



International Trade Centre
UNCTAD/WTO

*Trade in Textiles and Clothing (T&C) and
Dynamic Products
A special look at LDCs*

*Prepared by
Matthias Knappe*

**UNCTAD Intergovernmental Expert Meeting on Dynamic
and New Sectors of World Trade
Textiles and Clothing**

Geneva, 9 February 2005

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Trade in Textiles and Clothing (T&C) and Dynamic Products

A special look at LDCs

Introduction

This article looks at dynamic T&C products in the context of LDCs. It analyses the export structure of exports from LDCs, mainly from Sub Saharan Africa, and derives conclusion on whether or not LDCs are producing and exporting dynamic products.

Textiles and clothing are two different sectors with different characteristics. Textiles are capital intensive and developed countries are still its major producers and exporters, apart from larger Asian textile producing countries. LDCs hardly produce any textiles, and if produced, they are usually not for export purposes. Clothing on the contrary is labour intensive and can be found in almost all developing countries and especially LDCs. For this reason, dynamic clothing products are looked at specifically. Clothing exports are critical for many LDCs in Africa as well as in Asia. In some countries the export dependence of clothing reaches up to 80% as for example in Cambodia or Lesotho. Through the creation of employment it is an important contributor to poverty reduction. Moreover, it is an industry that is relatively easy to develop and in that sense it is very dynamic.

1. What are dynamic products?

A difficult question to elaborate on is what are actually dynamic products. In order to find a definition in the context of LDCs one could look at various aspects i.e. at the import side, the export side, the fashion side, the development side, and the factory ownership side, etc. Looking at dynamic products from the import side, they could be defined as products with high import growth in target market. From the export side, dynamic products would be products with high export growth. Looking at dynamic products from the fashion side, one could define them as products that are fast changing and demand-intensive products, which need detail to service. From the development side, dynamic products would be products whose production and sales create employment. Finally, the clothing industry in LDCs is often characterised by the presence of foreign companies, exploiting duty-free and in the past quota-free market access. These investors come and go easily. Such a migratory industry could also be regarded as very dynamic, as it reacts quickly to changing competitiveness factors.

ITC has assessed the export performance of clothing products from LDCs as well as from China. For this, the trade performance of all clothing products under the HS codes 61 and 62 were analysed at the 4-digit level for the period 1999 to 2003 in terms of growth of leading export products and the dynamics of international demand for these products. The results are shown in the graphics in annex 1 and 2. The charts need to be interpreted in the following way. The horizontal or x-axis indicates the international demand for the product or more concrete, the world import growth for the particular product. The higher up the product, the higher world demand has been

for that particular clothing product. The horizontal or x-axis indicates the change in world market share by country. In the two examples, it indicates the change in world market share for a) China and b) that of all LDCs combined. Plotting the results into this graph, one can identify four areas, or quadrants, of importance.

The champion's quadrant is the one in the upper right-hand corner, indicating products with high demand growth rates as well as high world market share. Products in the underachiever's category are found in the upper left-hand corner of the chart, indicating products with high international demand growth but low market share. Achievers in adversity can be found in the lower right-hand side, detailing products with low demand growth but for which the target country has a high market share. Finally, loser products in declining markets can be found in the lower left-hand side, indicating products with low international demand growth and low market share. The size of the bubble indicates the size of the market of that particular product.

The two charts developed for China's exports respectively that of LDCs show similar patterns. China and LDCs tend to export similar "dynamic" products. It is however striking to note that the combined market share of LDCs is around five times lower than that of China. While China mainly operates in the product champions area, i.e. in products with high demand in world markets where China has a relative high market share, LDCs operate mainly in the product area of underachievers, i.e. in products where there is high demand but where LDCs have a proportionately low market share.

Analysing the data one can also identify the impact of the third stage of the Agreement on Textiles and Clothing (ATC). Those products for which quotas were dismantled in 2002 show high growth rates. This is the case e.g. for brassieres and baby garments. However, the data need to be regarded with care. As the quota system was a system of managed trade, the demand growth rates indicate only the curtailed rate of growth of the quotas in an overall system of a seller market. Whether these growth rates will be maintained is doubtful. Growth rates over the year have been declining. While 2005, the first year after the quota system, could bring another unprecedented increase, long-term growth rates are declining towards low growth in traditional Quad markets. Thus, extrapolating future growth rates of a market economy-based system out of past growth rates of managed trade, therefore, is difficult.

