for synthetic fabric apparel, peak tariffs of more than 30 per cent are applied on a "most favoured nation" (MFN) basis. The European Union also has relatively high tariffs on textiles and clothing on an MFN basis. Japan has somewhat lower ad valorem tariffs but has hundreds of specific tariff rates on textile products that can be highly restrictive.

A number of Asia-Pacific region suppliers are attempting to gain preferential access to the United States market through bilateral FTAs. Singapore is the only Asia-Pacific developing country to have an FTA with the United States that has entered into force. However, Singapore has a very small capacity in textiles and apparel and is not a major supplier to the United States market. (Neither is Australia, which also has a FTA with the United States). In any case, the rules of origin in the Singapore-United States FTA are highly restrictive, along similar lines to NAFTA (James, 2006). A significant recent development is the conclusion of FTA negotiations between the United States and the Republic of Korea. The agreement's provisions for rules of origin in textiles and clothing are similar to those in the United States-Singapore case, with a restrictive "yarn-forward" rule that requires use of regional yarn and fabric.⁹ Details of rules governing non-regional yarns and fabrics remain to be worked out. The Republic of Korea has significantly greater capacity as a supplier, particularly of textile intermediate products and clothing. The agreement mandates immediate reciprocal duty-free treatment for qualifying shipments of textiles and fabric. (However, there is also a special safeguard provision for the United States to fall back on, should textile and clothing imports from the Republic of Korea surge). Hence, trade diversion from competitive Asian suppliers to Korean suppliers in the United States market is a possibility.

The United States (like the European Union) is contemplating greater use of trade remedies to stem the inflow of shipments of textiles and clothing from competitive Asian suppliers. In particular, the United States is targeting Viet Nam and is implementing a vigorous monitoring programme of shipments from Viet Nam for the purpose of anti-dumping investigations and measures. The United States insisted upon this requirement as part of Viet Nam's WTO Accession Agreement (EmergingTextiles.com, 2007c). It is also likely that China will face anti-dumping measures in future, once the safeguard quotas are eliminated at the end of 2008. China is regarded as a "non-market" economy, and the United States has until 2016 to impose anti-dumping duties unilaterally on that basis on shipments from China.

Another worrisome trend is the push in the United States Congress to exclude textiles and clothing from the Doha Round Agreement. The issue may be moot, as the Bush administration was not successful in obtaining an extension of the negotiating authority under the Trade Promotion Act (TPA) after it expired on 30 June 2007. Failure of the Doha Round to move forward will have adverse consequences in that it will leave high MFN tariffs in the United States, European Union and Japan untouched, even as those countries continue to pursue more bilateral trade agreements with restrictive rules of origin.

C. Internal tariff and non-tariff barriers to trade and investment in Asian and Pacific textiles and clothing

The presence of internal barriers to regional integration of Asian-Pacific textile and apparel sectors has been recognized as a major problem that requires urgent consideration by governments in the region. In 2006, the ASEAN Secretariat commissioned a study of NTMs and their impact on efforts to create a single ASEAN market in three of the 12 priority sectors that ASEAN leaders have identified in their efforts to

⁹ A summary of the agreement can be downloaded from the Office of Textiles and Apparel, United States Department of Commerce homepage at www.otexa.ita.doc.gov/. See also Asian Development Bank, 2006.

create an ASEAN Economic Community (AEC) by 2015. A brief summary of the findings of a report on NTMs in textiles and clothing (James and others, 2007) follows.

The inventory of NTMs restricting intra-ASEAN trade in textiles and clothing is evaluated in seven major supplier countries – Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, the Philippines, Thailand and Viet Nam. The occurrence of NTMs, the consistency with which observed NTMs are applied, and the degree of restrictiveness they pose for trade in textiles and clothing are estimated based upon a sample of respondents. The most frequently occurring NTMs are those involving customs administration, followed by taxes and tariffs, technical barriers, investment, outward processing arrangements, and political economy and institutions. The most restrictive NTMs were those on outward processing arrangements (OPAs), followed by investment, subsidies, taxes and tariffs, political economy and institutions, and customs administration with moderate to critical values. Structural change characterizes the textile and apparel sectors, with smaller countries (Cambodia and the Lao People's Democratic Republic) becoming more specialized in clothing exports and larger, more developed countries (Indonesia, Malaysia and Thailand) maintaining substantial textile capacities. The Philippines is undergoing transformation into a specialized clothing exporter as its textile sector is contracting. In Viet Nam, the opposite is occurring through FDI flows into textile production. ASEAN integration in textiles and clothing is limited, and restrictions on investment and OPAs are serious obstacles to efficient development of production networks.

