

1 International Textile and Apparel Trading

1.1 GENERAL TRADING ENVIRONMENT FOR TEXTILE-RELATED PRODUCTS

OVERVIEW

Since the textile and apparel industry is of special importance to almost every nation in the world, this sector has merited unique attention both in an economic and a political sense. While other manufacturing sectors have been progressively liberalized under the GATT and WTO rules by such means as "MFN status" and "tariff imposition rather than quantitative restrictions", the textile and apparel sector remains to be deviated from this mainstream. Furthermore, the increased sharper global competition in textile-related trade has led to a set of intricate and complicated multilateral and bilateral agreements regulating the behavior of all the participants.

The UK and US were once the leading textile and apparel exporters in the world, before the 1950s. However, Japan's quick recovery in textile and apparel production as well as consequent increased exports, followed by Hong Kong, South Korea, India, and Pakistan, soon aroused upset feelings among manufacturers in the developed nations. Confronted with the import surge of textiles and apparel from more and more developing countries, the developed nations, relying upon their economic strength and political power, began to manipulate the global trade through enforcement of a series of agreements. These measures, including the "Voluntary" Export Restraints Agreement (VER), and the short-term and long-term Arrangement Regarding International Trade in Textiles (STA/LTA), paved the way for later enforcement of the Multifiber Arrangement (MFA) in 1974, a multilateral commitment exerting great influence upon the present world textile and apparel trade pattern.

It is worth noting that there are no quantitative restrictions among the developed nations based on the so-called "gentlemen's agreement". With the developing countries gaining more economic and political power in the world arena, they strive harder for the elimination of unfair quota restrictions in the textile and apparel trade. The successful completion of the Uruguay Round in 1994 marked another milestone in the textile and apparel trade history. The ATC agreement, which replaced the MFA since 1995, finally set a clear date for the full integration of textile and apparel trade within the GATT regime.

1.1.1 MFA & ATC

1.1.1.1 MFA

The MFA was elaborately worked out to manage the exports from the developing countries into the developed countries. It is an instrument conceived to safeguard the

domestic interests of the importing countries, including the US, EU, Canada and Norway. It became effective in January 1974 and underwent five successive negotiations until the year 1993 [1]. It provides for the application of selective quantitative restrictions when surges in imports of specific products caused, or threatened to cause, serious damage to an importing country whose domestic textile industry was not in a position to compete with the imports featuring low cost and cheap prices. The MFA umbrella only embraces very general principles, under which the bilateral agreements between individual importing and exporting countries are the basis for MFA operation [1]. Generally speaking, these bilateral agreements usually comprise product-specific quotas upon textile and apparel exports from a particular country, control of the annual growth rate of the base quota level, required documents upon the entry date, and possible steps the importing country can take in face of an import surge during a certain period.

A significant change meriting special attention is the “reasonable departure” clause concluded in 1977 [1]. It allows participating countries to negotiate bilateral agreements freely, regardless of the former provisions of the original MFA. Some experts referred to this clause as a “departure from departure”—a way of waiving the provisions of an agreement which was itself a derogation from GATT principles. Therefore, in each negotiation round, there were more restrictive measures added to the renewed agreements in the light of changing circumstances. For example, the covering scope extended from cotton to wool and manufactured fibers in the first round. But it was further expanded in 1986 to include other natural fibers such as ramie, silk and flax. Another example is the departure from the 6 percent growth rate of quotas set in the original agreement. The importing countries, based on domestic concerns and strategic considerations, are entitled to discuss various growth rates with individual exporting countries.

During the MFA enforcement period, both the number of countries and the number of categories of products subject to quota restraints have increased. By 1994, MFA had 44 members (EU countries are counted as one member), covering approximately 57 percent of world textile trade and 65 percent of world apparel trade [1]. One study assessed that the global welfare loss resulting from the MFA was US\$ 7.3 billion annually [2]. Though it seems that few countries, both in the developed and developing groups, were completely satisfied with the MFA, it did exist for more than 25 years and its main principles will continue to function until the year 2005. It has played a remarkable role in shaping current trade patterns and building the worldwide development track in the textile and apparel sector.

First, the MFA provided a certain “stable and predictable climate” for textile and apparel trading. The exporting countries, despite their size and strength, secured certain market access into the importing nations according to the quota levels stipulated in the bilateral agreement. And at the same time, the manufacturers in the importing countries could evaluate the approximate scale of imports based on the aggregate/group/category ceiling agreed with each exporting country.

Second, some traditional exporting countries and regions, such as Japan and Hong Kong, shifted their textile and apparel production base to less developed neighbors who were not subject to the MFA at that time or who had relatively large quotas. The technology and expertise input, on the other hand, helped these later comers to develop their domestic textile and apparel industries, further intensifying world competition and adding new members to the MFA list as well. For example, the US expanded its restriction countries from 17 in 1976 to 31 in 1986 [3]. In order to completely avoid the existent and potential limitations on exports, some countries,

including Japan and South Korea, made a stride forward to establish plants in the importing nations either through direct investment or acquisition.

Third, though technology innovation and product diversification are the natural course when an industry has developed to a certain level, the existence of MFA certainly played a role here. Restricting imports on some items, simply provided room and incentives for exporters to shift to uncontrolled areas or develop new types of materials. As a result, the fiber coverage under MFA was continuously extended to new categories during the various stages. The rapid development of manmade fibers can also be partly attributed to strict restrictions upon natural ones.

Fourth, the ability and possibility to export is sometimes beyond the exporter's control. It is not only dependent upon product features such as the design and quality, but also upon the availability of quotas and the required documents. The same is true for the importers. They have to consider the quota issues and related extra costs when planning to source from foreign countries. Therefore, the MFA complicated the traditional decision-making process and trade procedures, involving both parties in time-consuming document application and cost computation on the premise of available quotas.

1.1.1.2 ATC

The greatest achievement of the Uruguay Round is the establishment of the WTO, which brings all agreements, either in the former GATT regime or newly reached ones during the Uruguay Round such as the Agreement on Textiles and Clothing (ATC), under one institutional umbrella. It is a multilateral organization supervising not only the trade on goods, but also the trade on services and trade-related issues as well. Up to now, there are 137 member countries as of June 14, 2000, accounting for about 95 percent of world trade volume (WTO). The organization is trying to create an ideal environment in which all the participants can compete with each other on an equal footing.

The ATC is a landmark accord in the textile and apparel sector, and it will gradually bring the MFA back to the normal track of the GATT (or WTO at present) regime within a 10-year period. By the year 2005, trade in textile and apparel will have been completely free from any quota restraints or other barriers not compliant with the WTO spirit. The effects of the ten-year phase-out program, though uncertain and hard to assess at present, are bound to be profound upon the restructuring process going on in the textile and apparel sector in most economies.

Table 1.1 shows the liberalization and integration process from 1995 to 2005. The scope of the products is extended to those that have never been subject to the MFA. As regards the base annual growth rate, it ranges from less than 1% up to 10% with 3 to 6% as the focus. If the base growth rate is 1% annually, the expected growth rates during stages 1, 2 and 3 will be 3.48%, 4.35%, and 5.52% respectively. Therefore, the real liberalization pace is insignificant due to the low base rate.

The importing nation determines at which products it will integrate at each stage to reach these percentage thresholds, with the only condition that the list of products at each integration stage must consist of each of the four categories: tops and yarns, fabrics, made-up textile products and clothing. Therefore, most importing countries make elaborate arrangements so that the quotas in the most sensitive categories are removed at the last minute. For example, the US leaves 89% of the quotas on apparel to the last date of the ten-year transition [4].

Table 1.1 Liberalization and Integration Process

Stage	Percentage of products to be brought under GATT	Annual growth rate
Stage 1: Jan 1, 1995 to Dec 31, 1997	16% (minimum, taking 1990 imports as base)	16%
Stage 2: Jan 1, 1998 to Dec 31, 2001	17%	25%
Stage 3: Jan 1, 2002 to Dec 31, 2004	18%	27%
Stage 4: Jan 1, 2005	49% (maximum)	No quotas left

(Source: based on relevant clauses in the ATC)

In order to prevent import surges during the ten-year transitional period, the US and EU signed more restrictive bilateral agreements with the so-called “dominant” suppliers, such as China and Korea. In light of the EU-China agreement covering the period from 1996 to 1998, most products are subject to growth rates lower than 1% because it was expected at the time that China would soon join the WTO and would then be subject to the ATC. As regards Hong Kong, exports of 23 clothing products are under quota regulation, of which 12 are confined to an annual growth of no more than 2% [5].

ATC contains other rules pertaining to a special transitional safeguard mechanism¹, quota circumvention, administration of restrictions, and commitments undertaken in all areas of the Uruguay Round as they relate to textiles and clothing. The Textiles Monitoring Body (TMB) has been set up to oversee the implementation of the ATC and to examine whether the measures taken under it are in conformity with the relevant rules.

It is hard to predict the future scenario in textile and apparel trade with the self-destruction of ATC at present. But one thing is certain: by the year 2005, those that are not ready for the competition in a more open environment will have encountered tremendous problems and difficulties, some may be deadly to survival. Under the MFA arrangement, most textile and apparel trade is conducted within the allowed scope of individual bilateral agreements, which keeps a relatively clear development track for every participating country. However, with the gradual liberalization in this sector, it is expected that the established market order and the accompanying game rules will undergo remarkable changes. The more or less guaranteed market access for exporting countries will no longer exist. What’s more, it is important to note that ATC introduces the concept of balance of rights and obligations, or the principle of “Reciprocity”. The traditional exporting countries are required to take drastic steps to improve their market access while the importing countries are gradually liberalizing their quantitative restrictions. Any reduction on the mandatory growth rates is possible if a member is found to be discriminating against imports without due reason,

¹ It is intended to protect importers against damaging import surges during the transition period from products which have not been integrated into GATT. It can be applied on a selective, country-by-country basis through mutual agreement, or if bilateral consultation comes to nil, by unilateral action for at most three years. The quotas raised shall grow at the rate of no less than 6% after they have been in place for more than one year.

or not in conformity with its commitments, such as tariff bindings, elimination of non-tariff barriers, and facilitation of administrative formalities.

1.1.2 Tariff

Tariff is the main instrument employed to protect a nation's domestic industries as well as to reap fiscal revenue. Sometimes, it also functions as a punitive weapon to remedy trade distortion, as in anti-dumping cases. One of the major contributions of GATT during the past 50 years is the significant cut of trade-weighted MFN tariff rates on industrial goods, from as high as 40% at the end of WWII to around 6% at the end of the Tokyo Round (OECD, 1997). According to a report prepared by Japanese Ministry of International Trade and Investment, the import-weighted average applied rates in Japan, the US and EU in 1999 were 1.5%, 3.6% and 3.6% respectively, much lower than the pre-Tokyo Round level [6, p40].

Tariff is one of the few legitimate measures allowed under the WTO regime as a means of protections domestic industries. Therefore, in view of the unique position of the textile and apparel sector in domestic industries, most nations set a higher tariff rate for textile-related imports in order to erode their potential price advantage in the domestic market. For example, the US imposed an import rate as high as 25% upon woolen fabrics [6]. Table 1.2 is a comparison of import tariffs imposed upon the textile-related sector and the manufacturing sector. It clearly shows that the textile and apparel sector still faces high import tariff rates despite the continuous drop in other manufacturing sectors.

Since HK is a free port, no import duties are imposed upon textile and apparel products. The zero-tariff is one of the key factors accounting for the large re-export volume every year. There are no tariffs upon imports between EU members, whereas towards those from non-EU suppliers, the EU exercises average applied rates of 5.3% for yarns, 9.1% for fabrics and 11.9% for clothing (Dehousse et al., 1999). The EU WTO bound rates upon HS chapters 50-63 by January 1, 2005 will be no more than 12%, with most fiber and fabrics below 8% [7]. The US imposes no tariff upon Canadian exports and there are also special NAFTA regulations concerning trade with Mexican exports. As regards countries outside NAFTA, the US has relatively high tariff rates upon textile products, 2.5-12.2% for yarns, 0-31.5% for fabrics, and 33% or more for most clothing items (Dehousse et al., 1999 p165). WTO consolidated rates for textile and clothing products in Japan reach up to 14.2%, with most yarns and fabrics below 10%. The tariff rates for yarn range from 2.4-8.4%, for fabric 8.0-12.0% and for clothes 4.5-13.9% (Dehousse et al., 1999 p92). China is still a non-WTO member, though the bilateral talks with the US and the EU have reached successful conclusions. Compared with the former four markets, China imposes the highest tariff rates upon textile products, 9.8-22.0% for yarn, 15.0-34.0% for fabrics (with 22 and 34% as the focus) and 33% for most apparel items². With China's entry into WTO, it will conform to the relevant WTO regulations and reduce the rates progressively.

1.1.3 Non-tariff barriers

As mentioned above, the overall tariff rate has reached a relatively low level after 8 rounds of GATT negotiations. But the global trade is facing a more restrictive environment despite free trade prospects drafted on paper. Most nations resort to

² Import tariff adjustment in 1999, China Customs

Table 1.2 Tariff rates in the US, EU, Japan and Canada

Production weighted average applied MFN tariff rates						
Country	1988		1993		1996	
	Manufacturing	T & A	Manufacturing	T & A	Manufacturing	T & A
US	4.7	11.6	5	11.8	5.4	11.3
EU	8.4	10	8.6	9.9	7.7	9.8
Japan	4.1	10.4	3.5	11.7	3.3	10.1
Canada	10	20.2	9.7	19.6	17.8	14.4

(Source: OECD 1997, p49)

much more complicated and obscure non-tariff barriers (NTBs) whose protection effects are hard to evaluate.

Since the textile and apparel sector is still one of the most sensitive sectors in most nations, NTBs have been widely used in addition to high tariff rates. They take various forms. The quantitative restriction mentioned previously is the most common NTB. There are other types of non-tariff barriers, such as technical and administrative barriers, green barriers and the current prevalent anti-dumping investigations. In view of the ten-year quota phase-out program, some developed nations have actually intensified the application of non-quota NTBs to protect their domestic textile and apparel industry. The following is a brief introduction of some commonly used trade policies designed to distort the world textile and apparel trade.

1.1.3.1 Quantitative restrictions

Generally speaking, quantitative restrictions are prohibited under Article XI³ of the GATT, mainly due to their more protective nature than tariff ones. However, the import quota is the most frequently used non-tariff barrier in the textile and apparel trade, a clear "departure from the GATT". It solely aims at the vast developing countries whose strength in this labor-intensive sector is very obvious and whose textile-related exports have posed a serious threat to the domestic industry in developed nations. The enforcement of the MFA over the past three decades well explains the "vitality" of this approach in protecting domestic textile industries suffering rooted problems such as high labor costs and labor shortage.

Table 1.3 is an example of quotas imposed upon blue denim fabric imports into the US market from specific countries. China has the most restrictive base level, which is only 15.9% of the Malaysian level. And the annual growth rates for HK, Taiwan and the Chinese mainland are no more than 2.5% while those for Malaysia, Egypt, Brazil and Indonesia are over 8.7%. These figures indicate that imports from traditional "big suppliers" face more severe quota restrictions than those from relatively insignificant exporters. That is why some sources point out that "big suppliers" actually gain little from the ATC arrangement. Imports from other countries⁴, though not restricted by specific limits, are subject to other restrictive measures such as designated consultation levels.

³ It states that no prohibitions or restrictions other than duties, taxes or other charges shall be instituted or maintained by any Member unless they are justified under the exception rules provided in Article XI of the GATT.

⁴ They include India, South Korea, Pakistan, Philippines, Singapore, Sri Lanka and Thailand

Table 1.3 Import quotas upon blue denim fabrics by the US⁵

Quotas upon blue denim fabric imports into the US			
Country/Region	Level Coverage	Base Level (sq.m.)	Growth (%)
Hong Kong	218/225/317/326	71,437,169	2.175
Malaysia	225	40,636,560	8.700
Taiwan	225/317/326	39,408,907	2.500
Egypt	225	30,766,900	10.001
Brazil	225	12,863,788	8.700
Macau	225	11,696,601	6.350
Indonesia	225	7,721,621	8.700
China	225	6,461,344	2.500

(Source: <http://otexa.ita.doc.gov/SOFA/sofa225.htm>, retrieved on May 2000)

1.1.3.2 Anti-dumping and countervailing measures

Anti-dumping and countervailing measures are another two policies allowed under the WTO regime. If the importing country can prove, based on WTO substantive and procedural requirements, that there are dumped imports, material injury to a domestic industry, and a causal link between the two, it can take unilateral remedies by imposing punitively high import tariff rates upon the alleged "dumped" products [8]. As regards the countervailing measures, they can also be carried out unilaterally to offset injury caused by subsidized imports. Subsidy here is defined as a financial contribution by a government or any public body within the territory of a Member which confers a benefit [9]. The justification underlying these two measures is to restore "fairness" and normal market order. However, recent practices in the developed nations, especially in the US and EU, indicate that they are abused as an effective weapon against the imports mainly from the developing countries.

Table 1.4 shows the number of AD investigations between 1969 and June 1998. The US and EU together account for 40.9% of the total AD investigations during the 30-year period, Canada and Australia for another 37.3%. It is clear that the developed

Table 1.4 AD investigations by country

No. of Anti-dumping investigations by country between 1969 and 1998							
	1969-74	1975-79	1980-84	1985-89	1990-94	1995-98	Total
US	125	140	146	219	249	75	954
EU	19	55	138	101	147	110	570
Japan	0	0	0	0	4	0	4
Canada	42	74	176	115	90	31	528
Australia	n.a.	120	242	180	252	71	865
Others	39	64	10	74	227	395	809
Total	225	453	712	689	969	682	3730

(Source: WTO, from [6]; Period is from 1969 to June 30, 1998)

⁵ Categories 218/225/317/326 refer to cotton or MMF denim, cotton twills and cotton sateen, other cotton or MMF fabrics of yarns of different colors, except jacquard woven fabrics, among which Category 225 covers blue denim fabric. Categories 218/225/317/326 from HK are covered by one level while Categories 225/317/326 from Taiwan are also covered by one level.

Table 1.5 Anti-dumping investigations in Brazil, India, Mexico and South Africa

No. of Anti-dumping investigations in some LDCs						
	1980-90	1990-92	1992-94	1994-96	1996-98	Total
Brazil	0	11	34	13	31	89
India	0	5	4	14	31	54
Mexico	11	38	47	21	13	119
South Africa	2	0	0	23	34	57

Note: Column 1: from 1980 to June 30, 1990; Column 2-5: the year is defined as from 1/7-30/6

(Source: [10])

countries play a dominant role in AD investigations. Another trend worth mentioning is the increased action carried out in some developing countries during recent years, such as Brazil, India, South Africa and Mexico. (Table 1.5) Anti-dumping investigations are mainly focused upon several specific sectors, such as the textile and apparel sector, the steel sector and the chemical sector. The less developed nations are the major targets in these anti-dumping cases, especially during the 1990s. During the 1990/98 period, about 64.7% of the total anti-dumping measures were against LDCs, among which about 40% were aimed at East Asian countries [10].