2. Are there dynamic clothing products in Sub Saharan African LDCs?

LDCs and small vulnerable countries in Sub-Saharan Africa (SSA), Central America, North Africa and in small Asian countries face similar problems and challenges. In view of their size they cannot compete with the large Asian competitors. Most of these countries were highly protected by the quota system. The average estimated export tax equivalent for US quotas was 11%, but for many Chinese products it was up to 60%, according to the US Committee for the Implementation of Textiles Agreements (CITA). However, LDCs were not able to take benefit and develop a diversified clothing industry. They only developed basic commodity type items for which Asian competitors were restricted.

Sub-Saharan African trade in T&C is dominated by exports to the US under the African Growth and Opportunity Act (AGOA). While African Least Developed

Countries (LDCs) under the Everything-But-Arms (EBA) initiative have duty-free access to the European Union (EU) market, the stringent rules of origin requirements of the EU (double transformation requirement) hardly allow for its use. Therefore, almost all African countries regard the US as its major clothing destination.

Under AGOA, “lesser-developed countries” are allowed to use Asian fabrics until September 2007 and clothing exports still qualify for duty-free entry.

However, market share of SSA countries in the US was only around 2.2% in 2004, with 96% of all exports being clothing. Out of this, 86% were made out of third country (Asian) fabric and only 14% from African fabric. In addition, only six countries actually benefit from AGOA in a meaningful way. Lesotho, Swaziland, Madagascar and Kenya as “lesser developed countries”, in addition to Mauritius (which was allowed to use the third country sourcing provision for one year only until 30 September 2005) and South Africa and (that does not qualify for the AGOA third country special sourcing provision and thus have to use African fabric in order to export clothing duty-free to the US), occupied 94% of AGOA exports in 2003.

Moreover, a closer look at the export profile reveals that cotton trousers account for 39% of all clothing exports under AGOA, synthetic fibre trousers for another 8%, while cotton knit shirts and synthetic fibre shirts account for another 21% and 8% respectively in 2004. Thus, 77% of all African clothing exports under AGOA are based on two products: knit shirts and simple trousers. These are basic articles, which were under tight quota constraints in Asian countries and where China's tariff equivalent was almost 60%. Despite this protection and the quota-free and duty-free market access, African producers could not develop a diversified export range of products. With the removal of quotas, African producers will have difficulties to compete with Asian competitors, despite their duty-free advantage. In addition, African producers do not benefit from market proximity.

Finally, the enterprise structure of the sector in Sub Saharan Africa is characterised by large investments from Asian manufacturers, which invested to avoid quotas and to benefit from duty-free market access. Investors in these “foot-loose” industries could leave any time if business was no longer lucrative. News from Lesotho in early 2005 suggests that this is already happening. African countries would need to find sustainable means to link local industries to foreign investors in long-term partnerships.

The question as to whether SSA LDCs are exporting dynamic products is therefore difficult to answer. Those clothing products exported from SSA LDCs could be regarded as dynamic because exports increased over several years from a very low level with relative high growth rates. The market share in the US clothing market rose from almost nothing to 2.1% over three years. The sector created new jobs and employment opportunities and helped exporting countries to earn important foreign exchange earnings they had not before. The enterprise structure of the sector had also been very dynamic as new investment flew in mainly from Asia, grasping trade opportunities, especially provided under AGOA.

However, the product sector could also be regarded as non-dynamic because exports are purely driven by duty-free market access and thus not of intrinsic comparative

advantages of African clothing producers over Asian manufacturers. The foreign direct investment, which came in to exploit trade opportunities, could easily leave the country again once trade policy advantages are withdrawn or changed.

The clothing industry is regarded as a foot-loose industry where investment barriers are low. Experiences from the past suggest that investors could leave any time once sewing machinery has been depreciated. First signals from Lesotho already indicate a possible move-back to Asia. In addition, African LDCs could only develop exports in a few product categories. These categories were categories where Asian competitors were heavily constrained. This suggests that exports were not very dynamic. Finally, African LDCs could not develop any fashion or creative products, despite the duty-free market access. This also indicates the non-dynamic nature of the sector in Africa.

3. How to create dynamic products

The above analysis suggests that dynamic products in LDCs are in nature those products that benefited from preferential market access. Moreover, foreign direct investment played an instrumental role in exploiting these trade policy incentives and in increasing exports to QUAD markets. However, foreign investors are in most cases operating in islands of excellence and are not connected to the local industry. Sub-contracting arrangements are rare and know-how and knowledge transfer to the domestic industry is almost non-existent. This, however, would be crucial, should LDCs develop future champion export products on their own.

