THE WORLD TEXTILE AND CLOTHING INDUSTRY

A PAPER ANALYZING THE WORLD EVOLUTION AND GROWTH OF THE TEXTILE AND CLOTHING INDUSTRY, ITS ECONOMIC AND SOCIAL SIGNIFICANCE, EFFECT OF TRADE AND ECONOMIC POLICIES ON THE INDUSTRY, CHALLENGES AND FUTURE PROSPECTS OF THE INDUSTRY.

Case studies include China, Pakistan, U.S., Sri Lanka, Lesotho, Cambodia, EU and Bangladesh

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A greater part of manufacturing production and employment creation in many developing countries is from the textile and clothing (T&C) industries. The role of the textile industry can hence never be underestimated in the economies of many developed and developing countries. This paper examines the evolution and growth of the textile and clothing industry in the world, highlights the significances of the industry, evaluates the influence of trade and other policies, shows industry setbacks, as well as highlights future prospects of the industry.

The textile and clothing industry is one of the most diverse and oldest industries in the world. Trade in the industry grew by 5% to US$ 612 billion during 2008 although this rise is comparatively lower to growth of 13.5% in 2003, 12% in 2004, 5.2% in 2005 and 10% and 10.6% in 2006 and 2007 respectively. In 2009, it grew at -16% and later to 19% in 2010.1 Many countries engaged in export oriented industrialization often start with the textile industry2 which is also labor intensive with little skills required.3 The global textile industry is highly dependant on world cotton industry as cotton provides the main raw material for textiles. The textile production and consumption patterns hence follow a cotton production and consumption trend worldwide.

Cotton production growth after the second world war (WWII) was due to improved yield as output per hectare more than quadrupled between 1945/46 and 2006/07, from 0.2 tons per hectare (t/ha) to 0.8 tons per hectare4. By the period 2007, cotton was grown in 90 countries with the main producing countries being China, India, U.S.A and Pakistan. These accounted for more than three quarters of the

1 WTO International Trade Statistics 2011. Pg 121,Table II.62
2 Gereffi. 2002
3 Dominic Salvatore. 2011. Pg. 134
4 JCR-VIS Textile Sector Industry update .2010. Pg.1
world total output. The main cotton producing countries also account for a large portion of consumption and when combined, they accounted for approximately more than 55% of global cotton consumption over the 1980 to 2008 period. In 2010, China alone accounted to 30.7% of world exports/imports, followed by E.U (26.8%), India (5.1%) and U.S (4.9%) respectively.

**World Cotton Production (millions of tones) by main countries (1980/81 – 2012/13)**

The 1940s saw the beginning of increasing world cotton consumption at an average annual growth rate of 2%. This was roughly the same as production. Demand for cotton became higher in the 1950s and 1980s with an average growth rate of 4.6% a year during the 1950s and 3% in the 1980s. Approximately 78% of global cotton consumption was from developing countries especially between 1981 and 1999 and the ratio has been above 80% since 2000 and it was estimated that this consumption further rose to 94% of global cotton output in 2010.

The role of textile and clothing industries in growth and development in many developing countries are tremendous. Brenton et al. 2007 suggest reasons why the clothing sector has played such an important role in economic development. The industry is important in economic and social terms, in the short-run by offering incomes, job opportunities especially semi literate and women, and foreign currency receipts and in the long run by providing countries the opportunity of sustained economic development in

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5 WTO International Trade Statistics 2011. Pg 125 Table II.64
6 JCR-VIS Textile Sector Industry update. 2010. Pg. 1
countries where appropriate policies and institutions exist to enhance the dynamic effects of the textiles and clothing industry.

In macro economic terms, T&C industries are important for many countries in terms of trade, GDP and employment and have contributed significantly in these countries. T&C industries provide enormous opportunities for expansion of manufacturing exports for low-income countries that can exploit their labour cost advantages and fill emerging niches to meet buyer demands. Dynamic effects of T&C industries are also enormous which include learning by doing and knowledge spillovers, agglomeration effects, local linkages among others and these dynamic effects are greater once there are more linkages built up between the garment industry and local textile suppliers. T&C industries are a major contributor to incomes for selected countries. For example, the contribution of T&C production to GDP differs by country but is up to 5% in Sri Lanka, 12% in Cambodia and 15% in Pakistan.

T&C are the dominant source of exports and foreign exchange in several countries. Low income and developing countries like Cambodia, Bangladesh, Pakistan and Sri Lanka depend heavily on T&C exports for more than 50% of total manufacturing exports (e.g 80% in Cambodia, 83.5% in Bangladesh). The effects of employment are also immense. Employment in T&C production for least developed and low income countries as a share of total employment in manufacturing ranges from 35% in some low income countries, 75% in Bangladesh and 90% in other selected LDCs (e.g Cambodia and Lesotho).

Socially, wages paid to manufacturing workers are on average more than double those paid to the agricultural labourers. T&C wages are higher than in several other manufacturing industries such as dairy, wood processing and leather. For example in Cambodia, 90% of those employed in manufacturing are employed in T&C production. In Madagascar, 56% of those employed in manufacturing are employed in the T&C industry. T&C also contributes to the empowerment of women. Job creation in the T&C sector has been particularly strong for women in poor countries who previously had no income opportunities other than household or the informal sector.