As regards countervailing duties, they are also widely employed as a means to increase the import price of the alleged subsidized imports to a level comparable with or even higher than the domestic price. Because of the ambiguity of the GATT's wording about subsidies, it is relatively easy for the importing countries to determine the existence of unfair subsidies in an arbitrary manner. That's why there are so many trade disputes concerning the imposition of countervailing duties, which sometimes have a negative effects upon the trade flow. The US is the most frequent user of this measure, initiating 235 investigations from 1985 to June 1999, among which 53 countervailing duties are still in place. The EU resorts less to subsidy investigations with only 28 cases. But there is an increasing trend in the EU market since July 1997. 89.3% of all the investigations were initiated between July 1997 and June 1999 [6, p91].

Frequent usage of anti-dumping and countervailing duty measures has certainly brought about market disruption to both importers and exporters, frustrating the normal trade flow. The developing nations are the major targets among these investigations. There is no denying that some imports from the developing nations did constitute "dumping" in the destination market. However, in terms of the striking differences between the developing and developed markets, especially concerning the resource input cost, the lower-priced imports from the developing nations sometimes are justified, requiring more careful and comprehensive examination. The unfair practice under the fair excuses clauses cast shadows upon the global liberalization pace.

1.1.3.3 Technical barriers

Though today's world is woven into a more integrated picture, each nation still retains its own legal and administrative system, leading to different rules and regulations concerning Customs procedures, labeling, inspection, product standards, sanitary requirements, and so on. Therefore, when products of Country A are exported to Country B, they have to meet the importing country's relevant requirements upon entry into its territory. A study carried out by OECD has found that different standards

and technical regulations in different markets, along with the costs of testing and certifying compliance with those requirements, can account for 2-10 percent of a firm's overall production cost. The most widely used NTBs in the area of standards are conformity assessment procedures or the requirement to prove compliance with standards or technical regulations in another market, which may be sometimes unnecessary and difficult to conform with [11].

Today, technical barriers have triggered more international disputes than ever before. Because there are various kinds of technical barriers, it will take a long time frame to truly realize a unified system of international standards and procedures. In section 1.2, some specific examples are given to illustrate the negative effects of these technical barriers.

1.1.3.4 Green barriers⁶

With the worldwide enforcement of ISO 14000 and other environment-related regulations in the 1990s, "green" products are no longer strange to consumers and manufacturers. Enterprises with long-term vision focus their attention upon the development of environmental-friendly production processes and products, which enable them to gain a competitive edge over competitors.

However, though it is of great importance to maintain sustainable development, the over-use of environment-related regulations constitute de facto green barriers towards global trade. In fact, some regulations have little or nothing to do with environmental protection. For example, there are about 70 environmental seals in the German textile market, of which only 10 are for ecological purposes [12]. The Multilateral Environmental Agreements (MEA) allow trade restrictions necessary to protect human, animal or plant life or health, or relating to the conservation of exhaustible natural resources. The target is desirable, but some GATT panel reports point out that measures taken outside the jurisdiction of a regulatory country or taken to force other countries to change their policies are not justified under Article XX.

The jungle of environmental regulations not only complicates the protection task but also hampers the healthy development of future global trade. Some countries deliberately use "eco-excuses" to achieve their ultimate trade distortion aim and there are more and more green barriers in today's global trade. (Detailed examples will be given in 1.2.2)

1.2 NON-TARIFF BARRIERS IN SPECIFIC COUNTRIES

1.2.1 US⁷

1.2.1.1 Technical barriers

A. Standard and labeling barriers

- Different system of units: while most countries use the international system of units (SI) based on the metric system, the US still uses yards and

⁶ Strictly speaking, a green barrier is a kind of technical barrier. But because of its rising significance in recent years, it is listed separately.

⁷ These information is mainly from the following sources: [49]; 4. Hughes, J.K., *The ATC sky clouded over*. Textile Asia, 1998?p.52-61.; 13. Commission, E., *1999 report on United States barriers to trade and investment*.1999?EU.

pounds in many circumstances and doesn't make any substantive effort to bring its domestic system into line with the international one.

- Complicated technical requirements on the product composition such as the type of dye used and the type of finishing technique employed: For example, for clothes with an outer shell constructed of more than one material, the relative weight, percentage values and surface area of each component should be marked clearly. And if these components are blends of different materials, it is required to include the relative weights of each component material. Furthermore, the label must be placed in the collar of the imported clothes.

B. Administrative barriers

Since the beginning of the ATC, the US government has carried out a number of new administrative actions that form de facto trade restrictions. They includes:

- The 592A List: The list has been issued by the US Customs since September 1995 in accordance with Section 333 of the Uruguay Round Agreement Act on a biannual basis. It names the foreign entities accused by the Customs under Section 592 of the Tariff Act for illegal transshipment of textile products. These names will stay on the list for three years and goods imported from these entities will undergo stricter procedures to ensure all the information presented is precise.

- Special import measures for Macao and Hong Kong: the US Customs raised new entry requirements on imports from these two regions, including cotton and manmade products. It also published a list of Hong Kong and Macao companies which had been prosecuted for illegal transshipments. Due to the unclear information given in the list, such as the possibility of same or similar names for more than one company, imports from the innocent company will no doubt suffer unnecessary losses.

- Increased bond requirements for importers: The present minimum bond amount is 2% of the total value of annual cotton, manmade fiber and wool imports by that importer, instead of 10% of the import duties and taxes paid to Customs every year, which increases the cost to importers. And if the importer has previously broken Federal rules, the bond can be increased up to 5%.

- Mutilation of samples: Samples that are not correctly marked as a sample or mutilated to be unsaleable will have to be re-exported or destroyed, which may cause serious losses to the importer due to the delay.

- Quotas cutback: In September 1997, the US informed WTO Member nations, without offering any appropriate adjustment to the affected countries, that the implementation of the Integration process under the ATC will include cutbacks in those quotas which are only partially freed on January 1, 1998.

- Extension of the liquidation period up to 210 days: For example, as regards the fiber content of textiles, the maximum difference between the invoice declaration and Customs control analysis should be no more than 3%. Non-conformity may trigger penalties reaching 100% of the goods value. In view of the short life span of fashion items, this regulation certainly causes trouble and extra burdens for traders.

Most of the above measures used by the US Customs are to monitor and control imports in the hope of eliminating illegal transshipment of textiles and apparel. However, it will hurt both importers and exporters who are honest and acting in good faith.

1.2.1.2 Rules of origin

In 1996, the US changed its rules of origin for finished products, establishing that the origin was conferred no longer by the operations of dyeing and printing plus two finishing operations, but by the origin of the fabrics from which the products were made.

In many ways these rules are even more protectionism because of their intricacy. Countries such as China will be negatively influenced under this new rule of origin. For example, China often exports gray fabrics to developed nations such as Italy for dyeing and finishing and then the final products are exported to the US with origin in Italy rather than in China. However, with the enforcement of the new rules, China will be the originating country and may have to be subject to quota limitation.

In addition to the general rule of origin, there are also specific NAFTA rules of origin featuring the "yarn forward" principle. This stricter rule places outsider nations in a more disadvantageous position.

1.2.1.3 Anti-dumping and countervailing measures

As regards anti-dumping measures, the US initiated 28 cases between July 1, 1997 and June 30, 1998, accounting for about 11.9% of the total cases in the world. Figure 1.1 shows the number of anti-dumping measures initiated in the US from July 1, 1989 to June 30, 1998. It indicates that the US resorted frequently to this measure in the early 1990s and that it has taken an upward trend since 1996.

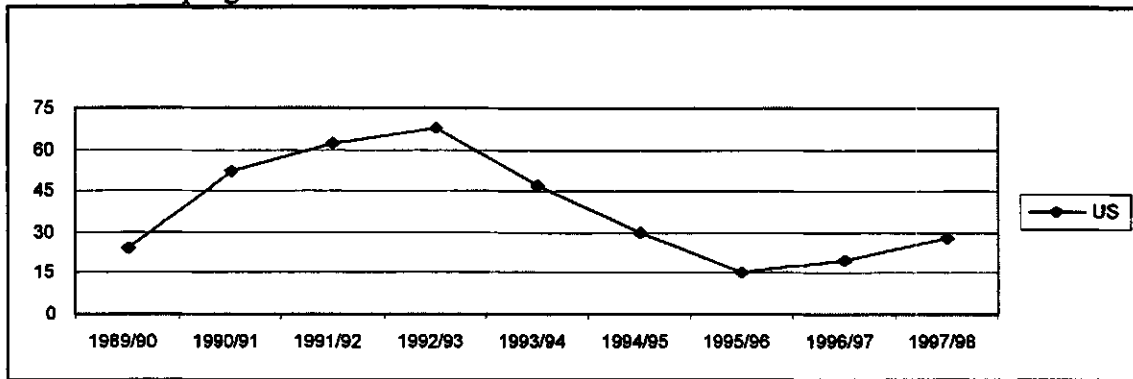
Chinese exports to the US are subject to 37 anti-dumping cases up to date, 27 of which were initiated in the 1990s [14]. As regards textile and apparel exports, cotton shop towels and polyester cotton print cloth suffered anti-dumping investigations in the early 1980s.

In the US, a large number of countervailing duty cases was brought by the US industry in the mid-1980s against countries which were not signatories to the Subsidy Code. As non-signatories, these countries were not entitled to an "injury test" under US law, so the domestic industry could resort to imposition of punitive tariffs without having to prove actual injury or threat caused by the subject merchandises.

Table 1.6 US new rules of origin

US new origin rules	
Textile products	Country of Origin classified by
Yarn products	Spinning place
Fabric products	Weaving place
Knitted products	Knitting place
Finished products (apparel)	Sewing place
Apparel sewn in multi-country	The most important and/or final sewing place

1.1 Anti-dumping measures initiated in the US between 1989 and 1998



(Source:[10])

1.2.2 EU

1.2.2.1 Quota restrictions

The EU still keeps 209 quotas on textiles and clothing imports covering a total of 21 countries, of which 14 are WTO members [15]. About one fourth of EU textile and apparel imports were subject to quota restrictions in 1998. There is no quota restriction concerning imports from least developed countries.

While the main aim of the US's integration process is to prevent further import surges by signing more restrictive bilateral agreements with the so-called "dominant" suppliers during the transition period, the EU adopted a product-focused approach without publishing a full product list for each integration stage in advance [5]. In addition, the integration process will be linked to actual progress in access to third country markets.

Just as the US did, the EU established more restrictive and tougher terms when entering into bilateral agreements with supplying countries, particularly with the leading ones, including China, Hong Kong and South Korea. In the light of the EU-China agreement covering the period from 1996 to 1998, most products are subject to growth rates lower than 1% because it was expected at the time that China would soon join the WTO and would then be subject to the ATC. As regards Hong Kong, exports of 23 clothing products are under quota regulation, of which 12 are confined to an annual growth of no more than 2% [5].

1.2.2.2 Eco-labeling requirement

The EU has taken the lead in implementing Eco-friendly policies. In 1992, the EU adopted an EU-wide eco-labeling scheme, a voluntary program that permits a manufacturer to obtain an eco-label if its product meets certain criteria for 11 consumer product categories, including bed linens and T-shirts. As early as 1995, Germany prohibited the usage of certain dyestuffs containing harmful particles, such as aromatic amines and carcinogenics, in the manufacturing process. Many European dealers also require that textile imports have attached the OKO-TEX STANDARD 100, an environmental label issued by the Swiss Textile Testing Co., Ltd. What's more, the EU will pass a formal law stipulating the ban of more than 300 kinds of harmful dyestuffs from applications in textiles and apparel. Such a law may be essential for the sake of man's health. However, if this legislation is abused, it will become a green barrier hampering export activities.

1.2.2.3 Labeling

EU regulations require that textile products be labeled to show fiber content, using generic names instead of brand names [16].

1.2.2.4 Anti-dumping investigations

The Europeans have already revealed their determination to resort to “unfair trade actions” after alleging that fabrics produced in a variety of countries are being “dumped” in their market. The main product sectors covered by these investigations were those of textiles, electronics, and iron and steel (See Table 1.7).

According to the annual report released by the EU [48], the Community had 141 measures in force covering 63 products and 33 countries by the end of 1997, of which China involved 32 (or 22.7%) involved China. In the five-year period from 1993 to 1997, 167 investigations were initiated concerning imports from 38 different countries. China was one of the major countries with 25 investigations (Table 1.8). In 1997 alone, China exporters faced 5 investigations including products of gray cotton fabrics, certain footwear with textile uppers, handbags, and certain ring binder mechanisms. While investigation on cotton gray fabrics was initiated shortly after the first failed attempt to impose definitive anti-dumping duties, the latter three products were subject to high definitive anti-dumping duties ranging from 7.7% to 49.2%.

The EU used to treat China as “Non-market economy” so that “normal value” was established based on the prices or the constructed value in a third country such as

Table 1.7 Anti-dumping investigations in the EU

A breakdown of the product sectors						
Product	1993	1994	1996	1997	Total	
<i>Textiles and allied</i>	1	17	4	10	8	41
<i>Electronics</i>	7	3	7	/	14	31
<i>Iron and steel</i>	/	7	2	9	4	22
<i>Chemical and allied</i>	5	3	4	/	8	20
<i>Other metal</i>	5	3	5	1	1	15
<i>Other mechanical engineering</i>	2	4	3	/	1	10
<i>Wood and paper</i>	/	/	1	/	7	8
<i>Other</i>	1	6	7	5	2	21

Table 1.8 EU anti-dumping investigation by country

A breakdown of the country by export						
Country of Origin	1993	1994	1995	1996	1997	Total
<i>China</i>	4	5	5	6	5	25
<i>India</i>	/	4	1	4	6	15
<i>Thailand</i>	2	5	4	/	3	14
<i>Indonesia</i>	/	4	4	1	1	10
<i>South Korea</i>	2	/	4	1	3	10

(Source: [48])

India and Indonesia. Such practice was unfair and brought about many difficulties and uncertainties to the investigations. In April 1998, the EU removed the label "non-market economy" from China and began to conduct anti-dumping investigations on a case-by-case approach. However, according to the Sino-US agreement, the US will still use the current "non-market economy" approach to determine whether imports from China are being dumped for another 15 years after its accession to the WTO.

1.2.3 Japan

Japan places few formal barriers on imported textiles and apparel. In fact, its import regulations on textile items have been among the most liberal within the industrial world since 1970 [17]. In 1980, its trade-weighted average tariff rate on textiles was 11%, while those in the EU and US were 14% and over 23% respectively [17]. However, according to a report prepared by the US Embassy in Tokyo [18], Japan is well known for tactics that can effectively keep non-Japanese products out of, or delay entry into its domestic market. Some commonly used NTBs are identified, including a requirement for prior experience in Japan, interconnection of business interests such as cross stockholding, powerful industry associations with arbitrary licensing powers, market influence, information control and/or limited membership, and discriminatory official regulations favoring domestic suppliers.

1.2.3.1 Quota restrictions

Japan used to be a textile and apparel exporter subject to various bilateral/multilateral agreements. After WWII, Japan recovered quickly from its nightmare and its textile and apparel exports soon aroused concern in the US and UK. Growing pressures in the domestic market forced the US government to "persuade" Japan to sign the VER on certain cotton textile products in 1955. This was the first post-WWII textile-specific restriction [1].⁸ Later, Japan was the member in STA, LTA and MFA, And, by Japan becoming a developed nation, it lost its comparative advantages over less developed ones and its domestic textile and apparel industry shrank a lot. However, it still managed to lift quotas on imported textile products in 1970, hoping that the industry could move to higher value-added sectors under strong import pressure [17]. As a result, textile and apparel imports from Asian countries increased very rapidly, which aroused great domestic concerns and forced the government to negotiate some "voluntary" measures with major exporters. An agreement was reached between the Chinese and Japanese governments about the "voluntary" restraint of poplin broadcloth exports from China to Japan within the limit of 300 million meters per year [19]. There is also a Sino-Japan agreement in 1998, upon which China should "voluntarily" administer its textile exports to Japan. Before exporting the "two kinds of yarns and two kinds of cloth" to Japan, the exporter should consult and sign a contract with the Zhongda Corporation, the General Agency in Japan.⁹

1.2.3.2 Marking/labeling/packing requirements

Standard textile and apparel products are highly regulated in Japan, subject to both

⁸ Textiles and Apparel in the Global Economy, third edition, Kitty G. Dickerson

⁹ Almanac of China's Foreign Economic Relations and Trade, 1999/2000; the two kinds of yarns/cloth refer to cotton yarn, cotton/polyester yarn, grey cotton fabric and grey polyester/cotton fabric.

official rules and voluntary private standards, such as Japanese Industrial Standards. Textile and clothing labeling is currently subject to the "Household Goods Quality Labeling Law" and the "Act Against Unjustifiable Premiums and Misleading Representation", which will be replaced by a new law by September 30, 2000. There require that clothing labels should include a description of fabric types and textile yarn content with percentage figures for lining, thread, materials, etc, home washing instructions and other handling methods, size in metric measurements, the water resistance, and relevant information concerning the manufacturer/supplier. As regards sizing, there are specific JIS (Japanese Industrial Standards) regulations for ready-made items based on different categories and Men/Boys/Women/Girls/Infants groups. Straw packing materials are prohibited. The Japanese Measurement law requires that all imported products and shipping documents show metric weights and measures [18, 20].

1.2.3.3 Complicated distribution system

Japan's highly fragmented and complicated distribution system is widely recognized as a significant trade and investment barrier, responsible for Japan's relatively low level of manufactured goods imports from the US and Western Europe (Chen, 1995; Larke, 1994; [21]. Though a de-regulation process has been carried out since 1998, it still remains as the major concern for foreign counterparts.

Distribution channels in Japan are multi-layered with numerous wholesale and retail outlets. Wholesalers hold a dominant position in the distribution system, a unique characteristic in Japan. As a result, wholesale turnover is almost 4 times that of retailing, making consumer prices extremely high [22]. Moreover, manufacturers have dominant powers in the distribution system, around which "keiretsus" are formed. Compared with other leading industrialized nations, Japan has the highest wholesale to retail sales ratio. As regards the retail network, it is much denser than those of the US and Western Europe [23]. The Department Store Law of 1956 and the Large Retail Store Law of 1974¹⁰, aiming to protect small and medium sized retailers, effectively restrict entry of foreign competitors with strength and economies of scale. The distribution system features strong personal ties and interdependence as well as long-term partnerships with local suppliers, making foreign entities hard to penetrate into this closely intertwined market. Some long-established business customs in the system, such as the return of unsold goods, long credit periods for payment on goods, and financial help during slump periods, are somewhat anti-competitive in nature and result in unclear accountability of risk sharing.