4. What are barriers and constraints for LDCs to develop champion products?

Barriers and constraints could be classified into endogenous and exogenous factors. Endogenous factors or factors which could be found within the country are the lack of capacity at all levels, including at the enterprise, sector as well as government level. In addition, all LDCs, with the exception of Haiti, are located far away from the QUAD markets, which are their major markets. Finally, with reference to the importance of FDI in this sector, the business is driven mainly by outside decision makers, which are often controlled from Asian headquarters.

Exogenous factors are firstly market access constraints. This mainly refers to stringent rules of origin requirements, even though most LDCs have, on paper, duty-free market access to the QUAD markets. These are, however, often subject to rules of origin requirements, which are not seldom difficult to fulfil by LDCs. For example the double transformation rules of origin requirements imposed by the EU are a market access constraints as hardly any LDC could fulfil them. Secondly, increasing private sector standards such as social compliance create an increasing burden and market access constraint for LDC manufacturers. Thirdly, supply chain security as imposed by the US will make access to the US market more difficult for countries that cannot fulfil these new requirements, which are often based on high technology such as container screening. Finally, environmental issues are becoming increasingly important and could pose future burdens on LDC clothing manufacturers.

5. How should policies and enterprises in LDCs respond to these barriers and challenges?

Endogenous barriers and constraints need to be addressed directly by the industry in a way to increase competitiveness at the enterprise, sector and government level. Capacity building at all these levels would be important. Technical cooperation can help to achieve this.

Exogenous barriers and constraints cannot be directly addressed by the industry but only by third parties. Market access constraints could be addressed by business advocacy for market access, including GSP and GSTP negotiations. More focussed and effective negotiations under the DDA could also help to gain market access in key sectors for the economies of LDCs. Finally, improved FDI regulations which would allow foreign partners to invest freely in the country but at the same time would request them to transfer know-how to local industries in a partnership manner, would be beneficial to solve the problem that footloose investors come and go without leaving competitive local industries behind.

6. Could ATC-affected countries benefit from dynamic products?

A positive individual example could always be found on how to benefit from dynamic products, be it the Nepalese entrepreneur specialised in high fashion jackets for women or the African manufacturers using ethnical fabrics and design. However, in order to have an impact on employment creation and poverty reduction, a holistic reform approach is needed. Moreover, dynamic products cannot be looked at independently from the competitive environment, especially with regard to the possibility of preferential and differential treatment. This is underscored by the fact that SSA LDCs export success in the last couple of years was based on the fact that market access was quota as well as duty-free.

7. Key determinants for effective trade participation and pro-development holistic approaches

A holistic approach is needed so that LDCs would be able to effectively participate in the future trade for clothing products. Such a holistic approach should cover, at least, five areas. These are a) competitiveness improvement at the sector and enterprise level, b) trade facilitation, c) trade policy incentives, d) closer regional cooperation, and e) south-south trade development.

a) Improving competitiveness at the sector and enterprise level

Central American and Northern African countries could compete in the product sectors where speed to market and flexibility will become the most important export characteristics, provided they develop the necessary skills to do so. SSA countries, however do not have this advantage and are likely to compete directly with evolving mega companies. Like SSA companies, Asian clothing manufacturers are far away from their major markets. Whatever the competitive situation, however, all regions and countries need to gear up their competitiveness at the enterprise and sector level.

Firstly, the ongoing consolidation within the industry forces SMEs and all other players to cooperate in jointly finding solutions. In order to do so, a strategic approach is needed at the sector and country level. In the Sub Saharan African context, this might even be expanded towards a regional approach, if the cotton fibre is to be integrated into the equation.

Secondly, the product mix of LDCs need to be diversified away from commodity type products as must be their export markets (product and market diversification). Those regions close to major markets in the EU and the US and benefiting from preferential market access have the opportunity to develop a quick response and fashion development capabilities to cater for this market segment. Finding new buyers and markets needs to be looked at in parallel. This includes also knowing about the customer's customer. Design skills, for example, can only be developed if a deep knowledge of the final consumer's tastes and fashion trends is understood and known.

However, African and Asian SMEs, being far away from their major customers, have no chance to compete in "traditional" categories. To do so they have to fully exploit duty-free advantages and improve supply chain competitiveness. In addition, specific niche markets, e.g. by incorporating ethnical looks, could be explored.