SAARC is also likely to consider designating textiles and apparel as priority sectors for regional integration. It is widely recognized that South Asia is among the world's least integrated regions, due in large part to the historical legacy of conflict between the two largest member countries, India and Pakistan. A study of internal barriers to integration of the textile and apparel industry would be necessary to provide a detailed analysis of the problem. Fortunately, it is likely that such a study will be forthcoming in the near future. However, for now, it is worth noting that the SAARC member countries maintain high tariff and non-tariff barriers to trade in textiles and apparel, and have excluded hundreds of tariff lines (mainly in textile fabrics) from liberalization under the South Asian Free Trade Agreement (SAFTA), which recently entered into force.

Only Bhutan, Maldives and Sri Lanka have refrained from large-scale exclusions in textile intermediate products among SAARC members. Of these three countries, Sri Lanka is the only SAARC member with a substantial textile and apparel capacity and it makes little use of fabric from within SAARC, preferring instead to import fabric from East and South-East Asia. Despite the severity of the internal restrictions on trade between Bangladesh, India, Nepal and Pakistan (the other main SAARC suppliers), potential for integration in these sectors in the long term is very favourable. Bangladesh and Nepal (like Sri Lanka) tend to specialize in garment production (although Bangladesh has a large spinning and knitting capacity). India and Pakistan have large domestic supplies of raw materials (especially cotton), and India is a competitive supplier of synthetic fabric and numerous inputs related to textile and clothing production. While Nepal together with Pakistan specialize in cotton apparel, India and Sri Lanka have large capacities in synthetic apparel. In addition, Bangladesh is a competitive supplier of most types of ready-made garments. Freeing internal trade in textile intermediate products would be a significant step towards taking advantage of the potential for regional integration in South Asia.

The creation of an Asian-Pacific Textile and Clothing Community would help to boost the competitiveness of suppliers from developing countries within the region, and would help offset the discriminatory effects the region faces in major markets from the proliferation of bilateral FTAs. ASEAN efforts to create a single market in textiles and apparel would be an important milestone in developing a broader regional agreement. The ASEAN-based suppliers are intent upon developing OPAs in order to take advantage of the competitive prowess of the 10 member States. The recent successful development of OPAs between Thailand and the Lao People's Democratic Republic is a case in point. Thai-Lao cooperation has enabled suppliers of cotton apparel in the Lao People's Democratic Republic to enter the United States market. Similar arrangements are envisioned between Malaysia and Viet Nam, Cambodia and Thailand, Indonesia and Viet Nam, and eventually extending to Myanmar. The Philippines is developing OPAs, through Hong Kong, China, with suppliers in China. These arrangements can form the basis for wider regional cooperation. If SAARC members can join in the process, possibly through subregional agreements, this would further boost the process. Signaling that a region-wide open trade regime in intermediate textile products was in the works would also attract FDI flows that would strengthen technological capacities and production networks in textiles and clothing in the region.

D. Policy implications and conclusions

The adoption of policy measures is vital to enhancing competitiveness between the present and the end of 2008, when safeguard measures restricting China's shipments to the United States market will end. In the case of the European Union, safeguards are currently scheduled to end in 2007 (year-end).¹⁰ Competition will become more intense in 2008 and 2009 and in the following years. Hence, there is a limited window of opportunity for competitive Asian suppliers to prepare themselves.