In recent years, there have been some significant changes in the Japanese distribution system, such as the much shorter approval time for opening large stores from 7 or 10 years to about one and a half years, application of IT in retailing and emergence of non-store retailing. But the unique characteristics in the system prevalent for so many years are hard to change in the short run and will continue to be a trade barrier.

¹⁰ The 1956 Law restricts the establishment or expansion of department stores with a sales space of over 3000 m² in the seven largest cities and over 1500 m² in all other cities. The 1974 Law broaden this restriction to cover all large retail stores [Chen, 1995; Larke, 1994; 21. HKTDC, R.D., *A General View of Japan's Distribution System for Consumer goods*.1987?HKTDC?HK..

1.2.3.4 Anti-dumping and countervailing measures

Compared with the US and EU, AD and AC measures are not popular in Japan. There were only 4 AD cases from 1985 to June 30, 1998 and no AC cases during the same period [6, 10].

1.2.4 HK

One of the most important reasons for HK being as the entrepot port is its zero import tariff rate upon most items and relatively clear and efficient Customs procedures. There are few trade barriers to textile and apparel trade. One of the US concerns is IPR protection.

1.2.5 China

China exercises quotas, licensing, special tenders and other non-tariff measures on imports of 385 product categories' [24]. According to the World Bank, the coverage of NTBs on China's imports was reduced from about 50% in 1992 to one-third in 1996 and the tariff equivalent of China's NTBs is calculated as 9.3% in 1996 (World Bank, 1997). As regards textile and apparel imports, there were no NTBs¹¹ imposed upon apparel imports, while about 12.7% of textile imports were subject to NTBs, of which 0.3% were affected by state trading, 5.7% by designated trading, 12.7% by import licensing and 12.7% by quotas. China has promised to raise these restrictions within a five-year time frame after its entry into the WTO.

1.2.5.1 Quota restrictions

There are 28 categories subject to import quotas [25]. China's textile and apparel exports are subject to MFA-type restrictions and, at the same time, there are general import quotas imposed upon more than 40 tariff lines, covering wool products (9), cotton products (2) and synthetic yarns (30).

1.2.5.2 Import and export licensing

About 35 categories of import commodities (by the end of 1999) and 54 of export commodities (from January 2000) were subject to licensing control [25]. Most textile products are subject to compulsory prior import licensing, a program managed by MOFTEC. The application is first reviewed by different state agencies and MOFTEC has the final voice in the license issue.

As regards export licensing, it is not automatic and is applied to the exportation of raw materials such as cotton, silk, ramie and wool.

1.2.5.3 Highly regulated imports and export rights¹²

State-owned foreign trade companies enjoy preferential treatment over other enterprises engaging in import and export activities, especially if they are concerned with raw materials such as silk and cotton exportation. Though the cotton supply

¹¹ NTBs here refer to state trading, designated trading, import licensing and quotas.

¹² Some information is from 20. Franklin Dehousse, K.G., Philippe Vincent, *Market access study to identify trade barriers affecting the EU textiles industry in certain third country market*. 1999?EU.

system is undergoing significant changes, including the introduction of market mechanisms and relaxation of distribution channels, cotton producers still cannot conclude transactions directly with foreign partners, who have no alternative but to purchase from a state agency. As regards silk, the state agencies enjoy a monopoly position.

Not all manufacturing enterprises enjoy export and import rights, though the relevant regulations have been progressively relaxed during recent years. The right to import and export is granted by MOFTEC based on certain criteria, including past manufacturing performance. As regards foreign investment enterprises, they face strict regulation of domestic sale ratios and are mainly subject to exportation of their own manufacturing products and importation of their manufacturing-related ones.

Individuals in China are still forbidden by law from engaging in direct import or export trade, which is a violation of Article XI of the GATT. The right for individuals to trade is a basic feature of the WTO system.

1.2.5.4 Lack of transparency and uniformity in government regulations and information release

One of the most serious problems in China is the difficult access to relevant trade information and regulation, including Customs procedures, government agencies' responsibilities and the appropriate channels for data access. Most foreign importers and exporters also complain about the arbitrary practice by Customs and other government agencies despite the existence of clear wording in the regulations.

1.2.5.5 Technical barriers

In addition to the different regulations concerning standards, labeling and certification, a lack of transparency still dominates and complicates the problem. China has identified over one hundred tariff-line items that require a safety license and about 780 imported goods are subject to statutory inspection conducted by the State Commodity Inspection Bureau. Foreign importers and exporters also complain that there is obvious discrimination against foreign entities concerning safety and inspection procedures (USITC, 1999).

Lack of intellectual property protection is another serious concern for foreign enterprises that are seeking access to the Chinese market. Meanwhile, trademark and copyright violations prevail. China was once placed on the "Priority Watch List" under the US Custom's Special 301 trade law which empowers the US to impose immediate trade sanctions on China at any time. Though the threat was removed after China's efforts to combat IPR transgressions, there is still much room for China to improve. Many world-famous fashion brands once encountered similar miserable experiences in China. The more successful the brand is, the more fakes there will be in the domestic market. If the situation is not improved, it will become an "effective" trade barrier for foreign enterprises.

1.2.5.6 Others

Anti-dumping and countervailing issues are still new in China, and the relevant law was not published until the year 1997. The first anti-dumping case in China was filed on October 1, 1997 by domestic newsprint suppliers. Domestic chemical fiber suppliers also claim that some foreign producers dumped their products in the Chinese

market, causing material injury to the domestic industry. However, no further steps have been taken except oral warnings of possible anti-dumping activities. Since these two defensive measures are WTO-allowed, it is expected that Chinese enterprises will resort more to these approaches after China enters WTO.

Strict foreign exchange control in China is another major trade protection, but steps are being taken to progressively relax the regulation. In December 1996, China announced full convertibility in the current account, with the capital account remaining controlled. In October 1997, "Provisions on the Administration of Foreign Exchange Accounts in China" was issued, setting up new procedures for the opening and maintenance of foreign exchange accounts by FIEs and foreign individuals. Moreover, selected foreign banks in the Shanghai Pudong area (since 1996) and Shenzhen (since August 1998) are allowed to do RMB business for foreign companies and individuals.

1.3 INTERNATIONAL DENIM TRADING PATTERNS¹³

OVERVIEW¹⁴

Born in Europe and gaining its popularity in the US, denim is probably one of the most universally recognized fabrics with a history of more than three hundred years. The original Levi's button-fly shrink-to-fit jeans were introduced in 1873 when Levi Strauss and Jacob Davis patented the use of copper rivets. Since the 1960s denim, together with its related apparel items, has stepped out of its original "workwear" image, and has become a well-established category in the fashion world.

The US is the biggest denim market in the world, consuming 41.7% of the global denim supply. The denim consumption per capita reached 5.0 linear meters in 1996, compared with 2.1 in Europe, 2.4 in Japan and 0.2 in the rest of the world. An American owns 6 items of denim apparel on average. The annual consumption for denim bottoms is 3.1 units per capita, of which 2.2 units are denim jeans alone.

The colonization of Europe by jeans started after WWII, a matter associated with the glamorous heroes of the American armed forces. Today, Europe is the second largest market for denim products, accounting for 23.3% of the total world consumption of denim fabrics. The EU as a whole is the biggest consumer in the European continent.

Japan is another important market for denim products, holding 10% of the market share. Compared with the US and European countries, Japan only started denim manufacturing in the 1970s. However, based on its special focus upon technical innovation, Japanese denim products are now very popular, featuring superior quality and a high technology content.

Hong Kong, as an important fashion manufacturer and trader, especially the taking into account its unique role in the transit trade, is worth specific study as well. China is now the world No. 1 textile and apparel exporter. In view of its rapid economic development and huge domestic market, it can be anticipated that China will become

¹³ The following analysis concerning the US and EU markets divides the world into 16 groups based on geographic proximity and regional preferential arrangements with the two most important markets--the US and EU. There are 3 in America, 5 in Europe, 4 in Asia. Africa is viewed as a whole. Due to their special location, Turkey and CIS are separately listed. Though the last group is categorized as "Oceania", it in fact includes Australia, New Zealand and those not belonging to any other group. As regards HK and Japan denim trading, the division is much broader, mainly focusing upon Asia itself. (The division uses [26] for reference.

¹⁴ The data is mainly from [27]

another important market for denim products in the near future. Furthermore, China's WTO entry will no doubt have an impact upon the world textile and apparel trade patterns. Therefore, detailed analysis will be conducted in the above five markets.

There are comprehensive databases concerning US, EU and HK denim trade. As regards the Japanese and Chinese markets, the analysis is somewhat fragmented due to the lack of systematic trade data. Therefore, databases in the US, EU and HK are used to get a partial picture of the two denim markets. What's more, their overall textile and apparel trade performance is also useful to identify specific denim trading patterns.

1.3.1 US denim trading pattern

1.3.1.1 Background of US textile and apparel trading environment

Before going into an in-depth analysis, several key events will be introduced first since they help shape the current trading pattern.

- In January 1989, Canada and US concluded an agreement concerning a ten-year phase-out plan of all tariffs and quotas. Tariffs imposed on textile and apparel are being dropped by one-tenth each year. Because of this, and the non-existent quota restraints, trade in textile and apparel has already realized liberalization between the two countries.

- The US-Canada agreement set the stage for the launch of NAFTA on January 1, 1994, covering America, Canada and Mexico. Under the NAFTA agreement on textiles and apparel, textile products meeting specific NAFTA rules of origin are immediately exempt from quota restraints and related duties. Quotas and tariffs for other non-originating goods will be phased out in ten-year time frame.

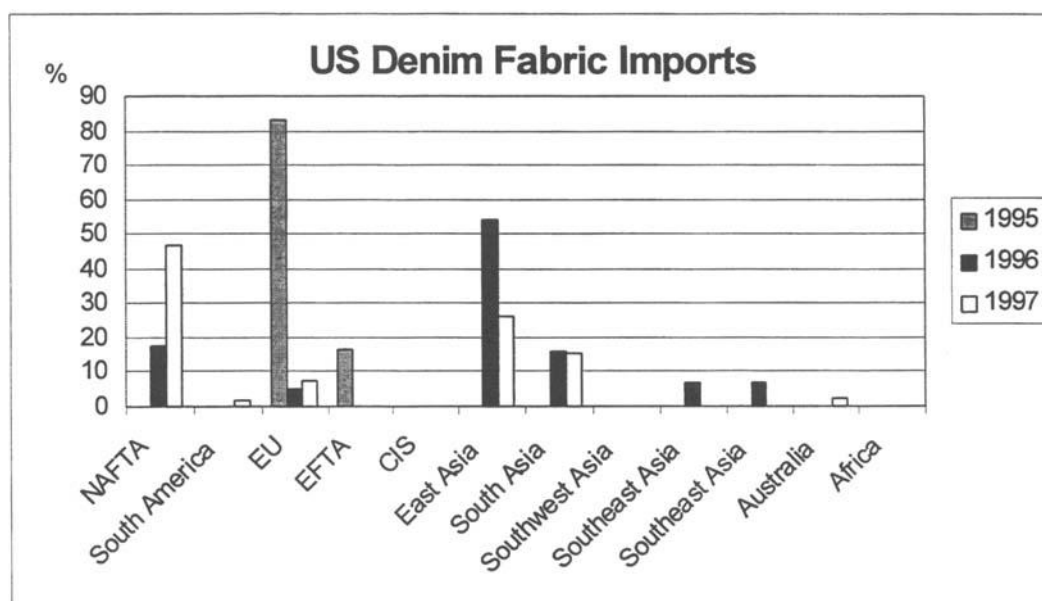
- Since 1986, the US has carried out certain preferential trade policies to encourage economic pickup in the Caribbean region. The 9802 (formerly 807) production arrangement permits cut garments to be exported for assembly and re-imported into the US, with import duties only imposed on the value-added part. If fabrics are both made and cut in the US, then a more liberal quota system for access to the US domestic market will be secured for the finished products assembled in these countries (807A or Super 807). Consequently, almost all Caribbean-made apparel is destined for the US market. More US-based manufacturers, viewing the low cost of labor and abundant natural resources as a premium for a competitive edge, are moving to build plants or production lines there.

- The US also has preferential access arrangements with Israel, so that, for examples, their textile and apparel exports have no quota restrictions. Since January 1, 2000, a new Outward Processing Program with Romania and Macedonia has been carried out concerning wool apparel categories [28].

These preferential arrangements greatly push forward regional trade development.

Take NAFTA for example. The fiber trade volume within NAFTA jumped from US\$ 6 billion in 1993 to US\$ 18.4 billion in 1998 [29], with an annual growth rate of 41.3%. Mexico has replaced China as the leading textile and apparel exporter to America. Its market share concerning MFA products rose from 11.6% in 1997 to 13.7% in 1998, while that of China dropped from 8.6% in 1997 to 7.5% in 1998 [30].

1.2 US Denim fabric import pattern



1.3.1.2 US denim fabric and apparel trading pattern

A. Denim fabric import pattern

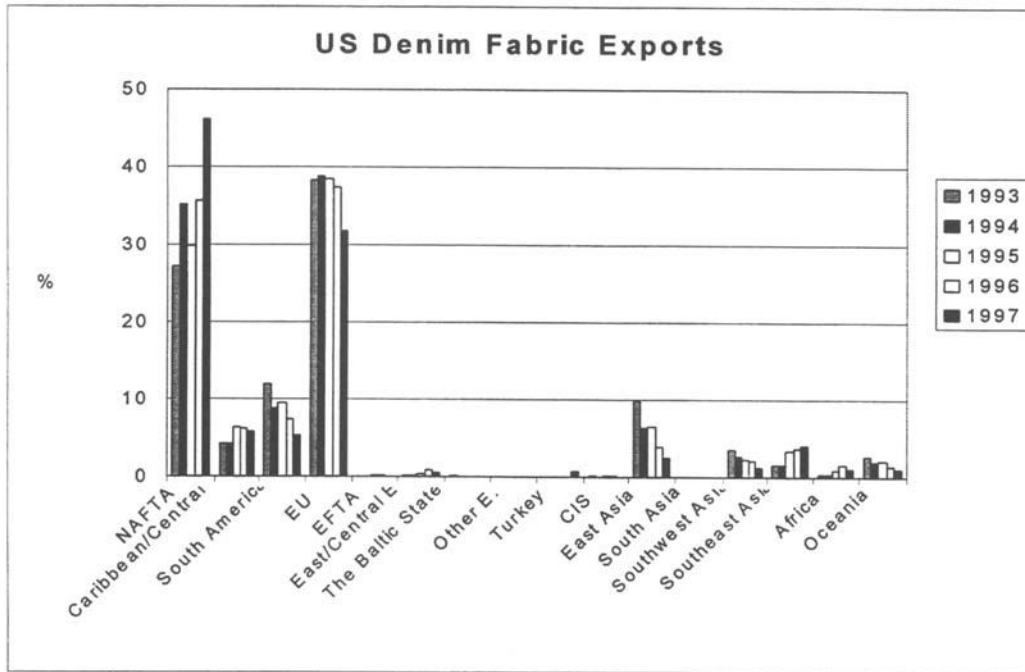
In 1995, as Fig. 1.2 shows, the EU was the single significant denim fabric supplier to the US market, accounting for 83.3% of US total denim fabric imports. EFTA held another 16.7%. Thus, there were no imports from other regions. However, in 1997, Canada and Mexico (NAFTA) became the major suppliers with 46.9% of the market share, followed by East Asia (26.1%) and South Asia (15.3%). These three groups together accounted for 88.3% of US total denim fabric imports. The EU was reduced to the fourth supplier group with only 7.2% of the share in 1997.

B. Denim fabric export pattern

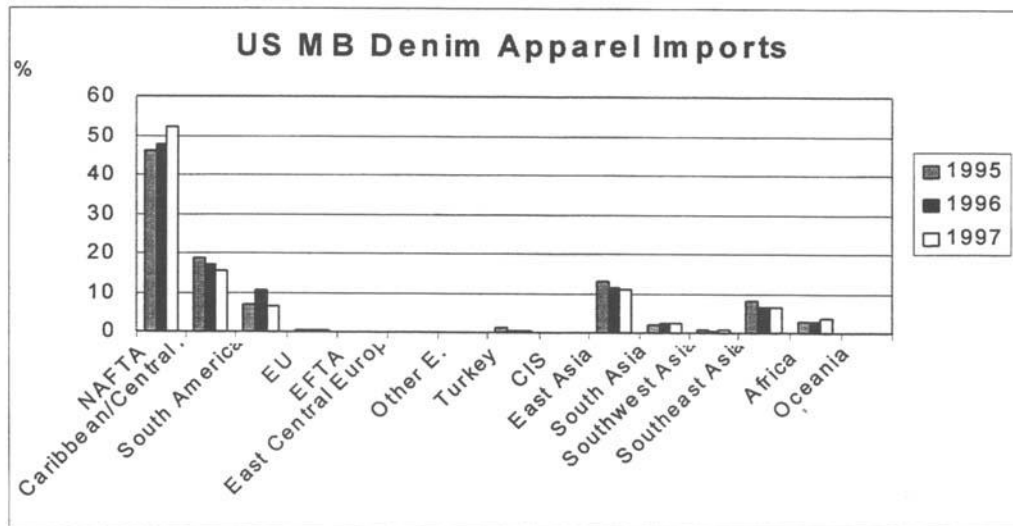
The US denim fabric export pattern is different from the import pattern, covering more export destinations as seen in Fig1.3. Canada and Mexico again accounted for almost half of US total denim fabric exports in 1997. In 1993, a year before the formation of NAFTA, only 27.2% for US denim fabrics were destined to Canada and Mexico, of which Mexico captured 24.7%. With the launch of NAFTA in 1994, exports to the two countries increased to 35.1% immediately and in 1997, the ratio jumped to 46.2%. Exports to Mexico experienced the fastest growth, absorbing 53.3% of US total exports to NAFTA in 1997. Exports to Caribbean/Central America increased from 4.3% in 1993 to 5.8% in 1997 thanks to the elaborate OPT arrangement. The intra-NAFTA trade grew rapidly at the expense of trade diversion away from non-member nations. From 1993 to 1997, exports to South America, EU and East Asia dropped from 12.0% to 5.3%, from 38.2% to 32.2% and from 9.9% to 2.5% respectively. Exports to Africa and Southeast Asia experienced a health growth, increasing by 0.7 and 2.3 percentage points respectively.

Though US denim fabrics were exported to a large number of countries, the market concentration was high. NAFTA and the EU together absorbed 78.4% of US

1.3 US denim fabric export pattern



1.4 US MB denim apparel import pattern



total denim fabric exports in 1997. If Caribbean/Central/South America are included, the figure rose to 89.5%.