Thirdly, companies need to know their strong and weak points vis-à-vis their competitors. Under the quota system, clothing enterprises did not develop knowledge about competitors and how they perform, as they were protected by the quota system. Now competitors will be everywhere and enterprises need to know their relative performance, as buyers can freely chose from whom and where to buy. Despite the quota phase-out, trade in T&C will remain complex and difficult to analyse. Competitors will become more numerous and so will be the number of trade barriers clothing enterprises are facing

Fourthly, clothing manufacturers will have to provide ever-increasing additional "full package" services to their buyers. The business relationship between retailer and suppliers are going to change towards more collaborative and integrated businesses including sourcing, design, information sharing, technology, forecasting, logistics, distribution, etc. The No. 1 service will be to take over the sourcing of fabrics and accessories. This is difficult, as most LDCs have to import all fabrics and accessories, a task that was usually performed by the buyer. As explained later, cooperation at the regional level could overcome this problem.

Finally, e-facilitated trade becomes a prerequisite to attract buyers in T&C. Manufacturers need to find innovative solutions on how to respond to new "e" requirements demanded by buyers.

In sum, all aspects of the value chain of a clothing company need to be addressed in a holistic way. That also includes labour issues, social compliance with code of conducts, as well as improving productivity at the shop floor, areas which are not directly addressed by ITC.

b) Trade facilitation

Overall costs of delivering a clothing item into the store and the time do so are becoming increasingly important and will distinguish successful and unsuccessful competitors. Enterprises, however, can only improve the part directly related to their business. National infrastructure and trade procedures for importing material and exporting finished garments largely influence the competitiveness of the sector. Thus, trade facilitation at the macro level becomes an important competitiveness factor.

Improving trade logistics such as ports and port handling, customs and transport, both domestically to and from the port and internationally towards final destination increases competitiveness. Average customs clearance time for sea cargo is estimated to be more than 10 days in South Asia and Africa, whereas it is about 9 days in Latin America and the Caribbean as compared to only 2 days in developed countries (source World Bank). In Bangladesh, for example, port handling in Chittagong is regarded as a severe bottleneck as it is the domestic transportation of material between Chittagong and Dhaka, where most of the clothing industry is located. In Cambodia, the foreign-owned companies organised under the Garment Manufacturers Association in Cambodia, with the help of international donors, work on streamlining unnecessary controls as well as creating transparency into informal procedures so as to improve predictability of trade logistics with the final aim to improve time to market. In countries where foreign-owned companies produce the majority of clothing for western markets, trade facilitation becomes an important instrument to convince foreign investors to remain in the country. As these companies have optimised internal structures often steered from their headquarters in Asia, their major concern is facilitated procedures in the producing country. If this is not provided, they may leave towards more progressive destinations.

Facilitating trade in less efficient countries would bring significant gains. Port handling, customs and transport are regarded as very efficient in China. Modern ports and fast customs procedures reduce domestic lead time, while direct shipping services to all major markets ensure optimal sailing time. That is the benchmark for all LDCs to look at in terms of trade facilitation.

c) Trade policy influences competitiveness

Trade policy influences sourcing decisions of northern retailers in two ways. Firstly, the use of trade policy instruments, allowed under WTO and that continue to restrain strong Asian competitors from MFN-based market access, could undermine their competitiveness. If anti-dumping duties are introduced or new quotas against China, which is temporarily possible under the special safeguard provisions stipulated in the China's WTO accession protocol, then retailers will not buy the quantity from China that they otherwise would buy. In fact, many small supplying countries feel that their only hope is that new quotas are being introduced against China.

However, these China-specific safeguards can only be applied by an importing country if the country can show that there is "existence or threat of market disruption and the role of products of Chinese origin in that disruption"¹. Importing countries

¹ WTO WT/MIN(01)3 Report of the working party on the accession of China

will not use these provisions to protect other developing countries. To hope for the maximum use of these safeguard provisions is therefore very dangerous.

Likely, safeguards will target “hot” categories that hit the mass market but not niche products. Moreover, this instrument is only available until December 2008. Thus, in the longer term T&C producing countries will have to gear up competitiveness to face China’s strong industry.

