UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TNCs and the Removal of Textiles and Clothing Quotas

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Foreword

In recent decades, exports of textiles and clothing have been among the most dynamic segments of world trade, and developing countries have accounted for a rising share of this growth. Historically, textiles and clothing were the entry point and backbone of economic development and industrialization for many countries before they moved up the value chain. Hence the great interest in this area of economic activity.

The Multifibre Arrangement in 1974, through its quotas, often effectively limited opportunities for producers to expand their exports to developed countries. They subsequently shifted some of their production activities to locations less constrained by quota limitations or enjoying preferential market access. Foreign affiliates, notably of companies headquartered in Asia, now account for a substantial share of textiles and clothing exports from developing countries.

As part of the Uruguay Round of Multilateral Trade Negotiations, the Multifibre Arrangement was replaced by the Agreement on Textiles and Clothing, which stipulated the phasing out of all quota restrictions over a 10-year transition period ending 1 January 2005. The end of this agreement contributes to the "upholding and safeguarding of an open, non-discriminatory, predictable, rule-based, and equitable multilateral trading system", an objective reaffirmed in the São Paulo Consensus adopted at UNCTAD XI in June 2004.

This study explores the development implications of the phasing out of quotas for FDI in and exports from developing countries. The role of foreign-owned production in the textiles and clothing value chain merits attention. This study takes stock of the available knowledge and explores possible implications for selected developing countries that are highly dependent on textiles and clothing as a source of export revenue.

Carlos Fortin
Officer-in-Charge of UNCTAD

Geneva, May 2005

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Contents

Page

List of Figures and Tables

Figure

Tables

Explanatory notes

The following symbols are used in the tables:

Two dots (..) indicate that data are not available or are not separately reported. Rows in tables have been omitted in cases where no data are available for any of the elements in the row.

A dash (-) indicates that the item is equal to zero or its value is negligible.

A blank in a table indicates that the item is not applicable.

A slash (/) between dates representing years (e.g. 1994/1995) indicates a financial year.

Use of a dash (–) between dates representing years (e.g. 1994–1995) signifies the full period involved, including the beginning and end years.

References to “dollars” ($) are to United States dollars, unless otherwise indicated.

Annual rates of growth or change refer to annual compound rates, unless otherwise stated.

Because of rounding, details and percentages in tables do not necessarily add up to totals.

Executive Summary

For developing countries, the textiles and clothing industries have traditionally been an important gateway to industrialization and increased exports. With the expiration of the Agreement on Textiles and Clothing, the quota system originally set up through the Multifibre Arrangement was phased out. This has important implications for the allocation of export-oriented production and is likely to affect in various ways a large number of developing countries that rely heavily on such exports.

Drawing on a wide range of studies as well as on original research, this volume shows that transnational corporations (TNCs) are likely to play a critical role in determining the future global production structure in these industries. First, the sourcing strategies of a small number of very large retailing companies (based in the United States, Europe and Japan) place stringent requirements on the locations in which textiles and clothes will be produced. Second, the investment strategies of large transnational producers (mostly based in East Asia) will also affect the final outcome. Foreign affiliates of such developing-country TNCs already account for the bulk of exports from many developing economies. The growing role of TNC producers is still not well understood, and more research is needed on their strategies and the impact of their international investments. As TNCs become more important at the production stage, their bargaining power increases vis-à-vis retailers in developed economies.

With the removal of quotas, sourcing and investment decisions are affected more by economic fundamentals. But low labour costs alone will not be sufficient to attract investment. There is likely to be more consolidation of production into larger factories in a smaller number of locations. China and India are likely to be in a particularly strong position in this new geography of production, but various factors may also work against too much consolidation. Proximity to markets continues to play an important role for some product categories, and some producers have signalled that they will retain several production bases in order not to become too dependent on a single source country. Moreover, various trade policy measures also influence sourcing and investment decisions. Data on foreign direct investment (FDI) projects in textiles and clothing manufacturing show that China, Bulgaria, the United States, Hungary, Brazil and India attracted the largest number of such projects in 2002–2004.

The removal of quotas generally means intensified competition for FDI in textiles and clothing. To become or stay competitive as host locations, countries will need to develop their ability to move away from simple assembly to "full-package" production and eventually original brand manufacture. But replicating the success of East Asia will be difficult. Key policy areas in this regard include identification of specialized niches; skills training and technological upgrading; investment in information technology; improvement of infrastructure such as ports and export processing zones; and leveraging of existing tariff preferences in the global trading system. Moreover, investment promotion agencies may identify some of the major transnational producers as key addresses for future marketing activities.