C. Denim apparel import pattern

- Men's or boy's (MB) denim apparel

As regards US MB denim apparel imports, Mexico was its most important supplier, accounting for 93.0% of total NAFTA MB denim apparel exports to the US (see Fig. 1.4). Imports from NAFTA continuously increased from 46.0% in 1995 to 52.2% in 1997. The Caribbean/Central America was the second largest supplier with 15.5% of the market share, followed by East Asia (11.2%), Southeast Asia (6.6%) and South America (6.4%).

About 74.1% of US MB denim apparel imports were from suppliers in the American continent and 21.1% from those in Asia. Though the contribution from Africa is still small at present, its share increased a little from 2.7% in 1995 to 3.8% in 1997.

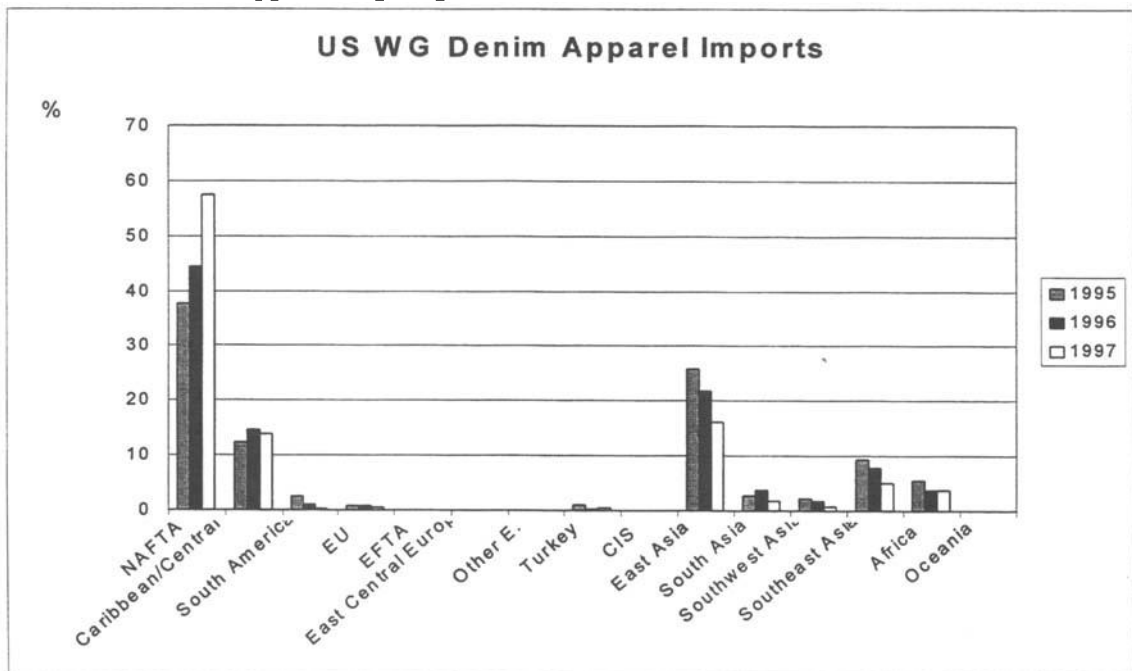
- Women's or girl's (WG) denim apparel

WG denim apparel imports from NAFTA members increased by 20 percentage points from 1995 to 1997, rising from 37.5% to 57.5% of total US imports (as see in Fig 1.5). Those from the Caribbean/Central America also increased a little from 12.3% to 13.8% in 1997. By sharp contrast, the share of Asian suppliers slumped from 40.3% to 23.8%, with East Asia suffering the most serious drop by almost 10 percentage points. Other regions, such as South America and Africa, also exported less to the US market during the three years. It is clear that Mexico and the Caribbean regions have become important WG denim apparel suppliers to the US market.

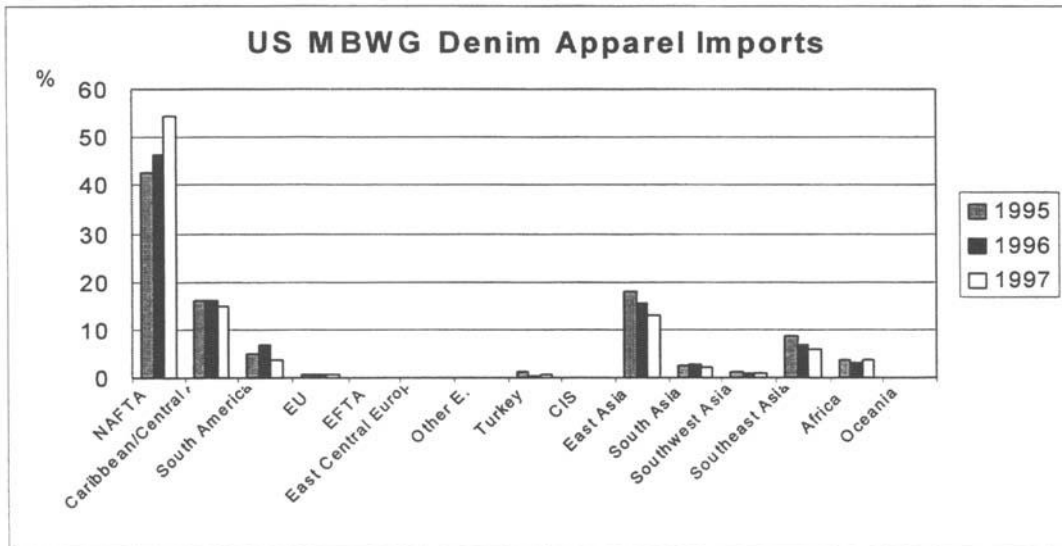
- MBWG denim apparel

Taking MB and WG denim apparel imports as a whole, Mexico has been the biggest gainer since the launch of NAFTA in 1994. Its strong export expansion to the US market pushed the overall share of NAFTA up from 42.7% in 1995 to 54.4% in 1997 (see Fig 1.6). The outstanding performance of NAFTA dwarfed that of other regions, especially the Asian nations. East Asian suppliers were the biggest losers in the hotter market competition. However, due to Asia's traditional strength in apparel manufacturing, it remained as one of the important players in the US import market and in 1997, it still held 22.2% of the market share. The Caribbean/Central/South America together accounted for another 18.6% in 1997. EU suppliers carried little weight in the US market, only holding 0.6% of US total denim apparel imports. Italy contributed over four-fifths of the total EU exports to the US.

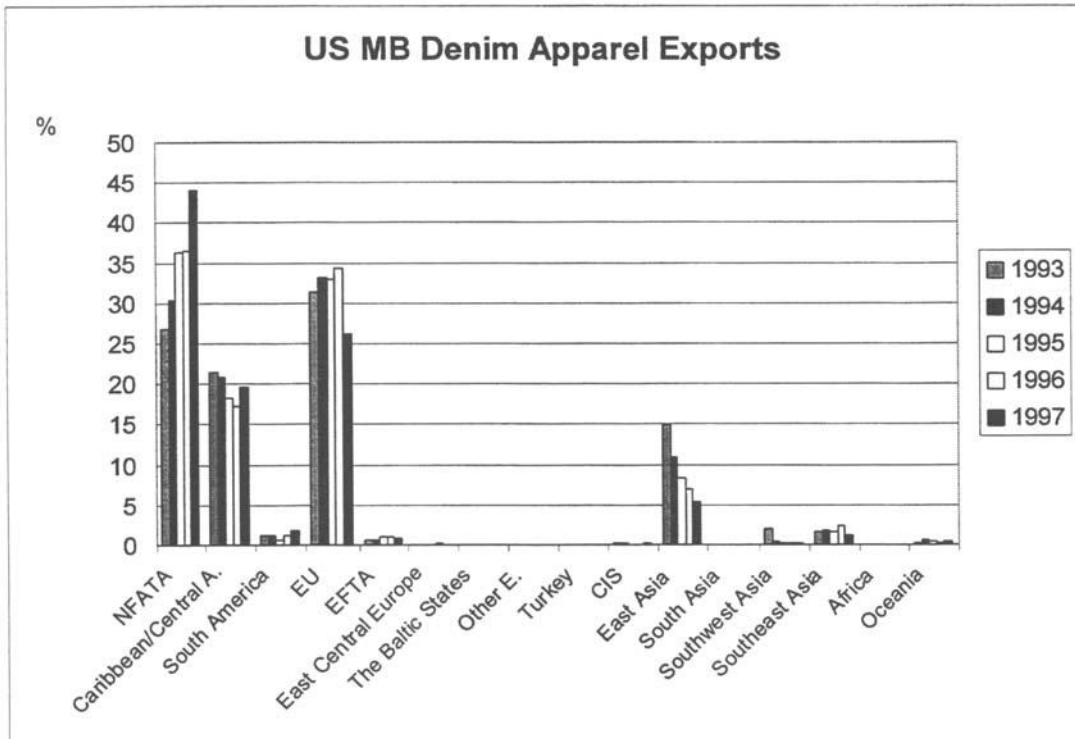
1.5 US WG denim apparel import pattern



1.6 US MBWG denim apparel import pattern



1.7 US MB denim apparel export pattern

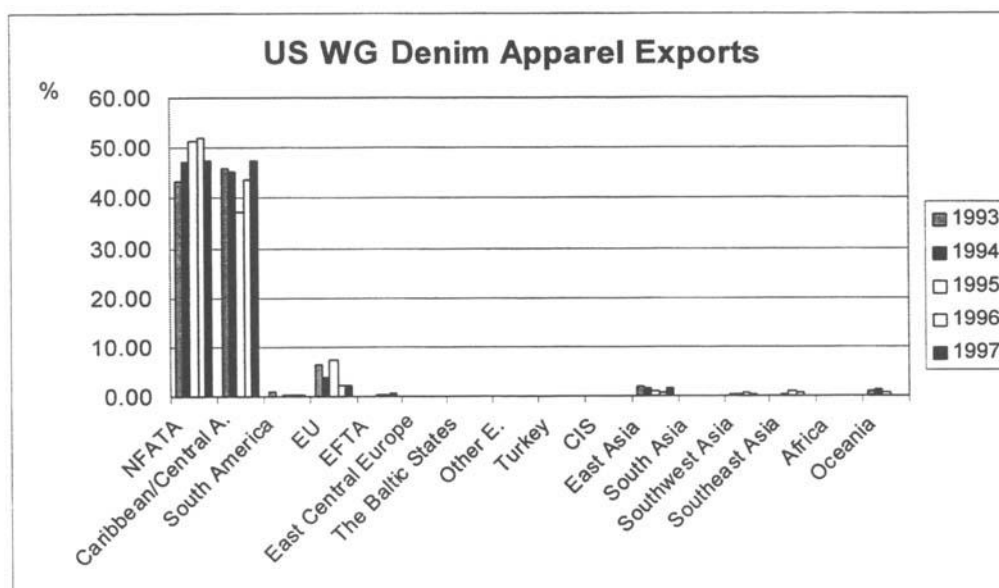


D. Denim apparel export pattern

- MB denim apparel

NAFTA and the EU are the top two leading importers of US MB denim apparel exports as can be seen in Fig 1.7. However, the two show a different development pattern. Exports headed to NAFTA enjoyed a very sharp growth, up from 26.8% of the US total MB denim apparel exports in 1993 to 44.1% in 1997; while those exported to the EU dropped to 26.3% in 1997 after the peak level of 34.2% in 1996. In addition to these two groups, the Caribbean/Central America was the third most

1.8 US WG denim apparel export pattern



important destination for US MB denim apparel, accounting for 19.6% of US total exports. Japan was once one of the important export destinations for US MB denim apparel exports. It alone captured 95.8% of the US total MB denim apparel exports to the East Asia. However, it has imported less and less since 1993. As a result, the market share of East Asia was down from 14.8% to 5.3% in 1997. The Southeast Asia financial turmoil in 1997 caused tremendous troubles for economies in this region, negatively affecting denim apparel consumption as well. US MB denim apparel exports to this region have been continuously up until a year 1997 when it hit the bottom level of 1.1% during the five-year period.

- **WG denim apparel**

As regards US WG denim apparel exports, the picture was somewhat different from its MB exports. About 95.3% of WG exports were focused upon two regions: NAFTA and Caribbean/Central America, with equal market shares of 47.6% in 1997. In 1993, exports to Mexico and Canada already held 43.2% of the market share and rose to the peak level of 51.9% in 1996. Exports to the EU dropped from 6.4% in 1993 to 2.8% in 1997. The drop was not so large in East Asia, down from 2.0% to 1.5% in the same period. (See Fig. 1.8)

- **MBWG denim apparel**

Despite the unbalanced market concentration for US WG denim apparel exports, the overall US denim apparel was mainly destined to four regions: NAFTA, Caribbean/Central America, EU and East Asia. The four together captured 96.5% of US total WG denim apparel exports in 1997, almost the same as in 1993. The enlarged share of NAFTA (from 30.3% in 1993 to 45.2% in 1997) was achieved at the expense of shrinking EU and East Asian markets, which were 18.9% and 4.1% respectively in 1997. (See Fig. 1.9)

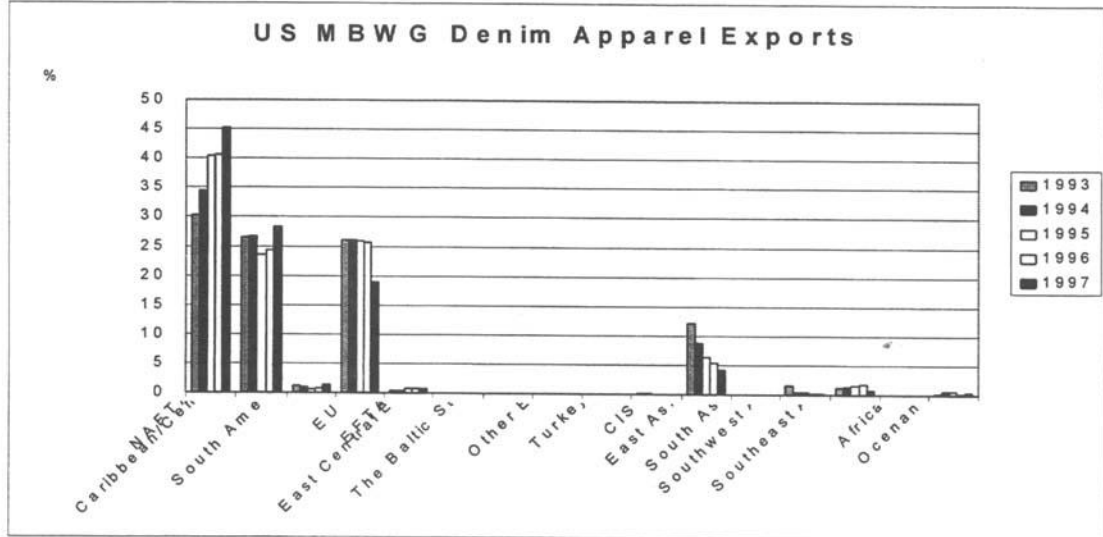
E. Summary

Based upon the above analysis, it is clear that the formation of NAFTA in 1994 contributed a lot to the rapid growth of US denim trading with its NAFTA partners, especially with Mexico. The Caribbean/Central American region was another important importer and exporter for US denim products, mainly due to the preferential arrangement between the region and the US. About 70% of US denim trading was conducted with these two regions. The traditional East Asian suppliers faced strong

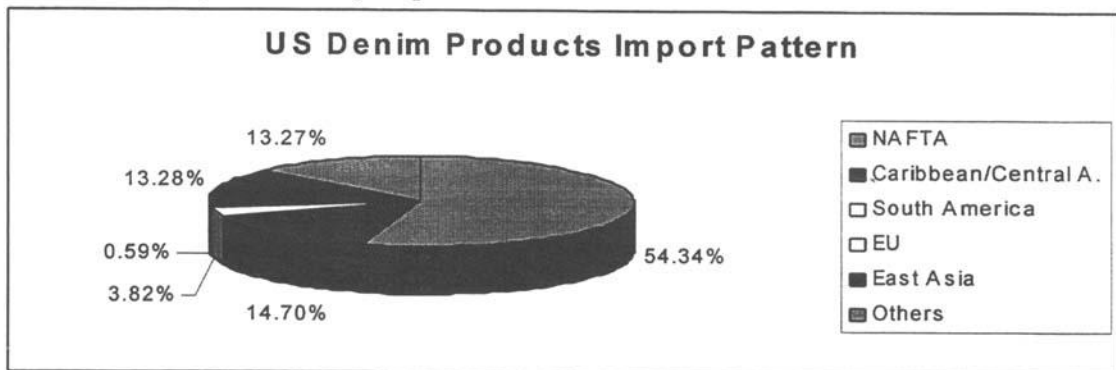
pressure from this regionalism move. Though they were still important suppliers to the US market, their market shares were continuously eroded by competitors on the American continent. The EU was an important consumer of US denim products rather than a significant supplier.

In short, US denim product imports were mainly from NAFTA, Caribbean/Central America and East Asia, together holding 82.3% of the market share. US denim product exports were mainly headed to NAFTA, EU and Caribbean/Central America, which together captured 89.5% of the market share.

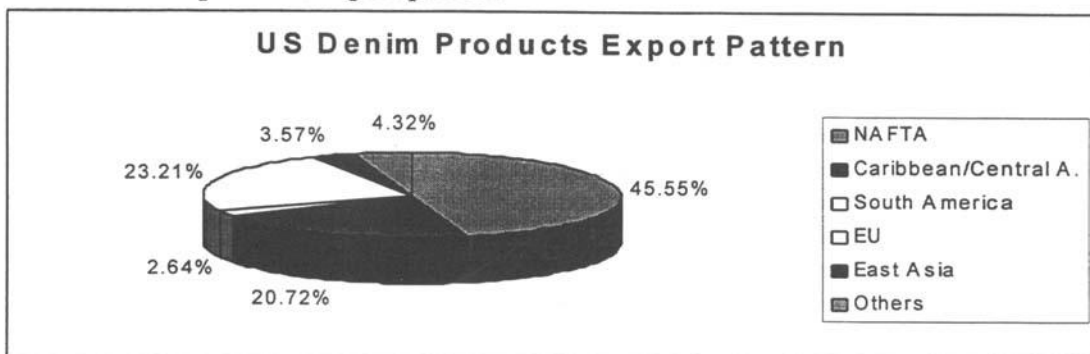
1.9 US MBWG denim apparel export pattern



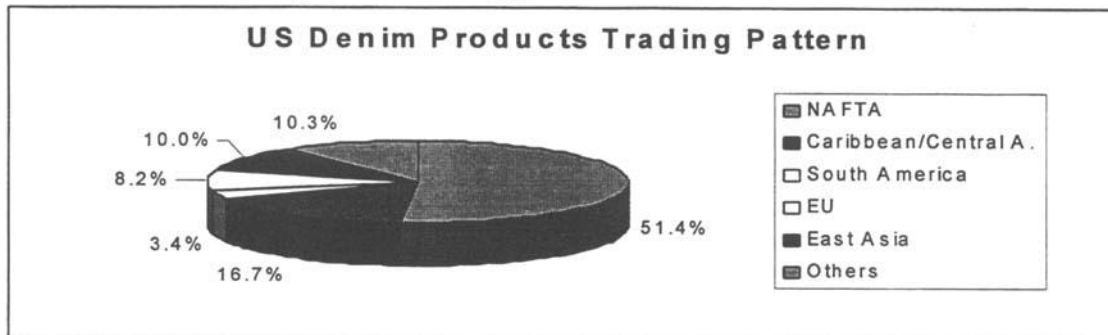
1.10 US denim products import pattern



1.11 US denim products export pattern



1.12 US overall denim products trading pattern



1.3.2 EU denim trading patterns

1.3.2.1 Background of EU textile and apparel trading environment

- Compared with NAFTA which was just a free trade area formed in 1994, EU goes far beyond that. The Treaty of Maastricht embraces a very ambitious goal, setting the stage for a political as well as economic and monetary union. The formal introduction of the Euro on January 1, 1999 marked the currency integrity among 11 EU Members¹⁵, an effort to enhance the freer flow of goods, services and capital. The completion of a "single market" in 1992 has intensified intra-EU trade, which now represents about two thirds of the total EU trade [31]. About 60% of EU textile exports and 70% of EU apparel exports were conducted within EU in 1997 [32].