Secondly, preferential and differential treatment, especially in the framework of unilateral, bilateral and regional free trade agreements, can significantly influence the competitiveness of LDCs and small vulnerable countries. For the future export performance of LDCs to the major markets, non-reciprocal preferential market access conditions, including easy to fulfill rules of origin requirements, are important elements to assist these countries in maintaining their clothing exports. Highly flexible rules of origin as foreseen under the Canadian preferential scheme for LDCs or the “third country fabric sourcing provision” under AGOA are good examples.² However, the double transformation requirements under the EU EBA or ACP agreements do not improve market access, as LDCs do not have substantial textile industries, which could supply the necessary fabric to fulfill these rules. Similarly in the US, most preferential access agreements other than AGOA stipulate yarn or fabric forward rules of origin. That means everything from yarn or fabric onwards to produce the garment need to originate in the exporting country or in the US. As US yarn and fabric are not regarded as very competitive compared to Asia, these requirements undermine ways to improve the competitiveness of LDCs and small vulnerable countries.

The proposed change in the Generalised System of Preferences (GSP) of the EU could cushion the expected negative effects of the quota phase-out. While the US GSP scheme does not provide any additional duty reductions for T&C imports, the EU provides duty reductions of up to 20% for eligible countries. In addition, the EU is presently revising its current GSP system, to introduce a new one as from April 2005. The EU Commission proposes to target GSP benefits to countries most in need such as LDCs, including regional cumulation and possibly simplified rules of origin requirements. Moreover, a new “GSP+” system will be introduced, providing tariff preferences to countries with special development needs. Finally, product graduation principles will be simplified. The EU has foreseen to withdraw GSP benefits for countries that have more than 12.5% EU market share, which, in T&C, is the case for China and could soon be the case for India.³ This means that competitors will have to pay full duty and thus the relative protection of African and ACP producers in the EU will increase.

d) Regional cooperation

As an integrated industry and supply chain, including trustworthy and active collaboration between the mill, the manufacturer and the retailer on fabric

² UNCTAD, Assuring Development Gains from the International Trading system and Trade Negotiations: Implications of ATC Termination on 31 December 004, September 2004. p 17

³ See http://europa.eu.int/comm/trade/issues/global/gsp/index_en.htm

development, merchandise design, forecasting, logistics and distribution, is regarded as an important factor for future competitiveness.

While Central American and Northern African countries could develop their strategies focussing on quick response and flexibility, SSA companies cannot compete in this area. They have to compete with Asian mega companies. The only advantage they seem to have is their duty-free access to the US market. In quantitative terms, this advantage is ranging from 12 - 15% for cotton products up to 35 % for man-made fibre products. In addition, suppliers need to develop an integrated fibre, yarn and fabric production base, i.e. a vertically integrated supply chain, if they want to compete with Asian Mega factories.

Alone, the necessary investment is hardly forthcoming. It is therefore unrealistic that individual LDCs will become vertically integrated. However, they could become vertically integrated at the regional level, and still enjoy duty-free market access to the US and EU. Regional integration does not mean that each country has to be vertically integrated. On the contrary, each country can specialize in particular aspects of the value chain in cooperation with neighbours or those countries that equally benefit from preferential market access under regional cumulation arrangements. Moreover, in order to offer the whole range of products a large US or EU retailer demands, countries might need to follow complementing product lines. In doing so, specialisation effects could be achieved, which could increase productivity.

To overcome the disadvantage of size, companies could cooperate in virtual vertical relationships domestically and/or regionally. For the country that exports \$5 billion in garments annually, creating a local textile industry or attracting foreign textile investors is relatively simple. However, for countries where textile exports are below \$2 billion, which is the case for all LDCs, with the exception of Bangladesh, attracting foreign direct investment is very hard. Building a local textile industry or persuading foreign textile mills to invest in one particular country is difficult and costly. If the clothing sector in one country is too small, a regional approach needs to be pursued.

Due to the need to focus on economies of scale, a vertically integrated textile industry has to serve many clothing factories. Thus, clothing factories, even if they are located in different countries of the same region and are competitors on the final market, need to closely cooperate to attract the necessary textile investment. In addition, the final buyer of the garment needs to be brought on board to prove a clear commitment to the textile mill. The result is that the virtual vertical relationship begins to resemble a joint venture between buyer and suppliers in one region. In fact, some importers realizing the need to show their core suppliers that they are serious about strategic relationships are now planning to invest in factory operations. While these more progressive importers are not interested in owning factories, they realize that a 10%-20% investment increases their credibility with the supplier. This vertical relationship between cooperating suppliers and one or two major buyers, willing to buy from these suppliers in a long-term relationship could attract the investment for a regional textile mill. The relationship will, thus, be broadened towards a virtual vertical relationship.

Some African countries, in particular SADC countries, are looking into the feasibility of developing an integrated value chain from cotton towards clothing production.