Private sector efforts to boost productivity at the level of the firm or manufacturing establishment through improved management of the entire value chain can be supported by government efforts to facilitate trade (Azhari, 2007). Trade facilitation measures are identified as any means of easing the movement of goods across borders. The most important areas where government actions can influence the ease of movement of goods across international borders include improved customs administration (including reducing corruption), better port handling, and efficiency and improvement in the quantity and quality of infrastructure. Trade agreements aimed at fostering integration by removing internal barriers to trade in intermediate textile products are clearly important in allowing private enterprises to exploit opportunities. The combination of private sector investment and management improvement, trade facilitation and trade agreements are immediate areas where competitive Asian suppliers can work to enhance overall competitiveness.

The reduction of tariff and non-tariff barriers to trade needs to be accelerated if intraregional trade in textile and related inputs is to grow in line with potential. In the case of SAARC, the member countries have all but precluded the healthy integration of the textile and clothing sectors in the region by excluding most products in HS 50-63 (textiles and clothing) from liberalization under SAFTA. In contrast, ASEAN has already

¹⁰ See European Commission, 2005 for the schedule of European Union safeguard quotas. The agreement notes that the European Union will undertake restraint in exercising its rights under the terms of China's WTO Accession Agreement in 2008.

implemented tariff reductions in these sectors, particularly for textile yarns and fabrics under the Common Effective Preferential Tariff (CEPT).¹¹

Taxes and investment regulations may also be reformed to encourage integration through development of OPAs. In particular, domestic taxes on imported raw materials such as cotton and on intermediate inputs such as yarns, fabrics and accessories may discourage development of OPAs within the region. Restrictions on foreign investment have also limited integration of Asian suppliers. Removal of barriers and restrictions on FDI through mergers and acquisitions would spur intraregional trade and enhance competitiveness. Reductions of trade costs and time delays in moving inputs and outputs across borders could be the key to whether or not the industry survives and thrives after the end of China safeguards, particularly in smaller Asian suppliers of apparel to world markets. For larger countries with integrated textile and apparel sectors, trade cost reduction is the *sine qua non* for remaining competitive and for enhancing market share in large world markets for textiles and apparel, particularly if the Doha Round continues to be kept on hold.

Among the measures that could immediately benefit textile and clothing producers within ASEAN, going to zero CEPT tariffs on textile intermediate products without exception and adoption of an ASEAN green lane for shipments from member countries to member countries (even if transiting through a non-member country) are recommended. ASEAN is engaged in broader liberalization negotiations with China, Japan, the Republic of Korea and India, and thus could provide a uniform template for intraregional trade in textiles and apparel. A consistent set of rules of origin with a provision for regional cumulation and a choice of complying through a threshold value-added, maximum non-regional content percentage or a specified process (production of fabric from yarn, cutting and sewing of fabric into clothing) would be an important step in avoiding the increasingly complex "noodle-bowl" of rules of origin.

In addition, ASEAN-plus agreements could help the region to avoid developing into a series of competing hub and spoke systems by linking all the spokes together under one set of rules. This would benefit businesses by simplifying their decision-making, and by providing an environment conducive to intraregional investment and trade.

Asian suppliers of textiles and clothing can face the future with confidence and bank on continued growth if steps are taken now to prepare for the rising competition over the next two years or so.

¹¹ Trade in intermediate products for exporters is also benefited by duty exemption and drawback schemes in the member countries of both SAARC and ASEAN, but these arrangements discourage the development of an integrated domestic industry and encourage the use of fabric and yarn from non-member suppliers. This is not necessarily a bad idea, as it makes sense to purchase inputs from the lowest cost suppliers. However, timidity in reducing internal barriers to trade in textile products reduces the opportunity for firms to attain economies of scale and to develop regional production networks.

Table 1. ASEAN Textile and Clothing Shipments to the US Market (value in Million US\$)

Item	2004	2005	% change	2006	% change	YTD 2006	YTD 2007	% change
Apparel	11 150.937	11 955.637	7.22	13 830.420	15.68	1 159.727	1 235.483	6.53
Cotton	6 502.655	7 428.404	14.24	8 772.408	18.09	764.568	764.567	0.00
MMF	4 140.168	4 084.148	-1.35	4 616.250	13.03	372.639	432.645	16.10
Wool	400.385	320.950	-19.84	316.927	-1.25	13.344	15.950	19.53
Silk & Veg	107.728	122.135	13.37	124.836	2.21	9.176	22.321	143.25
Textiles	992.521	832.651	-16.11	842.264	1.15	76.505	67.217	-12.14
Yarn	151.179	153.356	1.44	179.941	17.34	17.274	12.047	-30.26
Fabric	235.052	180.056	-23.40	173.367	-3.71	18.418	14.343	-22.13
Made-ups	606.290	499.239	-17.66	488.956	-2.06	40.814	40.827	0.03
Grand Total	12 143.457	12 788.288	5.31	14 672.683	14.74	1 236.232	1 302.700	5.38