- The EU and the EFTA countries¹⁶ set up a "European Economic Area" (EEA) in January 1994, aiming to liberalize the movement of people, goods, capital and services and to promote cooperation in R & D, environment and other issues, a blueprint expanding the scope of a Free Trade Area.

- The implementation of the Customs Union between Turkey and the EU in January 1, 1996 has boosted the textile and apparel trade between the two sides, making Turkey one of the most important trading partners with the EU. The EU also established a Customs Union with Andorra, Malta, San Marino and Cyprus.

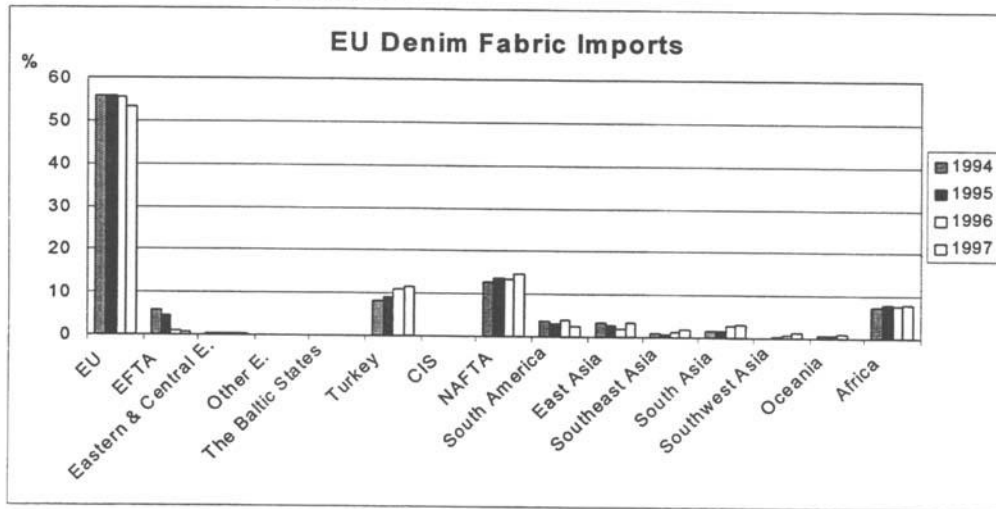
The closer political and economic relationship between EU and Central/Eastern European countries has strengthened the trade links between the two groups, making more EU companies shift their sourcing directions to these countries. The EU had phased out import duties on CEEC textiles and apparel by January 1, 1997 and removed quotas on January 1, 1998 [33]. The CEEC is now the second buyer worldwide of European textiles and the third apparel supplier.

- The Lome convention between the EU and 71 ACP (Africa/Caribbean/Pacific) countries provides a great preferential access to these former colonies. 92% of the products originating in the ACP enter the EU duty free. The preferential margin enjoyed in the textile sector reached 7.0% in 1996 and 6.8% in 2000. As a result, the volume growth rate between 1988 and 1997 hit 66.5% [34].

¹⁵ Greece is now the 12th EU member who joined this monetary union.

¹⁶ Sweden, Finland and Austria joined the EU in 1995. The rest three are Norway, Iceland and Liechtenstein

1.13 EU denim fabric import pattern



1.3.2.2 EU denim fabric and jeans trading patterns

A. Denim fabric import pattern

In 1997, about 53.4% of EU denim fabric imports were intra-EU trade (as shown in Fig 1.13). This ratio was 2.3 percentage points lower than that in 1994. NAFTA was another important supplier with 14.5% of the share, the US providing over 93.1% of NAFTA's total denim fabric exports to the EU. One should remember that the jeans industry in the EU, in fact, started with direct fabric imports from the US. With the establishment of a customs union with the EU, Turkey became the third largest supplier, with a continuously increasing market share from 8.2% in 1994 to 11.4% in 1997. Though the share of East Asian suppliers in 1997 was almost the same as that in 1994, the EU progressively increased its sourcing from other Asian regions, such as South Asia (from 1.6% to 3.0%), Southwest Asia (from 0.1% to 1.1%) and Southeast Asia (from 0.8% to 1.8%). As a result, the overall share of Asian suppliers rose from 5.8% in 1994 to 9.3% in 1997. Tunisia is a large denim fabric supplier to the EU market. It alone accounted for 66.8% of total African exports to the EU. Thus, imports from Africa held another 7.9% of total EU denim fabric imports in 1997. (See Fig. 1.13)

B. Denim fabric export pattern

The ratio of EU denim fabric exports destined to member countries reduced sharply from 57.0% in 1994 to 46.8% in 1997. At the same time, those to Eastern/Central European countries, as well as to Turkey, registered a rapid growth, from 7.7% to 10.3% and from 1.2% to 6.6% respectively. Africa was another important destination, accounting for about one quarter of EU total denim fabric exports. Tunisia and Morocco are the top two importers holding 97.1% of total Africa denim fabric imports from the EU. Other regions, excluding EFTA and NAFTA, also enjoyed growth. (See Fig. 1.14)

C. Jeans import pattern

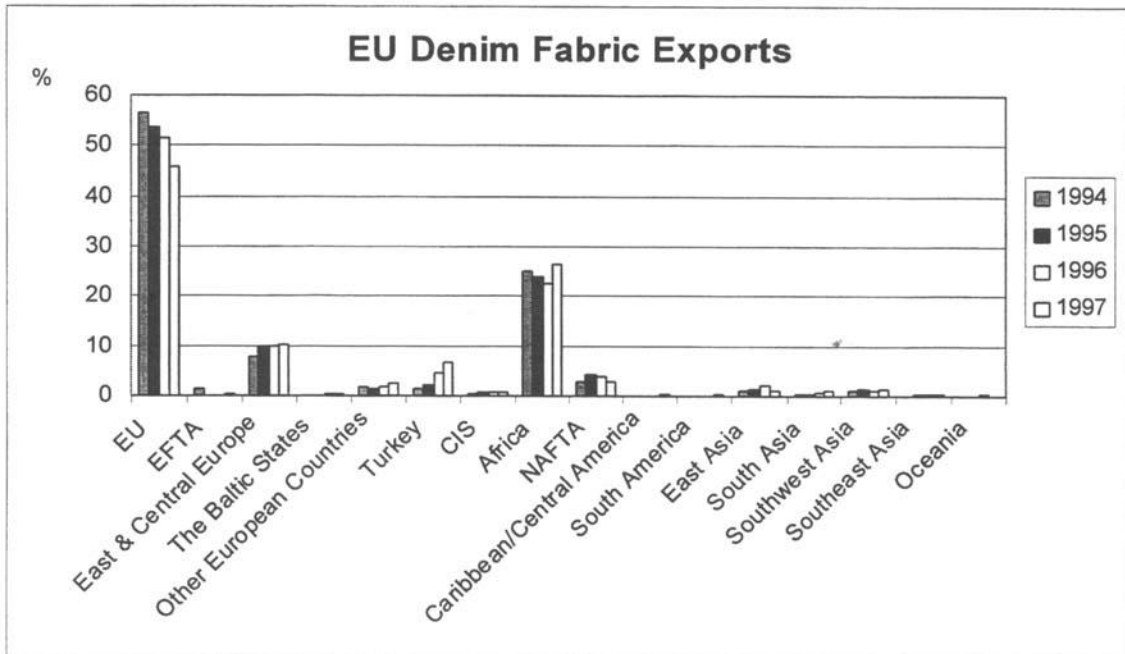
EU members contributed about 54.1% of total EU MB jeans imports in 1997, almost the same as in 1994 (Fig 1.15). Eastern/central Europe and Turkey held 3.8% and 3.0% respectively. As regards non-European countries, Africa had a dominant position, capturing 16.0% of EU total MB jeans imports, 2.3 percentage points lower than in 1994. Those from NAFTA increased from 5.3% to 6.9%, among which the USA held 95% of total NAFTA exports to the EU. East Asia and South Asia

encountered different experiences. The share of the former continuously dropped from 10.3% to 6.3% in 1997 while that of South Asia increased from 1.6% to 4.0% during the same period.

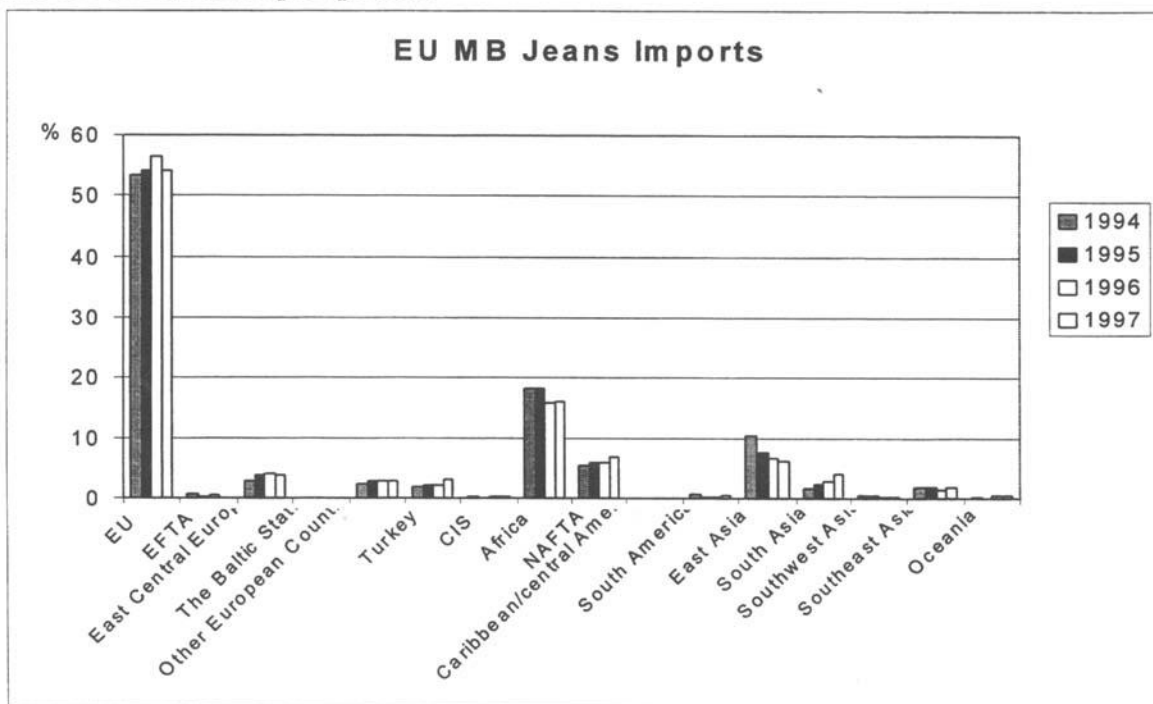
- **WG jeans**

As regards WG jeans imports, those from EU members fell from 54.7% in 1994 to 48.7% in 1997 while most of other regions more or less increased their market share. Africa contributed about 15.2%, followed by East Asia (13.3%), Turkey (5.4%), South Asia (4.7%) and NAFTA (3.5%). (See Fig. 1.16)

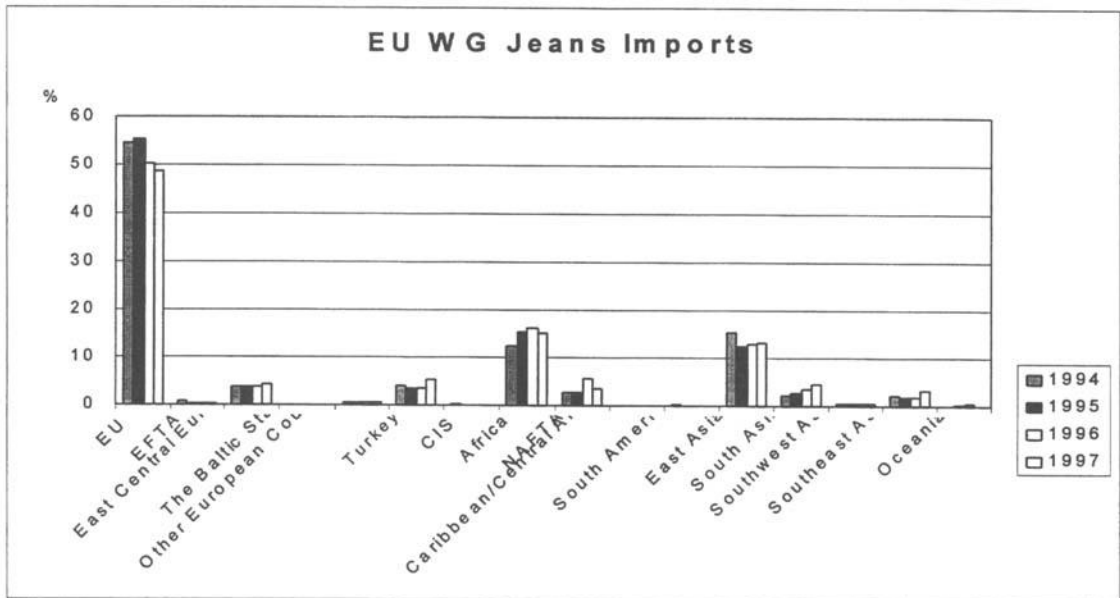
1.14 EU denim fabric export pattern



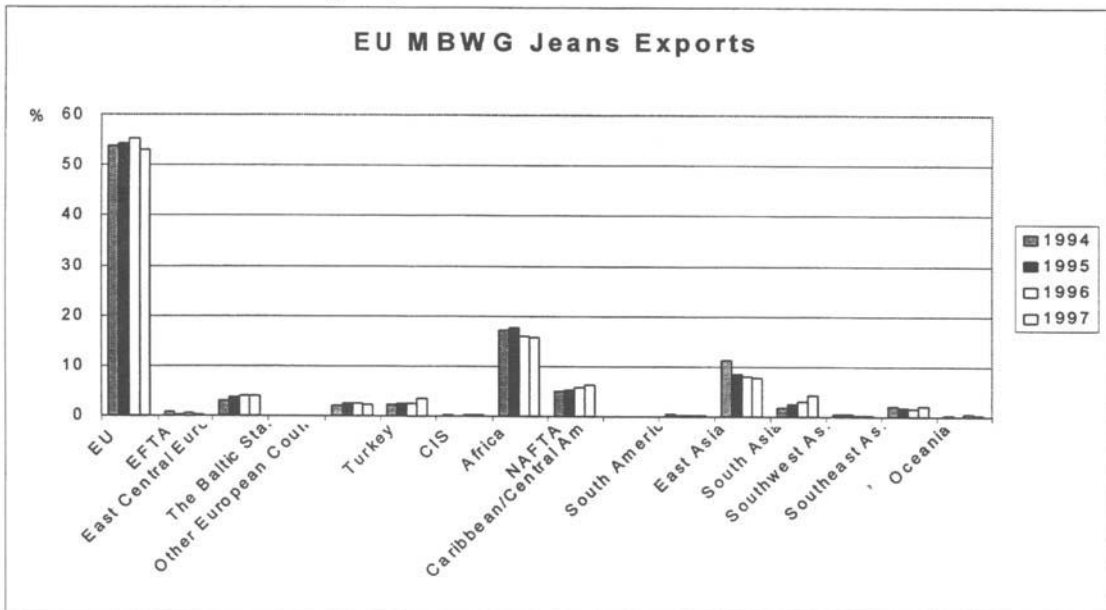
1.15 EU MB jeans import pattern



1.16 EU WG jeans import pattern



1.17 US MBWG jeans import pattern



- **MBWG jeans**

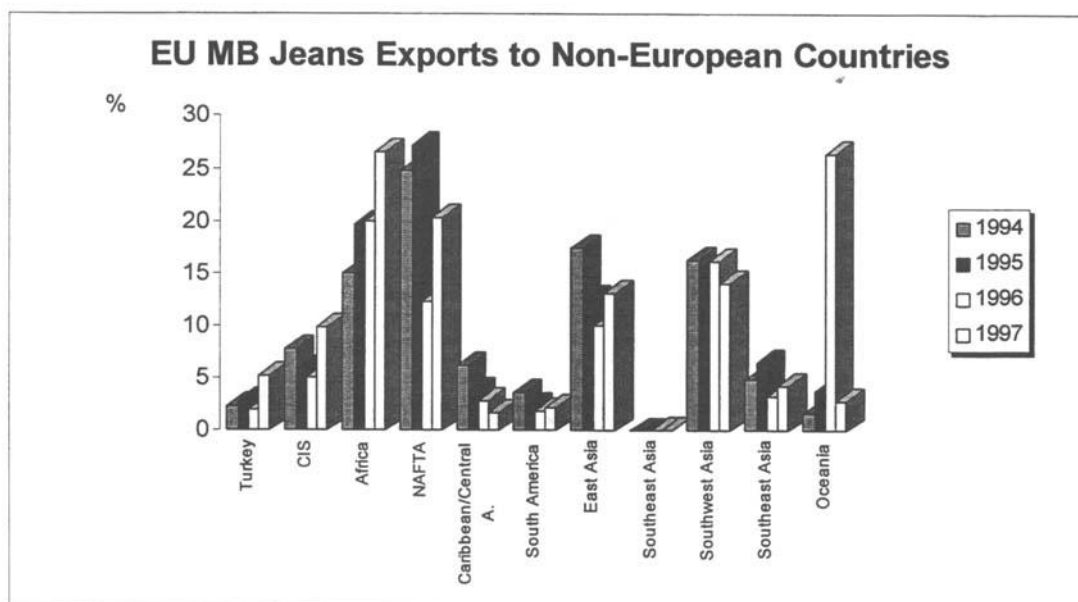
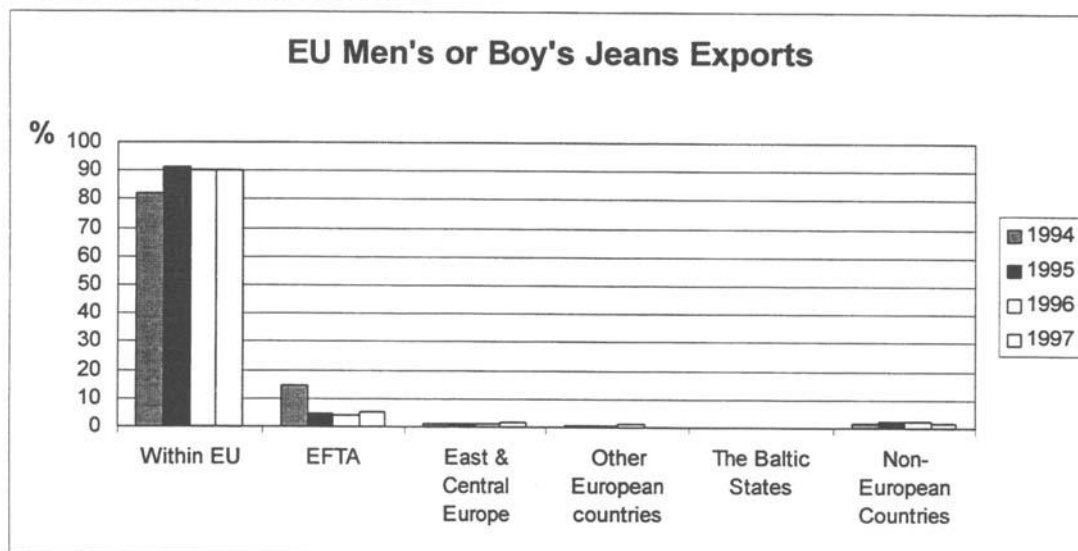
More than half of EU jeans imports were generated within the EU itself. CEEC and Turkey were another two important sources. Though Africa and East Asia's share dropped during the investigating period, they still held a relatively significant position with 15.8% and 7.8% respectively. NAFTA, especially the US, increased its contribution to 6.2% in 1997. Exports from South Asia also enjoyed rapid growth, from 1.6% in 1994 to 4.1% in 1997. About 59.3% of EU jeans imports were sourced from the European continent and another 30.1% from Africa and Asia. (See Fig. 1.17)