Cotton growers, ginner, fabric manufacturers and clothing manufacturers in different parts of the continent need to collaborate to do business along a regional value chain to be finally able to penetrate the major clothing markets. This sub-regional, or regional, approach is needed in order to help African countries comply with the rules of origin for market access of clothing products imposed by the world's major markets and thus benefit from business opportunities. This would not only increase trade within Africa but would also facilitate access to the major clothing markets in the north.

Finally, the T&C business community of many LDCs are pushing their governments to negotiate FTAs with the US or the EU. This also calls for closer regional cooperation as it might be easier on a regional level than individually. Large northern countries gain little from FTAs with substantially smaller partners. This is one reason, among others, why the EU, for example, proceeds with EPA negotiations on a regional level and in the case of the US CAFTA shows the way.

e) South-South Trade Development for T&C

New trade opportunities need to be exploited. These new opportunities can mainly be found in developing countries. While the traditional QUAD markets, which still account for almost 80% of world imports, are expected to grow only marginally, the markets of larger developing markets are growing very fast. India and China are huge markets with enormous growth and thus export potential. The same is true for Brazil and South Africa, although at a somewhat lower level. However, these markets are not easy to penetrate due to high tariffs (e.g. Mexico's or India's average import tariff for T&C is 35%), the unfamiliar structures of the domestic markets and distribution channels as well as the foreign cultural aspects. Thus technical cooperation among developing countries will have to play an important role to kick-start south-south trade to penetrate these newly emerging markets. Two aspects to achieve exactly this merit a closer look. The first is the Global system of Trade Preferences among Developing Countries (GSTP) or trade preferences granted among developing countries. A third round of GSTP negotiations has been launched during UNCTAD XI in June 2004 in Sao Paulo, which will be negotiated in parallel to the DDA. As developing countries are becoming more and more a dynamic force in T&C trade, GSTP can promote economic complementarities at the intra- as well as inter-regional level. In concrete terms, if larger and more advanced developing countries provide preferential market access to LDCs, this could help to find new markets and could partly compensate for potential losses in traditional QUAD markets.

The question, however, is if that would be sufficient to the high growth segments of these markets, which are highly influenced by western brand recognition. If this is not the case, then more practical technical cooperation among developing countries (TCDC) needs to be provided. This fact has been stressed by the WTO ambassadors of China, India and Brazil. TCDC could be provided through their national technical cooperation agencies and facilitated e.g. through ITC.

One example could be to develop inter-regional South-South trade cooperation along the cotton value chain, including cotton fibre, yarn, textiles and clothing products. Assuming that e.g. large investment in the textile industry for SSA is not forthcoming, exporting cotton to China and cotton fabrics back to Africa for exportation of clothing

to the US and EU, could develop strong synergies and win-win situation for all participating countries. African cotton producers could be assisted to improve the quality of their cotton, mainly through TCDC means, and to find new markets in Asia and especially China for their cotton. Moreover, the African clothing industry needs to be supported through assistance in sourcing cotton fabrics from Asia, made out of African cotton, to serve the domestic clothing industry to produce apparel destined for the US market under AGOA duty-free arrangements. Finally, clothing manufacturers need to be assisted to improve their performance so as to actually benefit from opportunities granted under AGOA. TCDC arrangements need to be formulated so that African cotton and clothing manufacturers will receive direct technical assistance inputs from ITC as well as business partners in China under China's South-South and TCDC programmes. (Maybe as a box for an example of TCDC).

In order for this approach to become reality, Governments must react fast and have to realize that regional cooperation and free trade agreements are a key not only towards increased south-south trade but also towards accessing trading markets in the north. As pointed out by the World Bank, intra-regional trade cannot be a substitute for extra regional trade, but both complement each other. For example East Asia's integration into the global economy was a strong impetus for regional integration. Exports to the world created demand for inputs from neighbouring countries.⁴ Adapting these lessons towards T&C produced in LDCs calls for a very close cooperation along the regional value chain to exploit complementarities and synergies. However, past failures of regional cooperation initiatives doing this under higher external tariffs should not be repeated. On the contrary, "regions with the lowest (MFN) border barriers have developed the deepest intra-regional links and have been best positioned to diversify and exploit the emergence of global production chains in the manufacturing sector."⁵

Conclusions

Overall, clothing exports from SSA LDCs could be regarded as dynamic because of the steep increase of shipments to the US over the last 3 years. However, SSA LDCs benefited from increased exports only in traditional clothing items but were not able to develop into niche markets or value-added products with higher fashion content. Thus, these dynamic exports are very vulnerable as they directly compete in product categories where Asian manufacturers have a high comparative advantage. In addition, these exports are mainly driven by Asian investors, which invested in Africa because of AGOA benefits.