Source: Office of Textiles and Apparel (OTEXA) homepage (<http://otexa.ita.doc.gov/msrcty/v31.htm>).

Notes: YTD is for January.

ASEAN includes Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

Table 2. ASEAN Textile and Clothing Shipments to the US Market (volume in million square meter equivalents)

Item	2004	2005	% change	2006	% change	YTD 2006	YTD 2007	% change
Apparel	3 468.490	3 668.415	5.76	4 255.96	16.02	360.632	364.646	1.11
Cotton	1 799.28	2 046.93	13.76	2 443.877	19.39	216.055	205.001	-5.12
MMF	1 597.655	1 561.274	-2.28	1 754.382	12.37	141.622	154.399	9.02
Wool	42.584	33.402	-21.56	32.089	-3.93	1.251	1.447	15.67
Silk & veg	28.969	26.813	-7.44	25.608	-4.49	1.704	3.799	122.95
Textiles	1 671.107	1 476.278	-11.66	1 498.065	1.48	146.419	110.177	-24.75
Yarn	449.144	470.900	4.84	529.839	12.52	52.332	34.464	-34.14
Fabric	518.964	399.366	-23.05	382.596	-4.20	42.217	31.236	-26.01
Made-ups	702.998	606.011	-13.80	585.630	-3.36	51.870	44.477	-14.25
Grand Total	5 139.597	5 144.693	0.10	5 754.022	11.84	507.051	474.823	-6.36

Source: Office of Textiles and Apparel (OTEXA) homepage (<http://otexa.ita.doc.gov/msrcy/v31.htm>).

Notes: YTD is for January.

ASEAN includes: Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

Table 3. SAARC Members Textile and Clothing Shipments to the US Market (Value in Million US\$)

Item	2004	2005	% change	2006	% change	YTD 2006	YTD 2007	% change
Apparel	6 979.693	8 318.136	19.18	9 246.990	11.17	829.129	853.333	2.92
Cotton	4 873.042	6 288.511	29.05	7 341.767	16.75	655.649	701.194	6.95
MMF	1 832.570	1 780.501	-2.84	1 703.353	-4.33	154.632	135.827	-12.16
Wool	186.136	176.582	-5.13	122.142	-30.83	8.469	7.123	-15.89
Silk & veg	87.943	72.543	-17.51	79.142	9.10	10.376	9.189	-11.44
Textiles	2 980.977	3 432.596	15.15	3 820.504	11.30	326.475	326.603	0.04
Yarn	148.683	152.247	2.40	187.308	23.03	15.881	12.185	-23.27
Fabric	527.323	451.647	-14.35	432.234	-4.30	36.722	29.143	-20.64
Made-ups	2 304.971	2 828.702	22.72	3 200.964	13.16	273.872	285.276	4.16
Grand Total	9 960.670	11 750.732	17.97	13 066.910	11.20	1 155.605	1 179.936	2.11

Source: Office of Textiles and Apparel (OTEXA) homepage (<http://otexa.ita.doc.gov/msrcy/v31.htm>).

Note: YTD is for January.