A. **Jeans export pattern**

- **MB jeans**

The EU jeans export pattern is completely different from its import pattern as

1.18 EU MB jeans export pattern

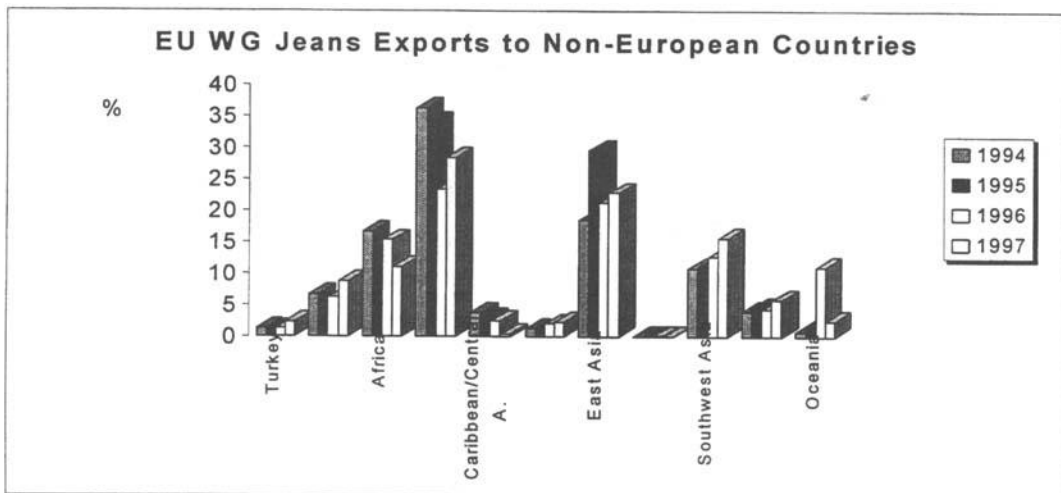
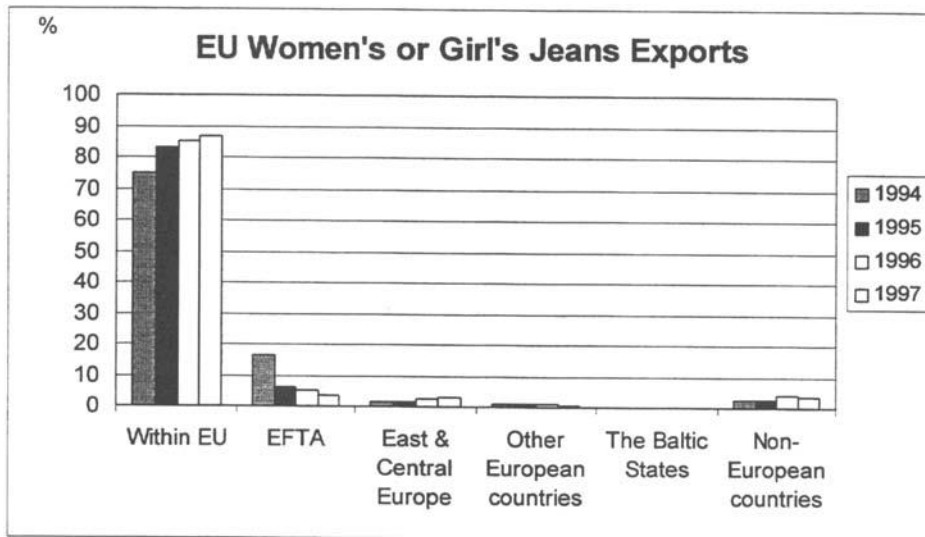


evidenced in Fig 1.18. EU members consumed around nine-tenths of the total EU MB jeans exports in 1997. The entry of Austria, Finland and Sweden into the EU in 1995 remarkably increased the EU's share from 81.9% in 1994 to 91.3% in 1995. EFTA was another important MB jeans consumption region, accounting for 5.2% in 1997. Together with CEEC and other European countries, about 97.3% of EU MB jeans exports were concentrated upon the European continent. As regards those to non-European regions, Africa absorbed 0.7%, followed by NAFTA (0.6%), Southwest Asia (0.4%) and East Asia (0.4%).

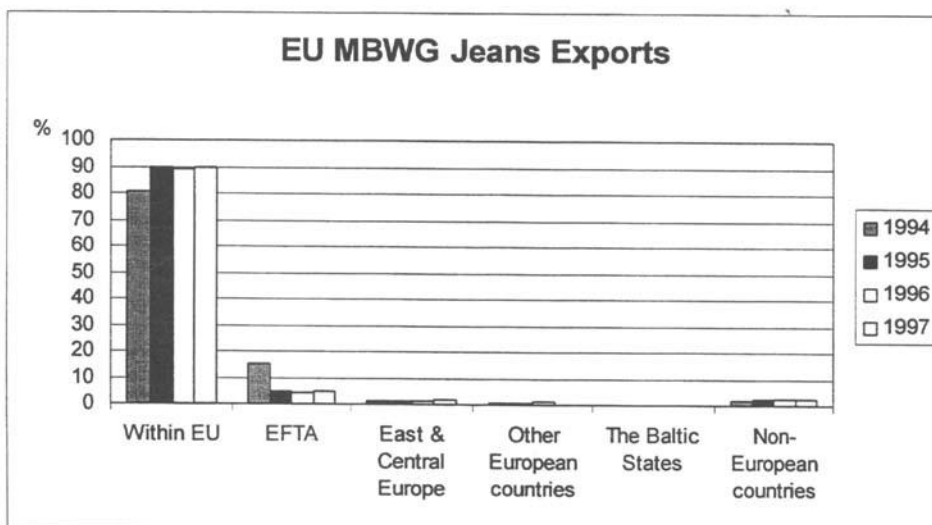
- **WG jeans**

The EU WG jeans export pattern is similar to its MB export pattern with some small differences (Fig 1.19). About 86.8% of EU WG jeans exports were absorbed by EU members themselves. EFTA and CEEC imported 3.6% and 3.0% respectively. Therefore, the European continent totally consumed 94.1% of total EU WG exports.

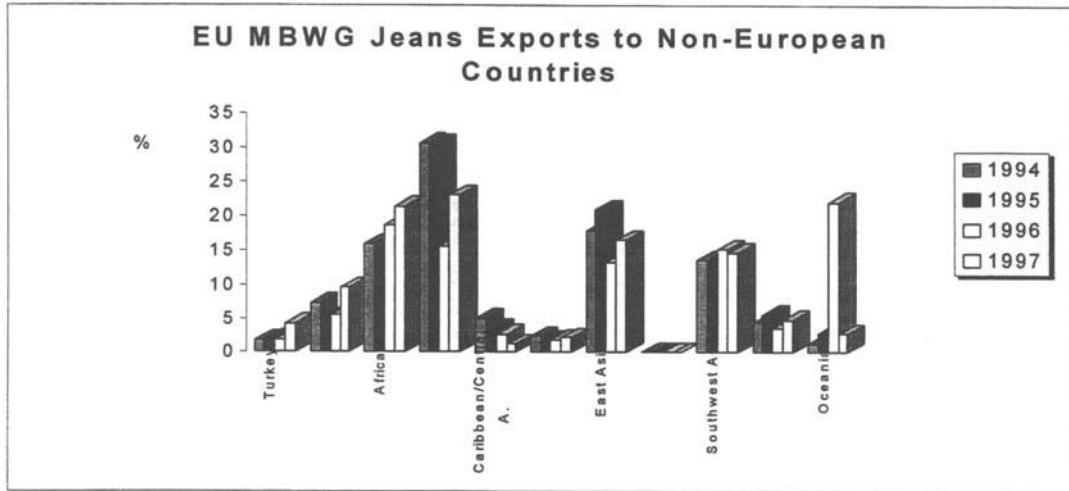
1.19 EU WG jeans export pattern



1.20 EU MBWG jeans export pattern



1.20 cont.



NAFTA was the largest non-European importer with 1.7% of the market share, followed by East Asia (1.3%), Southwest Asia (0.9%) and Africa (0.7%).

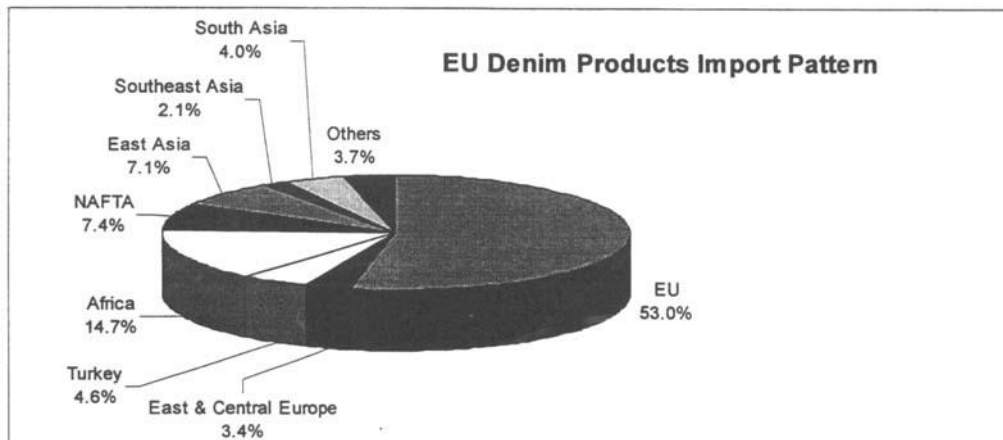
- **MBWG jeans**

EU jeans exports were mainly focused upon the EU itself. Non-EU markets only accounted for about one-tenth of total EU exports. EFTA and CEEC were the top two non-EU importers with 4.9% and 1.8% respectively. Asian importers together took 1.2% with East Asia 0.6% and Southwest Asia 0.5%. NAFTA and Africa held 0.8% and 0.7% respectively. Other regions' shares were negligible. (See Fig. 1.20)

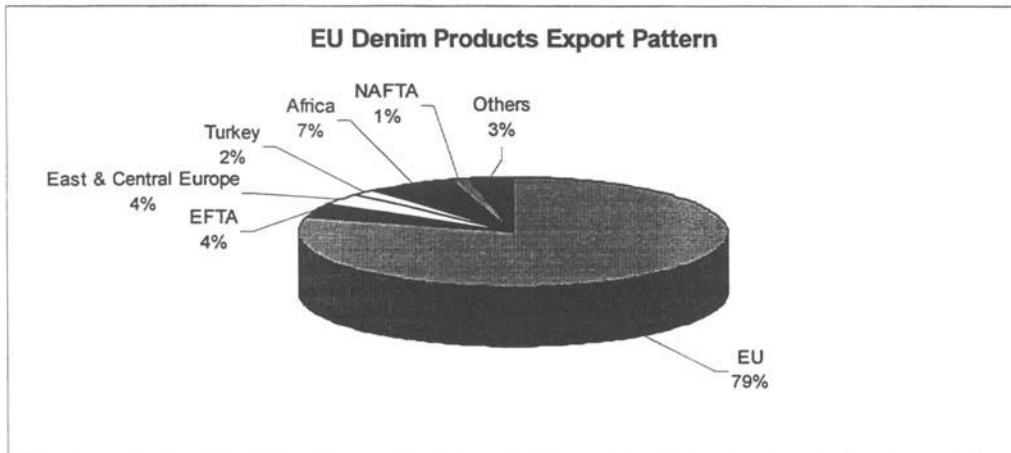
B. Summary

EU members were both the largest suppliers and importers of EU denim product imports and exports, accounting for 53.0% and 79.4% respectively. Turkey has played a more and more important role in recent years, especially as a supplier with a 4.6% market share. Based upon geographic proximity and preferential access to the EU market, Africa is of much significance in supplying denim products to the EU, providing 14.7% of total EU denim product imports. US, as the home of denim and jeans, was another important EU trading partner. Asian countries, backed by their comparative advantages in labor-intensive sectors, are a traditional sourcing base for the EU, and provided 13.6% of EU total denim product imports.

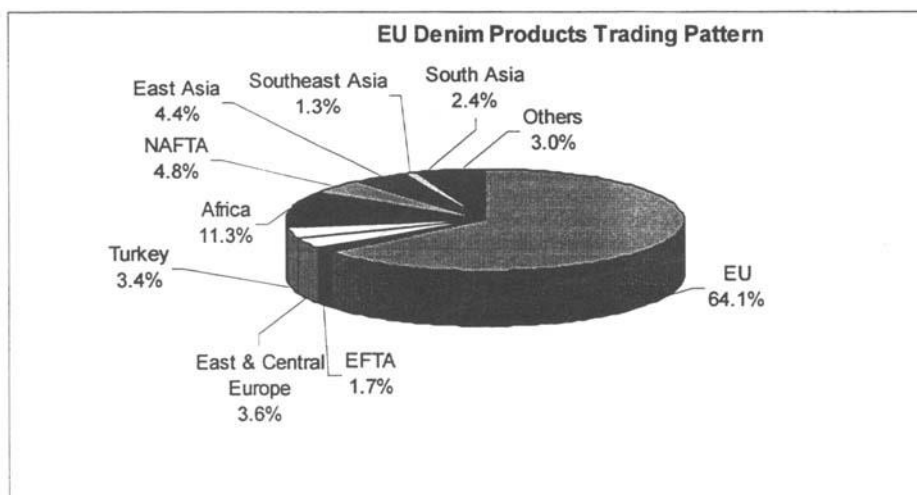
1.21 EU denim product import pattern



1.22 EU denim product export pattern



1.23 EU overall denim product trading pattern



1.3.3 East Asia denim trading

After the US and the EU, Japan is the third largest denim consumer in the world and its denim-related industry is well known for the persistent pursuit of technological innovation and product development. HK, due to its unique geographic location and free port characteristics, is a world famous sourcing center and entrepot port for fashion items. The Chinese mainland is a newly emerged player in the denim world since the mid-1980s. Its traditional comparative advantages in labor-intensive sectors enabled it to develop the denim industry at a fast pace. HK's return to China in 1997 marked a new are of cooperation between the two sides. Since these three are all located in East Asia and have strength in different aspects, import and export trade among the three is very active, along with North/South Korea, Taiwan and Macao. The following analysis is centered on HK because it has a complete set of denim trading data. One point should be mentioned first, that is, there is no free trade area or regional integration in East Asia as there is in North America or Europe. Therefore, active trade links in this region, especially concerning textile and apparel items, cannot be explained with preferential access arrangements.

1.3.3.1 HK denim trading patterns

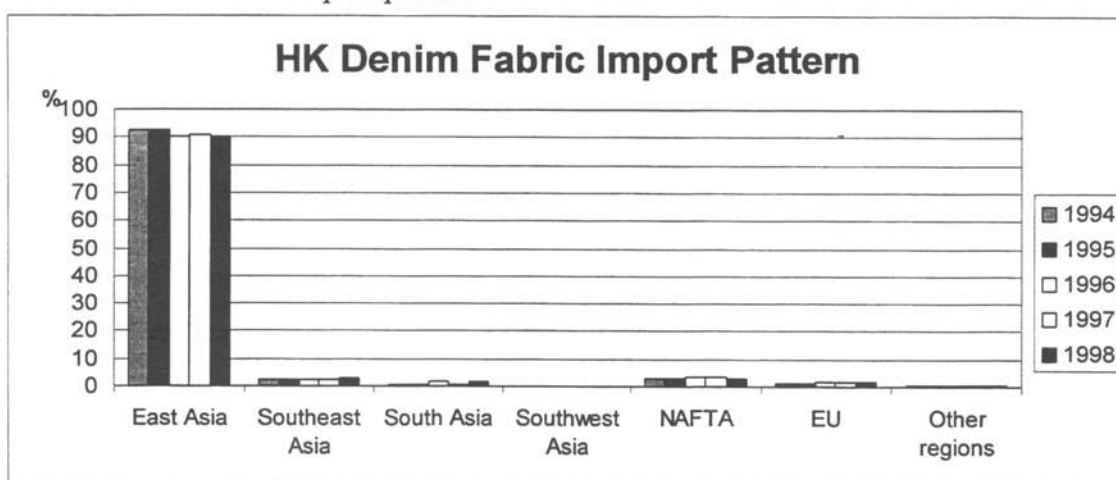
A. Denim fabric import pattern

As is evident from Fig 1.24, East Asia was the dominant denim fabric supplier to HK, accounting for more than nine-tenths of total HK denim fabric imports in 1998. Southeast Asia was the second most important region, holding another 2.8%. If the four Asian regions are taken as a whole, Asia totally contributed about 94.9%. NAFTA and the EU squeezed only 2.7% and 1.5% respectively.