In order to improve competitiveness so as to develop sustainable dynamic products, a holistic approach is needed consisting of the following areas:

- a) Enterprises will need to improve their competitiveness at the enterprise level, including sourcing, product and market development, benchmarking, applying e-business applications, etc.

⁴ Global Economic Prospects, The World Bank, Washington, 2005 pp. 49-53.

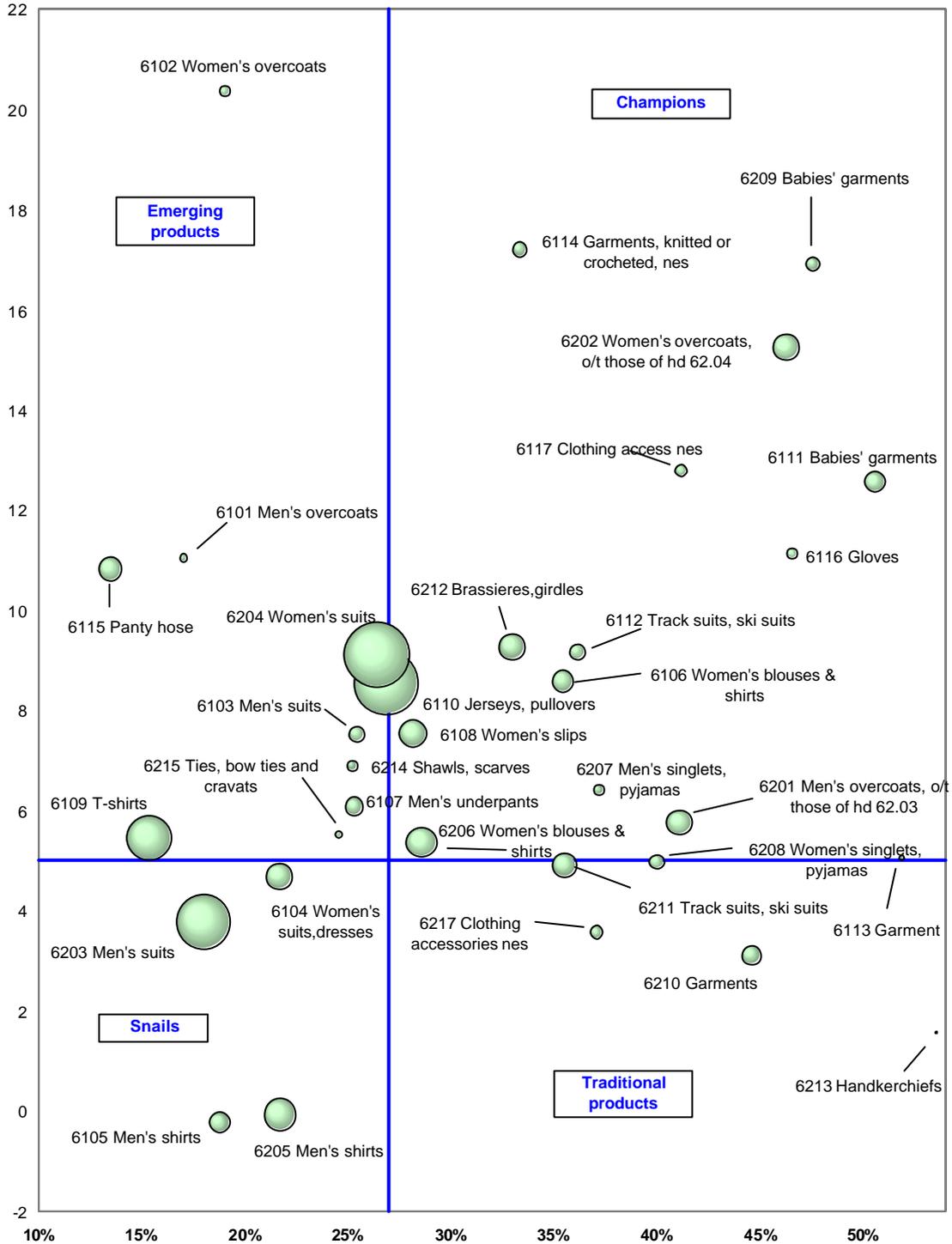
⁵ Idem p. 53

- b) South-south cooperation needs to be accelerated to tap emerging markets in other developing countries. Moreover, increased intra-regional trade of intermediary products improves competitiveness to jointly exploit traditional global markets in the north and to participate in global production chains;
- c) In order to benefit as much as possible from preferential and differential treatment by the north, LDCs need to look at closer regional cooperation. Meaningful rules of origin requirements can increase competitiveness of LDCs and at the same time foster south-south trade.
- d) Trade facilitation need to be addressed in order to create the necessary enabling environment for business.