Table 4. SAARC Members Textile and Clothing Shipments to the US Market (Volume in Million Square Meter equivalents)

Item	2004	2005	% change	2006	% change	YTD 2006	YTD 2007	% change
Apparel	2 520.172	2 965.822	17.68	3 286.059	10.80	280.869	306.797	9.23
Cotton	1 675.623	2 161.247	28.98	2 544.152	17.72	213.840	241.040	12.72
MMF	796.253	765.114	-3.91	711.965	-6.95	64.111	63.471	-1.00
Wool	23.779	22.561	-5.12	14.513	-35.67	0.980	0.694	-29.18
Silk & veg	24.517	16.898	-31.08	15.365	-9.07	1.940	1.592	-17.94
Textiles	4 003.602	4 512.336	12.71	4 944.333	9.57	420.356	395.874	-5.82
Yarn	442.052	501.524	13.45	591.973	18.03	51.997	37.590	-27.71
Fabric	832.942	818.918	-1.68	842.190	2.84	66.225	60.508	-8.63
Made-ups	2 728.608	3 191.894	16.98	3 510.171	9.97	302.137	297.775	-1.44
Grand Total	6 523.774	7 478.158	14.63	8 230.390	10.06	701.226	702.671	0.21

Source: Office of Textiles and Apparel (OTEXA) homepage (<http://otexa.ita.doc.gov/msrcty/v31.htm>).

Note: YTD is for January.

Table 5. World Textile and Clothing Shipments to the US Market (value in Million US\$)

Item	2004	2005	% change	2006	% change	YTD 2006	YTD 2007	% change
Apparel	64 767.673	68 713.251	6.09	71 629.170	4.24	5 494.750	6 097.183	10.96
Cotton	37 398.877	41 141.989	10.01	43 411.020	5.52	3 437.372	3 827.006	11.34
MMF	20 446.088	20 763.698	1.55	21 586.054	3.96	1 546.523	1 779.866	15.09
Wool	3 964.110	4 129.963	4.18	3 938.308	-4.64	175.352	181.497	3.50
Silk & veg	2 958.598	2 677.600	-9.50	2 693.788	0.60	335.504	308.815	-7.95
Textiles	18 542.769	20 492.245	10.51	21 647.947	5.64	1 790.763	1 852.991	3.47
Yarn	1 648.168	1 714.056	4.00	1 603.642	-6.44	146.607	122.854	-16.20
Fabric	5 637.508	5 719.123	1.45	5 472.441	-4.31	459.567	439.567	-4.35
Made-ups	11 257.094	13 059.066	16.01	14 571.865	11.58	1 184.589	1 290.681	8.96
Grand Total	83 310.442	89 205.496	7.08	93 227.117	4.51	7 285.513	7 950.174	9.12

Source: Office of Textiles and Apparel (OTEXA) homepage (<http://otexa.ita.doc.gov/msrcy/v31.htm>).

Note: YTD is for January.

Table 6. World Textile and Clothing Shipments to the US market (volume in million square meter equivalents)

Item	2004	2005	% change	2006	% change	YTD 2006	YTD 2007	% change
Apparel	19 951.000	22 009.810	10.32	22 538.970	2.40	1 697.452	1 918.708	13.03
Cotton	11 233.600	12 796.240	13.91	13 458.380	5.17	1 026.355	1 169.493	13.95
MMF	7 635.154	8 199.449	7.39	8 164.944	-0.42	580.514	672.358	15.82
Wool	265.803	286.390	7.75	260.428	-9.07	10.559	10.607	0.45
Silk & veg	816.434	727.732	-10.86	655.220	-9.96	80.025	66.250	-17.21
Textiles	26 985.150	28 829.090	6.83	29 607.210	2.70	2 503.504	2 373.456	-5.19
Yarn	3 514.765	3 629.934	3.28	3 629.065	-0.20	337.319	279.279	-17.21
Fabric	9 250.048	9 521.842	2.94	8 872.873	-6.82	800.852	705.588	-11.90
Made-ups	14 220.330	15 677.310	10.25	17 105.270	9.11	1 365.333	1 388.589	1.70
Grand Total	46 936.140	50 838.900	8.32	52 146.180	2.57	4 200.957	4 292.164	2.17

Source: Office of Textiles and Apparel (OTEXA) homepage (<http://otexa.ita.doc.gov/msrcy/v31.htm>).

Note: YTD is for January.