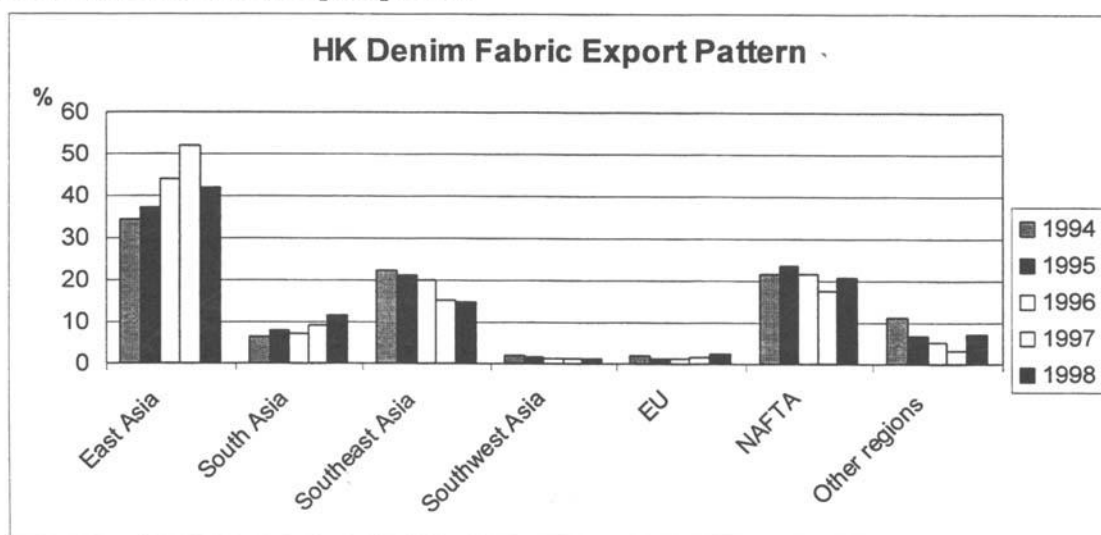
B. Denim fabric export pattern¹⁷

Though HK denim fabric exports were not as concentrated as its imports, Asian countries still absorbed 69.6% of the market share, with East Asia taking 42.1%, Southeast Asia 14.7%, South Asia 11.5% and Southwest Asia 1.3%. NAFTA was a significant destination for over one-fifth of HK denim fabric exports. EU held about another 2.5%. (See Fig. 1.25)

1.24 HK denim fabric import pattern

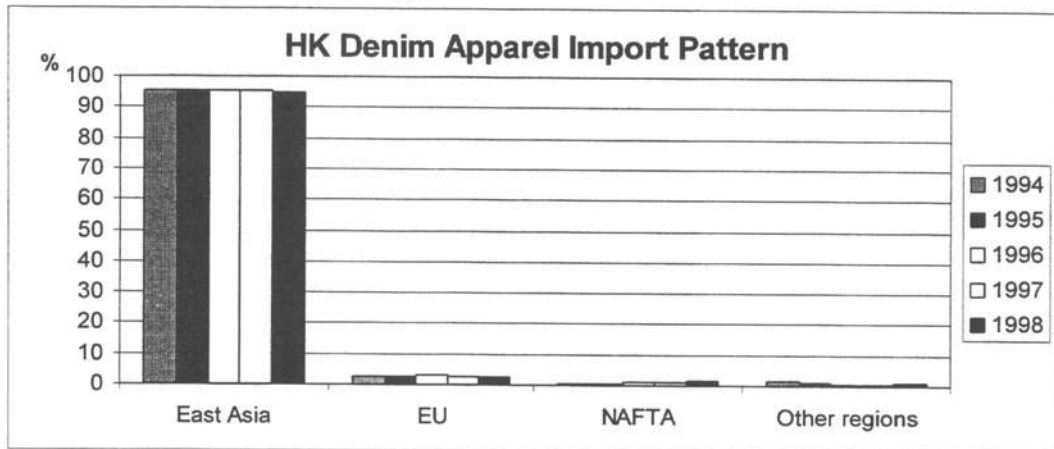


1.25 HK denim fabric export pattern

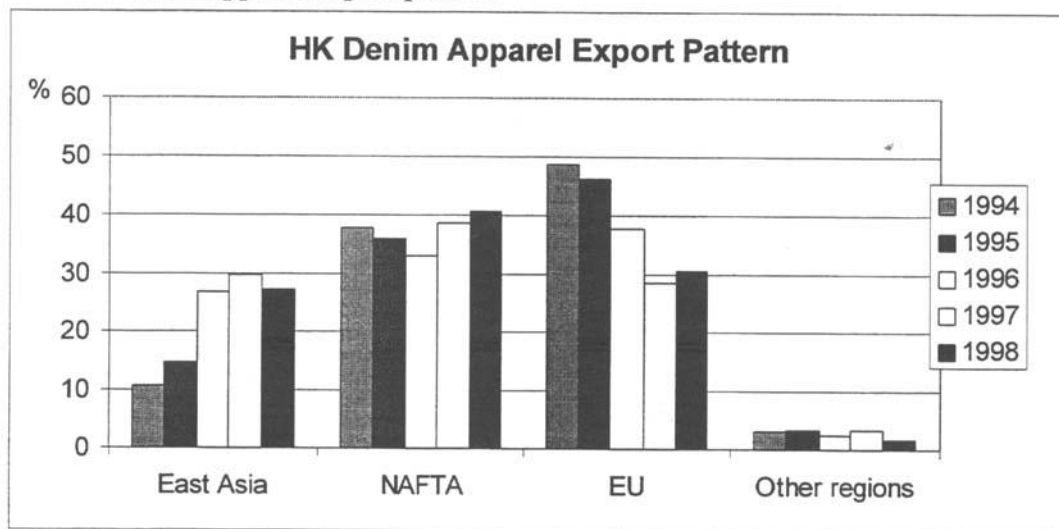


¹⁷ HK denim fabric and apparel exports refer to domestic exports only.

1.26 HK denim apparel import pattern



1.27 HK denim apparel export pattern



C. Denim apparel import pattern

HK denim apparel imports were highly centered upon East Asia, especially on China whose contribution alone was 94.5% of HK total denim apparel imports. In this sense, it can be said that China is the single denim apparel supplier of overwhelming importance to HK. EU and NAFTA accounted for 2.6% and 1.4% respectively. (See Fig. 1.26)

D. Denim apparel export pattern

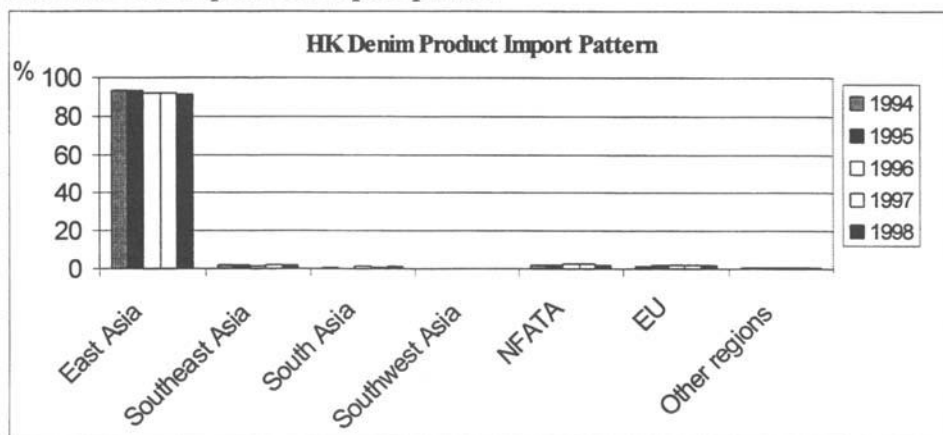
As regards HK denim apparel exports, East Asia was no longer the key player though its share jumped from 10.8% in 1994 to 27.2% in 1998. The EU was once the largest importer with 48.2% of HK total denim apparel exports in 1994. However, its share slumped rapidly to 30.5% in 1998. The ratio of NAFTA imports from HK was relatively stable, and was 40.5% in 1998, the No.1 export destination for HK denim apparel. (See Fig. 1.27)

E. Summary

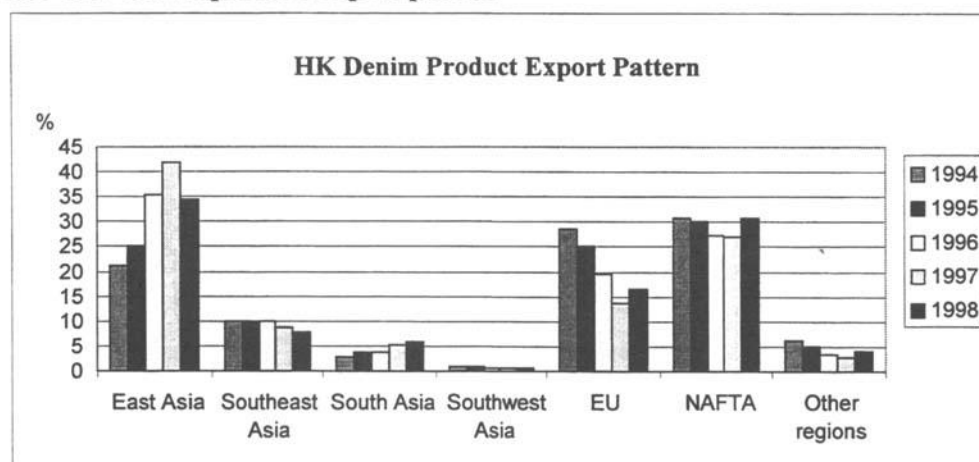
HK denim product imports were concentrated upon East Asia which had a more than nine-tenths market share. Together with other Asian regions, Asia was responsible for more than 95% of HK total denim product imports. NAFTA and EU, though still small suppliers to the HK market, increased their shares during the five-year period with 2.3% and 1.9% respectively. (See Fig. 1.28) The HK denim product

export pattern was different. Though East Asia replaced NAFTA as the largest importer in 1996, its share was far less dominant than its export contribution. NAFTA was a very important market, accounting for 30.7% of HK total denim product exports. The EU's share was continuously down from 28.5% in 1994 to 16.5% in 1998. Southeast and South Asia absorbed 7.6% and 5.8% respectively. (See Fig. 1.29) All in all, though there isn't any form of FTA or special preferential arrangement among East Asia nations, HK denim product trading still focus as upon this region. NAFTA and EU were another two important partners. More than 83% of HK denim product trade was conducted within Asia, a percentage higher than NAFTA and EU's intra-regional denim product trade.

1.28 HK denim product import pattern



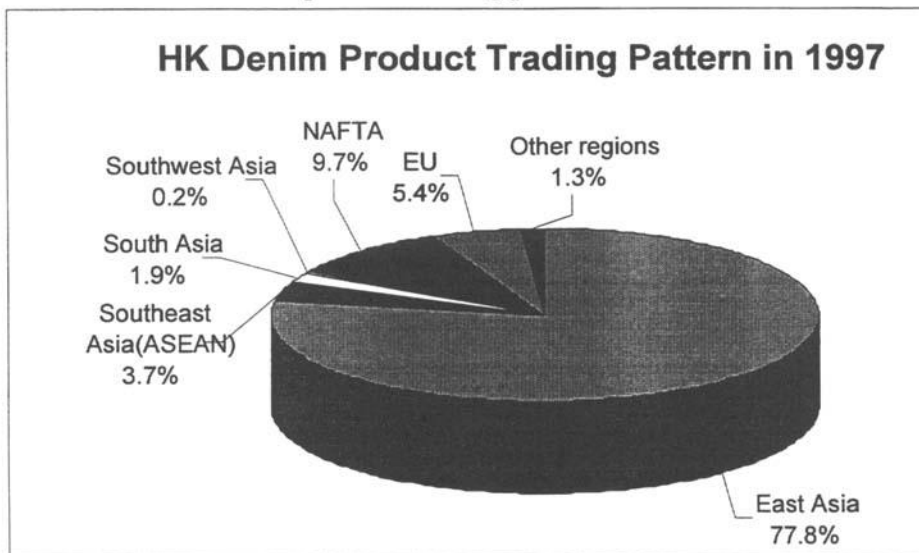
1.29 HK denim product export pattern



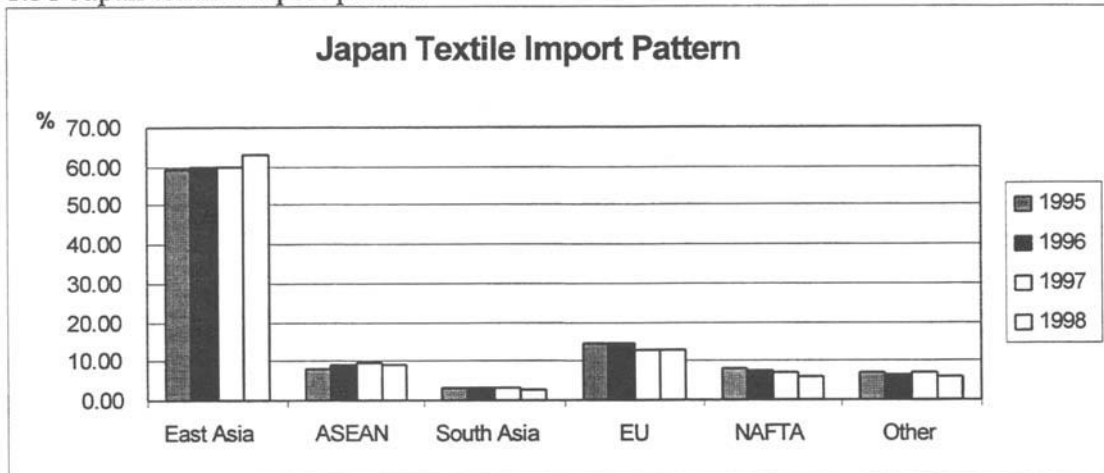
1.3.3.2 Japanese textile trading patterns

Since Japan denim product trade data is not available, a brief analysis of its overall textile trading pattern may be useful to get a partial picture of its denim trade. East Asia was the largest textile exporter with 63.1% of Japan total textile imports, followed by EU (13.0%), ASEAN (8.8%) and NAFTA (6.1%). The top four import regions for Japan textile exports were East Asia (47.3%), ASEAN (12.1%), EU (11.7%) and NAFTA (9.74%). (See Figures 1.31 and 1.32) Therefore, East Asia was both the largest supplier and importer for Japanese textile products. China held a

1.30 HK overall denim product trading pattern in 1997



1.31 Japan textile import pattern



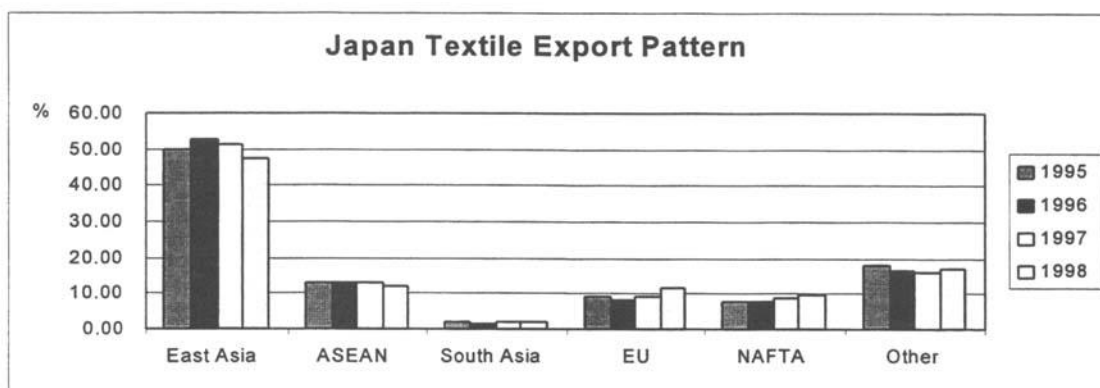
(Source: [36])

dominant position in Japan's textile and apparel trade. In 1997, apparel imports from China accounted for 63.7% of Japan total apparel imports, followed by Italy (8.0%), South Korea (5.1%) and the US (4.5%) [35]. The data are summarized in Figs 1.31 and 1.32.

Figure 1.33 lists the most important importers for Japan denim exports. In dividing these countries into various regions¹⁸, it is clear that the pattern coincides with Japan's textile export pattern. The top three important regions were East Asia (54.2%), ASEAN (20.9%), and EU (10.1%). The US share was less than 1%.

¹⁸ East Asia: China, HK, Macao, Taiwan, Korea; EU: UK, Belgium, Italy; Southeast Asia: Singapore, Philippines, Malaysia, Indonesia

1.32 Japan textile export pattern



(Source: [36])

1.33 Japan denim export pattern

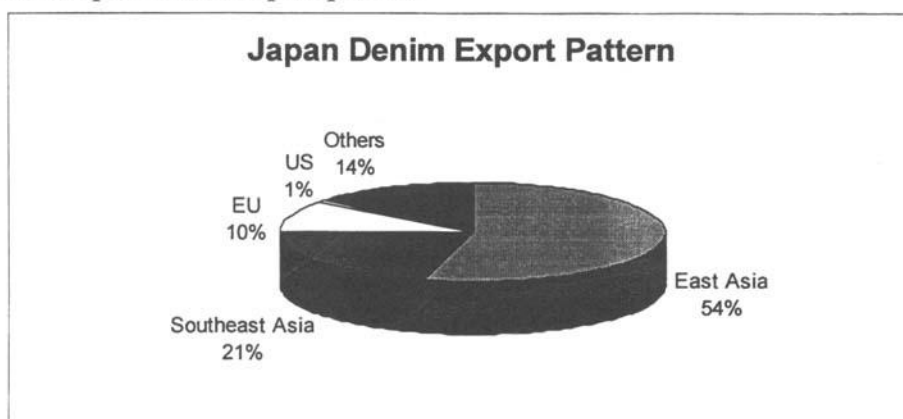


Table 1.9 US denim trade with NAFTA members and the East Asian region

US denim trade with its NAFTA partners and the East Asian region				
%	Denim fabric exports		Denim apparel exports	
	To NAFTA	To Asia	To NAFTA	To Asia
1993	27.2	15.0	30.3	14.9
1997	46.2	7.8	45.2	5.1
%	Denim fabric imports		Denim apparel imports	
	From NAFTA	From Asia	From NAFTA	From Asia
1996	17.6	76.8	46.5	26.4
1997	46.9	41.4	54.4	22.2

1.3.4 Major findings

1.3.4.1 Increased importance of trading blocs

As regards of the top 30 countries/regions that hold 90% of the world combined GDP, only Japan, China (including HK), Korea and Taiwan are not involved in some kind of regional integration or free trade agreement [37]. Some 90% of the WTO members are also parties to certain kinds of regional trade agreements at the same time [6, Chapter 15]. The EU and NAFTA are the two most outstanding examples of regionalism, though the former has a far more ambitious vision than the latter. Scholars have advanced numerous qualitative and quantitative explanations justifying

this phenomenon, but no consensus has yet been reached concerning its ultimate effects upon the globalization path. However, one thing is certain--regionalism is now in the trend. The emergence of regional trading blocs has had a remarkable influence upon the countries both inside and outside the blocs.