Annex 1 LDCs' World Market Share in 2003

World import growth, volume terms (1999-2003)

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

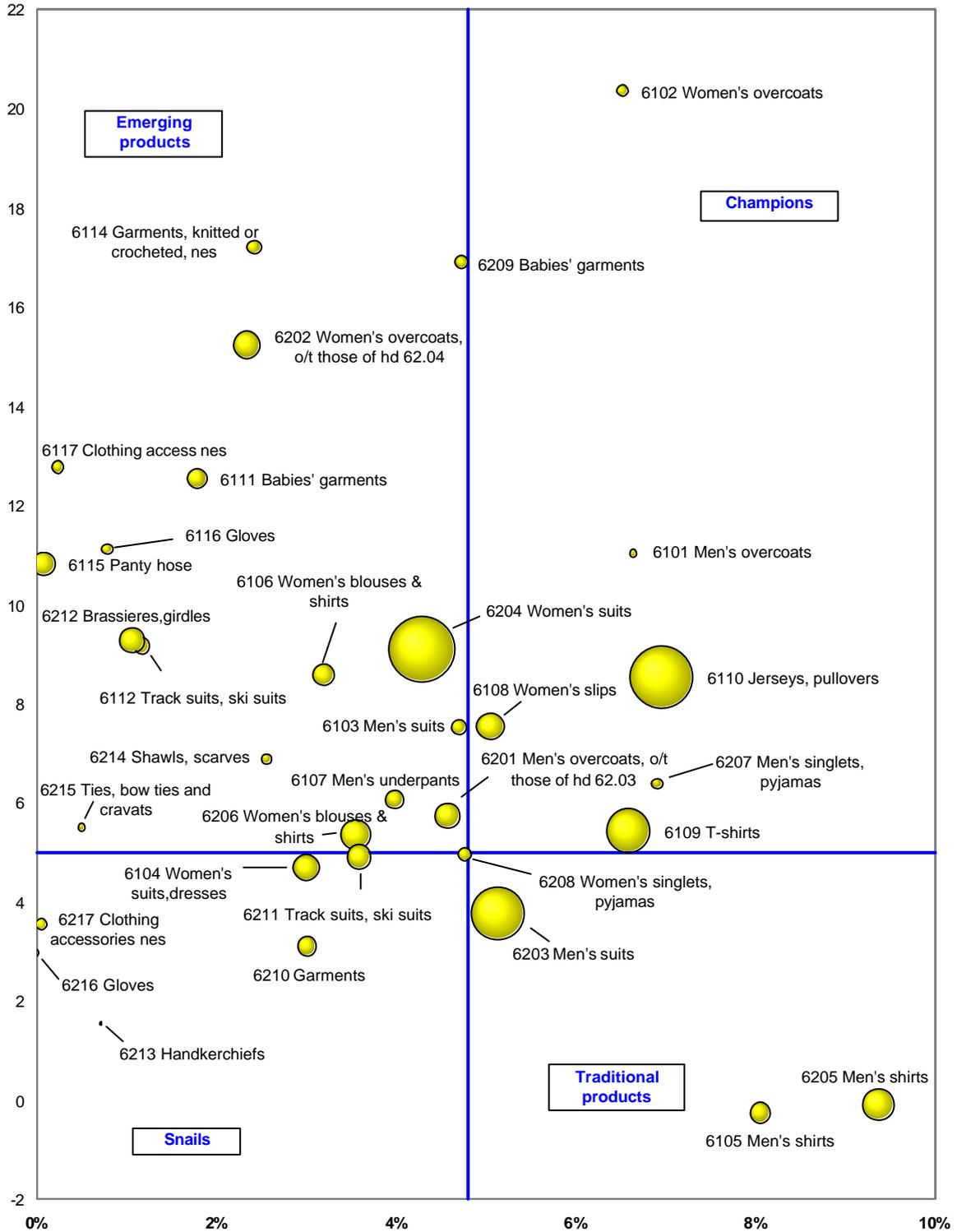


China's world market share in 2003

Annex 2
China's World Market Share in 2003

World import growth, volume terms (1999-2003)

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



LDCs' World Market Share in 2003