Table 7. China Textile and Clothing Shipments to the US (value in Million US\$)

Item	2004	2005	% change	2006	% change	YTD 2006	YTD 2007	% change
Apparel	8 927.864	15 142.869	69.61	18 157.487	19.91	1 119.322	2 013.278	79.87
Cotton	2 754.941	6 003.881	117.93	7 855.387	30.84	442.544	1 056.337	138.70
MMF	3 354.830	5 680.036	69.31	6 915.745	21.76	354.138	658.277	85.88
Wool	370.241	1 232.224	232.82	1 505.559	22.18	41.117	49.805	21.13
Silk & veg	2 447.852	2 226.727	-9.03	2 240.797	0.63	281.523	248.859	-11.60
Textiles	5 630.213	7 262.350	28.99	8 549.186	17.72	695.358	796.153	14.50
Yarn	23.584	57.983	145.86	71.607	23.50	5.660	7.749	36.91
Fabric	552.095	838.937	51.96	900.076	7.29	82.245	87.216	6.04
Made-ups	5 054.533	6 365.429	25.94	7 577.502	19.04	607.454	701.189	15.43
Grand Total	14 558.077	22 405.219	53.90	27 066.673	20.81	1 814.680	2 809.431	54.82

Source: Office of Textiles and Apparel (OTEXA) homepage (<http://otexa.ita.doc.gov/msrcy/v31.htm>).

Note: YTD is for January.

Table 8. China Textile and Clothing Shipments to the US (volume in million square meter equivalents)

Item	2004	2005	% change	2006	% change	YTD 2006	YTD 2007	% change
Apparel	2 972.523	5 883.431	97.93	6 506.037	10.58	411.186	690.695	67.98
Cotton	1 106.325	2 543.580	129.91	2 976.500	17.02	187.843	361.109	92.24
MIMF	1 139.026	2 596.630	127.97	2 824.571	8.78	146.925	267.242	81.89
Wool	24.677	99.022	301.27	122.191	23.40	3.544	4.247	19.84
Silk & veg	702.495	644.200	-8.30	582.776	-9.53	72.864	58.097	-20.27
Textiles	8 689.769	10 879.670	25.20	12 104.860	11.26	976.580	1 020.778	4.53
Yarn	41.105	117.442	185.71	208.777	77.77	16.971	20.329	19.79
Fabric	927.309	1 651.858	78.13	1 491.688	-9.70	160.412	143.225	-10.71
Made-ups	7 721.355	9 110.373	17.99	10 404.390	14.20	799.196	857.223	7.26
Grand Total	11 662.292	16 763.101	43.74	18 610.890	11.02	1 387.767	1 711.472	23.33

Source: Office of Textiles and Apparel (OTEXA) homepage (<http://otexa.ita.doc.gov/msrcy/v31.htm>).

Note: YTD is for January.

**Table 9. ASEAN Textile and Clothing market Shares
in the US Market in Value (%)**

	2004	2005	2006	YTD 2007
Clothing, all items	17.22	17.40	19.31	20.26
Cotton	17.39	18.06	20.21	19.98
MMF	20.25	19.67	21.39	24.31
Wool	10.01	7.77	8.05	8.79
Silk & veg	3.64	4.56	4.63	7.23
China-restricted clothing items	16.30	17.88	19.76	21.77
Textiles, all items	5.35	4.06	3.89	3.63
Yarn	9.17	8.95	11.22	9.81
Fabric	4.17	3.15	3.17	3.26
Made-ups	5.39	3.82	3.36	3.16
China-restricted textile items	4.13	3.16	3.50	3.17
Grand total all items	14.58	14.34	15.74	16.39
China-restricted items	15.00	15.88	18.06	19.88

Source: Author's compilations.

**Table 10. ASEAN Textile and Clothing Market Shares
in the US market in Volume (%)**

	2004	2005	2006	YTD 2007
Clothing, all items	17.39	16.67	18.88	19.00
Cotton	16.02	15.96	18.16	17.53
MMF	20.92	19.04	21.49	22.96
Wool	16.02	11.66	12.32	13.64
Silk & veg	3.55	3.68	3.91	5.73
China-restricted clothing items	14.09	14.24	17.74	18.29
Textiles, all items	6.19	5.12	5.06	4.64
Yarn	12.78	12.97	14.60	12.34
Fabric	5.61	4.19	4.31	4.43
Made-ups	4.94	3.87	3.42	3.20
China-restricted textile items	3.98	3.23	3.93	3.52
Grand total all items	10.95	10.12	11.03	11.06
China-restricted items	9.96	9.74	12.18	12.89

Source: Author's compilations.