The pattern and effects of textiles and clothing industries especially in developing countries has been affected by trade and other economic policies. Countries with adequate public policies and private sectors have used the opportunities provided by temporary trade preferences for the T&C to move up the value added chain. Other countries have however used the trade preferences to attract a very important part of

7 Jodie Keane et al. 2008 Pg.2
8 Jodie Keane et al. 2008 Pg.2
9 Nordas H. WTO Discussion paper 2004
their manufacturing base such as Lesotho and Bangladesh. Multilateral liberalization and regional and bilateral trade preferences affect the pattern of textiles and clothing industries. The Multifibre Arrangement (MFA) governed trade in textiles and clothing from 1974 until the end of the Uruguay Round 1994. The MFA was a framework for bilateral and unilateral restrictions and quotas limiting imports into countries whose domestic industries were facing damage from rapidly increasing imports.

In 1995, the Agreement on textiles and clothing (ATC) replaced the MFA. This agreement stipulated that quotas would be removed over 1995-2005. In the first phase 1995-1997, a minimum of 16% of products were brought under the GATT rules, 17% in phase 2, 1998 – 2001, 18% in phase 3, 2002-2004 and 49% (before 2005)\(^\text{10}\). Whilst quotas on T&C exports were removed, other barriers to contend with still exist. These include the voluntary and other constraints on Chinese exports as well as complex systems of tariffs and rules of origin. Even during the heyday of the quota system, characterized by a distorted global market for T&C products, entrepreneurs in countries restricted by quotas found ways to exploit the system by establishing factories in countries with low levels of quota utilization and in other cases even helped in the industrialization process of those countries. For example, Korean companies opened up factories in Bangladesh, Sub Saharan Africa and Caribbean, Indian companies in Nepal and Sri Lankan companies in Maldives all geared towards overcoming quota restrictions.\(^\text{11}\)

The Impact of implementing the ATC has had several dimensions. There is the political gain related to the credibility of the multilateral trading system at a time when the system is experiencing considerable strains as well as the efficiency gains from eliminating highly distorting quotas that have led to an inefficient global allocation of textile and clothing production. The loss of quota rents on the ATC exporters’ part as well as gains on the consumer’s side are all benefits from elimination of the ATC.\(^\text{12}\)

Challenges in the T&C industry do exist and are enormous for developing countries. Getting a foothold in the T&C sector may not be a difficult task but maintaining and achieving growth may be a real challenge for many developing countries. Challenges are both on the demand side as well as the supply side. Protectionist forces constitute one of the salient challenges. Powerful and vocal protectionists lobbies have not only found ways to protect their industries in collusion with their governments but also manage to couch these arguments in altruistic fashion so as to remain politically correct and the largest single arguments for these interests are the domestic job losses. On average, tariffs imposed on T&C products

\(^{10}\) Jodie Keane \textit{et al.} 2008 Pg 33

\(^{11}\) Ratnakar. A \textit{et al.} The Textile and Clothing Industry: Adjusting to the Post-quota world

\(^{12}\) Nordas H. WTO Discussion paper 2004
are also four times higher than average industrial tariffs imposed by the developed countries.\textsuperscript{13} There are also non tariff barriers some of which include trade remedy measures and regulatory/standard related barriers. The regulatory barrier is emerging and is aimed at reducing the competitiveness of the T&C exporters of developing countries.

Even if market access barriers are removed, many developing countries still face several supply-side constraints, which impede their competitiveness. These constraints include poor human capital which impedes productivity growth, poor infrastructure quality which adds onto the cost of doing business, limited trade facilitation measures which encompass the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade, high input costs except for countries with vertically integrated production structures, and the limited access to finance in form of credits.

Although these challenges exist, many governments should lay down strategies of helping and supporting the T&C industry. They should provide targeted support to priority sectors including some level of protection from outside competition to grow, prosper and face world competition and establish export processing zones to enhance competitiveness, resulting from poor infrastructure among others.\textsuperscript{14} Developing countries need to design and implement a variety of survival strategies to keep themselves afloat in the post-quota era. Governments hence need to improve market access in order to overcome trade barriers, increase productivity through human capital development so as to improve competitiveness at the enterprise level and also grant access to credit facilities among others in support of the T&C industry.

This paper therefore notes that although quotas were removed on T&C, there has not been dramatic transformation in the market as well as in sourcing patterns. While some countries have benefitted into production of higher value products, others have lost out due to lack of competitiveness and inability to adapt. There is therefore need for concerted efforts by the various stakeholders to address the market access anomalies and supply side constraints keeping in view the emerging challenges and the future evolution of the T&C industry and trade.

\textsuperscript{13} Ratnakar. A. \textit{et al}. The Textile and Clothing Industry: Adjusting to the Post-quota world

\textsuperscript{14} Ratnakar. A. \textit{et al}. The Textile and Clothing Industry: Adjusting to the Post-quota world
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