**Table 11. SAARC Textile and Clothing Market Shares
in the US Market in Value (%)**

	2004	2005	2006	YTD 2007
Clothing, all items	10.78	12.11	12.91	15.53
Cotton	13.03	15.28	16.91	20.40
MMF	8.96	8.58	7.89	8.78
Wool	4.70	4.28	3.10	4.06
Silk & veg	2.97	2.71	2.94	2.74
China-restricted clothing items	10.06	11.84	12.92	14.99
Textiles, all items	16.08	16.75	17.65	18.24
Yarn	9.02	8.88	11.68	8.31
Fabric	9.35	7.90	7.90	6.34
Made-ups	20.48	21.66	21.97	24.08
China-restricted textile items	11.40	11.49	13.65	14.32
Grand total all items	11.96	13.17	14.02	16.20
China-restricted items	10.21	11.80	13.00	14.92

Source: Author's compilations.

**Table 12. SAARC Textile and Clothing Market Shares
in the US Market in Volume (%)**

	2004	2005	2006	YTD 2007
Clothing, all items	12.63	13.48	14.58	18.07
Cotton	14.92	16.89	18.90	23.49
MMF	10.43	9.33	8.72	10.93
Wool	8.95	7.88	5.57	6.57
Silk & veg	3.00	2.32	2.35	1.99
China-restricted clothing items	11.01	12.19	14.31	16.29
Textiles, all items	14.84	15.65	16.70	15.81
Yarn	12.58	13.82	16.31	11.14
Fabric	9.00	8.60	9.49	7.56
Made-ups	19.19	20.36	20.52	21.81
China-restricted textile items	6.55	7.60	9.10	9.95
Grand total all items	13.90	14.71	15.78	16.73
China-restricted items	9.19	10.32	12.21	13.98

Source: Author's compilations.

Table 13. Major Preferential Suppliers Performance in China Restricted Items in the US Market
(Value in Million US\$)

	2004	2005	% change	2006	% change	YTD 2006	YTD 2007	% change
Preferential Supplier:								
Canada	1 729.524	1 569.096	-9.28	1 442.931	-8.04	130.400	103.676	-20.49
Mexico	6 528.536	6 037.820	-7.52	5 354.143	-11.32	384.177	329.977	-14.11
CAFTA-DR	8 742.791	8 485.637	-2.94	7 943.048	-6.39	501.211	493.651	-1.51
ANDEAN	1 207.911	1 316.597	9.00	1 296.876	-1.50	96.906	99.530	2.71
AGOA	1 642.918	1 398.220	-14.89	1 244.216	-11.01	101.884	110.854	8.80
Egypt	424.731	442.412	4.16	615.171	39.05	45.863	60.288	31.45
Jordan	861.975	987.358	14.55	1 118.882	13.32	86.219	74.317	-13.80
Sub Total	21 138.386	20 237.140	-4.26	19 015.267	-6.04	1 346.660	1 272.293	-5.52

Source: Author's compilations.

Notes: CAFTA-DR includes Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua.
ANDEAN includes Bolivia, Colombia, Ecuador and Peru.
AGOA includes 37 Sub-Saharan African Countries.

Table 14. Major Preferential Suppliers Performance in China Restricted Items in the US Market
(Volume in Million Square Meter Equivalents)

	2004	2005	% change	2006	% change	YTD 2006	YTD 2007	% change
Preferential Supplier:								
Canada	1 622.185	1 536.676	-5.27	1 264.119	-17.74	121.738	85.375	-29.87
Mexico	2 569.924	2 384.993	-7.20	2 117.377	-11.22	157.408	130.679	-16.98
CAFTA-DR	3 419.604	3 512.882	2.73	3 211.127	-8.59	202.819	204.325	0.74
ANDEAN	226.923	225.749	-0.52	206.649	-8.46	15.847	15.688	-1.00
AGOA	399.425	351.122	-12.09	311.403	-11.31	25.410	29.042	14.29
Egypt	189.524	178.254	-5.95	201.420	13.00	17.950	17.787	-0.91
Jordan	188.390	222.830	18.28	251.690	12.95	20.120	16.333	-18.82
Sub Total	8 615.975	8 412.506	-2.36	7 563.785	-10.09	561.292	499.229	-11.06

Source: Author's compilations.

Table 15. Major Preferential Suppliers Textile and Clothing Market Shares in the US Market in Value (%)

	2004	2005	2006	YTD 2007
Clothing, all items	34.21	30.38	27.13	21.27
Cotton	40.69	34.76	30.52	23.05
MMF	29.41	27.56	25.13	20.64
Wool	22.53	19.91	18.57	25.12
Silk & veg	1.18	1.24	1.11	0.84
China-restricted clothing items	43.61	39.52	33.98	27.30
Textiles, all items	16.13	14.94	13.08	11.70
Yarn	42.20	41.45	39.65	42.28
Fabric	22.43	22.25	20.56	18.54
Made-ups	9.15	8.26	7.35	6.46
China-restricted textile items	21.81	20.09	19.06	16.21
Grand total all items	25.37	22.69	20.40	16.00
China-restricted items	41.28	37.35	32.42	26.17

Source: Author's compilations.

Note: Major Preferential Suppliers are those identified in Table 13.

Table 16. Major Preferential Suppliers Textile and Clothing Market Shares in the US Market in Volume (%)

	2004	2005	2006	YTD 2007
Clothing, all items	35.13	30.54	26.98	21.26
Cotton	41.40	35.05	30.53	23.39
MMF	29.96	26.52	23.55	19.56
Wool	22.75	18.89	16.66	22.44
Silk & veg	1.17	1.02	0.92	0.77
China-restricted clothing items	42.30	38.34	34.81	27.02
Textiles, all items	20.65	18.41	15.19	13.75
Yarn	44.19	39.71	31.55	32.30
Fabric	28.14	25.79	22.97	20.37
Made-ups	9.97	8.99	7.69	6.68
China-restricted textile items	24.56	21.57	18.39	15.66
Grand total all items	26.80	23.66	20.29	17.11
China-restricted items	35.05	31.49	28.20	22.87

Source: Author's compilations.

Note: Major Preferential Suppliers are those identified in Table 13.

**Table 17. China Textile and Clothing Market Shares
in the US Market in Value (%)**

	2004	2005	2006	YTD 2007
Clothing, all items	13.78	22.04	25.35	36.64
Cotton	7.37	14.59	18.10	30.73
MMF	16.41	27.36	32.04	42.56
Wool	9.34	29.84	38.23	28.40
Silk & veg	82.74	83.16	83.18	74.17
China-restricted clothing items	10.92	15.98	17.61	26.98
Textiles, all items	30.36	35.44	39.49	44.46
Yarn	1.43	3.38	4.47	5.29
Fabric	9.79	14.67	16.45	18.98
Made-ups	44.90	48.74	52.00	59.19
China-restricted textile items	27.23	33.20	34.85	37.59
Grand total all items	17.47	25.12	29.03	38.56
China-restricted items	12.67	17.90	19.41	28.06

Source: Author's compilations.

**Table 18. China Textile and Clothing Market Shares
in the US Market in Volume (%)**

	2004	2005	2006	YTD 2007
Clothing, all items	14.90	26.73	28.87	36.00
Cotton	9.85	19.88	22.12	30.88
MMF	14.92	31.67	34.59	39.75
Wool	9.28	34.58	46.92	40.04
Silk and veg	86.04	88.52	88.94	87.69
China-restricted clothing items	12.46	21.14	20.72	29.26
Textiles, all items	32.20	37.74	40.88	43.01
Yarn	1.17	3.24	5.75	7.28
Fabric	10.02	17.35	16.81	20.30
Made-ups	54.30	58.11	60.83	61.73
China-restricted textile items	35.81	42.57	44.07	45.53
Grand total all items	24.85	32.97	35.69	39.87
China-restricted items	22.00	29.89	30.13	35.20

Source: Author's compilations.

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