An analysis of the US denim trade data clearly indicates the fast rising intra-regional trade volume with the formation of NAFTA in 1994. Table 1-9 is a comparison between US denim trade with NAFTA partners and that with the Asian region. The trade diversion effects are very obvious for both denim fabric and apparel imports and exports. The NAFTA's share expanded at the expense of Asian suppliers and importers. US denim fabric importation is a concrete example. In just one year's time, imports from NAFTA members increased by 29.3 percentage points while those from Asia shrank by 35.4 percentage points. The very strict "yarn forward" rules of origin concerning textile and apparel trade greatly and effectively keep non-NAFTA originating goods out of the NAFTA door.

Denim trade within the EU covers more than a half of the EU total denim trading volume. At the same time, it is interesting to note that EU denim trade within the EU itself actually took a downward trend between 1994 and 1997 except for jeans exports whose increase is attributed to the entry of three former EFTA members. However, it cannot be concluded that all of the non-EU members have gained benefits from this trend. In fact, the drop of intra-EU trade is mainly due to the EU's expanded preferential arrangements with its neighboring nations such as CEEC and Turkey, which enjoyed the most rapid growth due to tariff removal or concession as well as quota elimination (Table 1.10). Though there are various voices concerning the concept of "an enlarged EU", there are signs indicating the possible emergence of a closely connected and integrated Greater Europe in the future. There are 12 countries applying for EU membership, among which 10 are CEE countries and the other two are Turkey and Cyprus. Six countries have undergone the first screening, including Poland, the Czech Republic, Hungary, Slovenia, Estonia and Cyprus [38].¹⁹ In this sense, the trading bloc concept in the European continent is no longer confined to the EU alone. It has been expanded to cover more countries with a more blurred national geographic boundary.

1.3.4.2 Importance of geographic proximity

As mentioned earlier, the denim trade pattern of HK and Japan cannot be explained by "regionalism", because there is no special preferential arrangement among East Asian nations and regions. However, the intra-East Asian denim trade is very intensified, particularly concerning denim product imports. The underlying reason is the geographic proximity which plays a more and more important role in today's quick response climate. The different economic development stages in this region also help to explain the active trading relationship in the region. HK's return to the Chinese mainland in 1997 further enhanced the bilateral trade flow between the two sides. Of course, such close cooperation far exceeds the "geographic proximity" argument.

Another example is afforded by the EU denim fabric and jeans imports from Africa for another example. In 1997, jeans imports from Africa accounted for 15.8%, among which Morocco and Tunisia contributed 77.7%. Denim fabric imports from the two countries were even more significant, accounting for 97.0% of EU total imports

¹⁹ The other five CEE countries are Romania, Slovakia, Latvia, Lithuania and Bulgaria

Table 1.10 EU denim trade with EU members, CEEC and Turkey in 1994 and 1997

EU denim trade within EU, with CEEC and Turkey				
Denim fabric exports				
%	To EU	To EFTA	To CEEC	To Turkey
1994	57.0	1.4	7.7	1.2
1997	46.8	0.2	10.3	6.6
Jeans exports				
%	To EU	To EFTA	To CEEC	To Turkey
1994	80.4	14.9	1.2	0.1
1997	89.6	4.9	1.8	0.1
Denim fabric imports				
%	From EU	From EFTA	From CEEC	From Turkey
1994	55.7	5.7	0.3	8.2
1997	53.4	0.5	0.4	11.4
Jeans imports				
%	From EU	From EFTA	From CEEC	From Turkey
1994	53.7	0.7	3.1	2.2
1997	52.9	0.1	3.9	3.5

from Africa. Their geographic proximity to the EU may render a strong explanation for their good performance.

1.3.4.3 Trade manipulation with more subtle approaches

When developing countries may have a competitive edge in some products, such as labor-intensive items, the market rules are often changed to prevent free and open competition [26]. Since textile and apparel industries in developed nations have faced more serious challenges from their counterparts in developing countries during recent years, they turn to various policy instruments to manipulate trade. High import tariffs and quota imposition are the two traditional methods which have become less effective in the new trading environment. New approaches have been adopted, featuring subtle and clear policy orientations.

The US provides a very good example here. Previous sections have listed some measures, including change of general rules of origin, specific NAFTA rules of origin, and the 807/super 807 program with Caribbean nations. Recently, the US House of Representatives passed a bill designed to expand its apparel trade with 48 African countries/regions south of the Sahara, as well as the 25 Caribbean countries/regions. Though this measure, together with those mentioned above, seems to help these LDCs promote economic development, the underlining argument is possibly the obvious and direct benefits to the US textile manufacturers. For example, denim fabrics exports from the US to CBI members jumped from US\$ 7.8 million in 1993 to US\$ 16.8 million in 1997. Therefore, these specific trade policies give a development space for domestic textile mills. The largest losers are those low-cost suppliers in other regions such as China, rather than domestic apparel producers, because it just involves with re-distribution of import channels. With the complete quota abolition in 2005, it can be expected that world textile and apparel trade will be subject to more carefully designed trade policies in individual countries.

1.3.4.4 International labor divisions in denim-related products manufacturing

A. World trends in textile and apparel trade

- *Apparel trade*

Because of the labor-intensive nature of this sector, the developing countries are the

major players in the world apparel export market. In 1997, the top ten apparel importers were all developed countries, except for HK. Though there were still five developed countries among the top ten apparel exporters, their share only accounted for 23.4% of the world apparel export volume, while that of China alone was 18.0%.

- *Textile trade*

Compared with the apparel sector, the textile sector is now capital- and technology-intensive rather than labor-intensive. Because of the high labor cost and failure to compete with low-priced products from the developing countries, manufacturers in developed countries are focusing upon high value-added aspects, such as the development of new chemical fabrics and new fashion designs, to gain new competitive edges. The textile industry in the developed countries is highly automatic in spinning, weaving, dyeing and finishing. Based on strong R&D capabilities and well-equipped facilities, the developed countries have further widened the technological gap with the developing countries. In 1997, there were six developed countries among the top ten leading textile exporters, accounting for 36.2% of the total world textile exports.

- Factors contributing to the international labor division in apparel/textile production as well as in the different links of the value chain

First, geographic relocation. The developed countries as well as the newly industrialized nations have moved their assembly and production bases to the less developed countries to take advantage of the low-cost labor and abundant resources. Examples include US apparel plants shifted to Mexico, EU to Turkey, Japan to China and Southeast Asian countries, and HK to China. At the same time, most of the core activities including design, branding, product development and technical innovation are retained in the developed nations.

Second, OPT arrangement. To further maximize their competitive strength in high-value added activities, developed nations have intensified their efforts in outward processing trade. Fabric is made and sometimes cut in the home country and then shipped to a developing nation for assembly. The final products, usually with the home country's brand name, will be shipped back to the home country or to a third country for consumption. Such arrangements are supported by both developed and developing countries' government policy, though the aims are different. The developed countries use OPT as an effective way to boost fabric exports, as well as to lower the total production cost; while the developing nations regard it as a way to promote employment and earn foreign exchanges. According to a report by the Japan Chemical Fibers Association, nearly 80% of the apparel made in Mexico and exported to the US uses materials manufactured in the US [39]. An OPT arrangement in the EU originated in Germany. It stipulates that fabrics exported to Poland, Hungary, the Czech Republic, Romania, Slovenia, Morocco and Tunisia for processing will be free of duty when the final products are imported later. Such "well-designed" OPT arrangements, though to some extent helping to promote the development of domestic industries in developing countries, ultimately turns them into simple assembly lines for the developed nations.

Third, lack of specialized factors. Lack of specialized factors is another key reason and maybe the fundamental one. Most developing countries, though having comparative advantages in labor cost and natural resource availability, fail to acquire advanced factors such as brain reserve, design, brand building and product development and innovation. Section 2 will give a detailed explanation of the current Chinese textile and apparel industry, pointing out that lack of specialized factors significantly influences its international competitiveness and limits its future

development. It is no easy job to acquire these specialized factors because it is not equivalent to simple capital investment or global sourcing. It takes time, capital and doubled efforts to cultivate local designers, establish local brands and at last, gain strength in product development and innovation. In this aspect, such labor divisions and value-added patterns will last for a relatively long time.

B. International labor divisions in the denim product trade

The denim product trade pattern clearly reflects this world trend. For example, EU denim fabric imports from CEEC and Africa in 1997 only accounted for 0.4% and 7.9% respectively but exports to the two regions were 10.3% and 25.8%. About 15.8% of EU denim apparel imports were from Africa but only 0.7% of exports went to this region. There were no denim fabric imports from the Caribbean region to the US in 1997 but the region supplied 14.8% of US total denim apparel imports. US denim apparel imports from the EU had a negligible share of 0.6% but the EU absorbed 18.9% of US total denim apparel exports.

Table 1.11 shows the top 10 suppliers/importers of the US denim product trade in 1997. While the ratio of developing to developed nations is 5:5 in the first column, that in the second column is 9:1, indicating that developing nations hold a dominant position in denim apparel supply to the US. In Columns 3 and 4, the ratio in both is 7:3. However, it should be noted that five of the seven developing nations/regions in Column 3 are close to the US market while in Column 4, only Mexico and Brazil are in the America and the remaining five nations/regions are all in the Asia. This comparison reflects the fact that US denim fabric exports are more concentrated upon the American Continent, and that most of the developing nations in the Caribbean and South American region mainly engage in denim apparel manufacturing.

Table 1.12 provides another strong argument for current fabric/apparel division patterns. As regards HK denim product exports²⁰ to the Chinese mainland from 1992 to 1998, more than 90% were denim fabrics. By sharp contrast, over 95% of HK denim product exports to Japan were denim apparel. As for HK denim product imports²¹ from the Chinese mainland, less than a half were denim fabrics while 99% of denim products from Japan were made up of denim fabrics.

In addition to this labor division pattern, developing and developed nations also engage in different value-added activities. Figures 1-33 and 1-34 show the different unit prices for US denim fabric and apparel imports. Generally speaking, imports from developed nations such as Italy, France and Japan were priced at a higher level than those from developing countries such as India and Mexico. The price gap indicates that developing nations are still providing to low-/middle-range denim products while those from developed nations mainly serve the upmarket.

1.3.4.5 Emergence of more denim manufacturers in developing countries

Since the middle 1980s, more developing countries have entered the world denim market. China and India are the two newly emerged denim giants. The latter has a capacity of nearly 250 million meters [40]. In 1997, India was the third largest denim fabric supplier to the US market while China was its No. 9 denim apparel supplier. While there were no denim fabric imports from Brazil and Tunisia in 1995 and 1996, they began to export to the US in 1997 with US\$ 175 thousand and US\$ 4 thousand respectively. Cambodia began to export denim apparel to the US in 1997 with US\$ 10.2 million. Other new entrants include British Virgin Islands, Venezuela, the Czech

²⁰ Exports here include domestic exports and re-exports by market

²¹ Imports here include normal imports and re-exports by origin

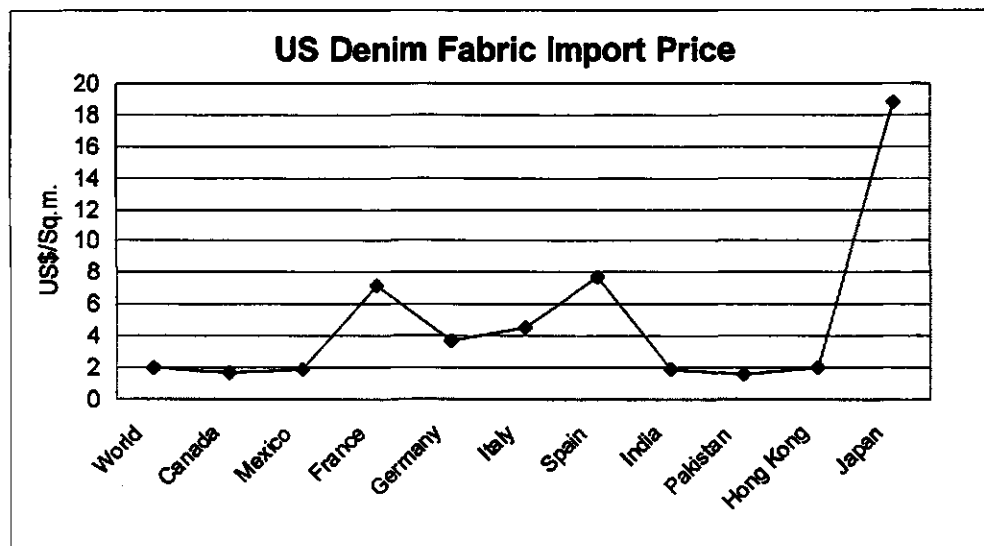
Table 1.11 Top 10 US denim trading partners and its share

US Denim Product Trade							
Apparel exports		Apparel imports		Fabric exports		Fabric imports	
World	568562	World	1681097	World	287183	World	9137
Mexico	203721	Mexico	855772	Mexico	70671	Mexico	4250
Costa Rica	95208	Hong Kong	153524	Canada	62032	Hong Kong	2084
Canada	53353	Guatemala	64791	Belgium	59961	India	936
Belgium	50016	Canada	58436	UK	25511	Italy	476
Honduras	40677	Costa Rica	53578	Dominican R.	8985	Pakistan	459
France	24089	Dominican R.	37885	Philippines	7818	China (Taiwan)	295
Japan	19366	Nicaragua	37140	Colombia	5608	Australia	220
UK	17303	Colombia	37064	Hong Kong	4182	Brazil	175
Dominican R.	12138	China	36587	Honduras	3131	Germany	91
Spain	4950	Philippines	33914	Venezuela	2693	Spain	39
Top 10	520821	Top 10	1368691	Top 10	250592	Top 10	9025
%	91.6	%	81.4	%	87.3	%	98.8

Table 1.12 HK denim trade with China and Japan (1% of total trade)

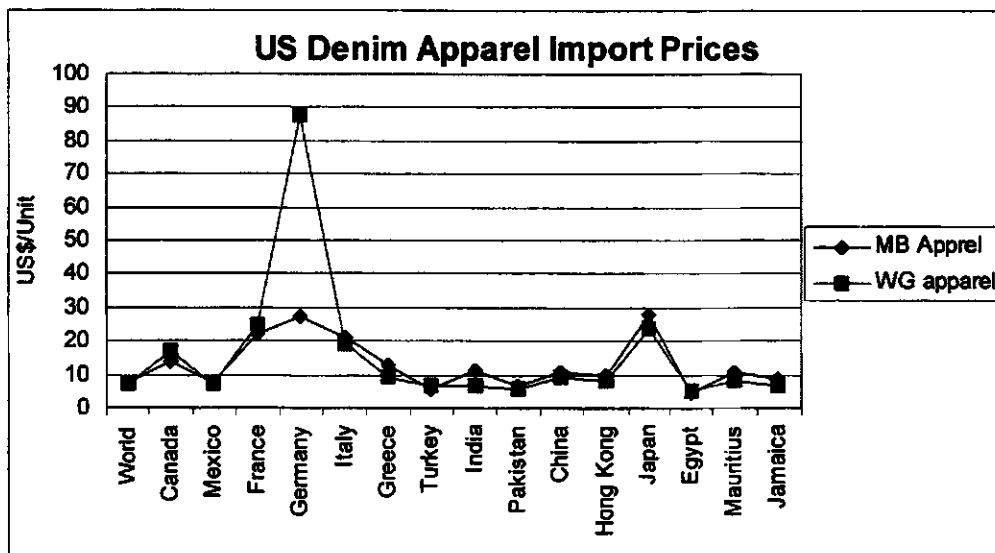
Denim Fabric	1992	1993	1994	1995	1996	1997	1998
to China %	96.71	94.90	93.28	94.28	93.92	94.39	91.02
to Japan %	1.95	0.40	1.20	1.17	1.31	3.82	4.48
from China %	34.13	34.79	39.64	48.06	43.46	45.67	47.64
from Japan %	97.12	96.57	98.50	99.25	99.41	99.01	99.33

1.33 US denim fabric import price



Republic, Slovenia, Romania, Saudi Arabia, and Botswana. New faces in the EU jeans import market include Bosnia Herzegovina, Serbia, Mauritania, Mali, Cameroon, and Trinidad and Tobago, which didn't start exports until 1996 or 1997. As regards denim fabric imports from the non-EU countries, there were 14 new suppliers, among which Pakistan enjoyed the quickest growth from zero in 1994 to 2.6 million Euro in 1997. The rest were Bulgaria, Albania, Estonia, Lithuania, Tadjikistan, Peru, Pakistan, Maldives, Malaysia, Sri Lanka, Bahrain, Qatar, Sierra Leone, and Madagascar, most of which are located in Europe or Asia.

1.34 US denim MB and WG denim apparel import prices



All of these new entrants hope to gain a share in the world market, greatly intensifying the already sharp competition in the commodity category where supply has far exceeded demand. The old and new players will fight hard to squeeze less and less profits in the low-end markets.

1.3.4.6 Key factors determining a nation's denim trade pattern

Based on all the above points and supported by the trade data in the US, EU and HK markets, several key factors can be identified in determining a nation's denim trade pattern.

A. Factors determining denim product exports

$$P_E = F(C, G, A, D, E)$$

P_E : Denim export pattern

C: Comparative and competitive advantages

G: Government policy

A: Multilateral/bilateral arrangements with other nations such as the MFA and preferential trade arrangements (PTA)

D: World market demand

E: Entry time

- Comparative and competitive advantages

There are various trade theories explaining the driving forces for a nation to engage in foreign trade (Appleyard & Field, Jr., 1998). The most classic one is the "comparative advantage" theory suggesting that nations can improve economic welfare when they employ resources to engage in activities with highest value. The Heckscher-Ohlin trade model points out that a nation's comparative advantages are determined by its factor endowments and each country will export their goods using the abundant factors most intensively. Porter further advances that a nation's international competitiveness is based on the capacity of its industry to innovate and upgrade rather than an inherited natural endowments [41].

The underlying reason for most developing countries to chose the textile and apparel sector as the engine for economic development and industrialization is their comparative advantages in basic factors such as land and labor. Less capital and technological requirements make entry easier at the same time. The industrial

restructuring process in developed nations downsized the traditionally strong textile and apparel sector and gave a space for these new entrants to play in. The traditional textile and apparel manufacturers such as the US, Japan, France, Italy and Germany, when progressively reducing employment and relocating low-value added links to other nations, focus upon the upmarket with their strength in capital input, design, technical innovation and product development. Therefore, the different comparative and competitive advantages decide the current denim export pattern in individual countries.

- **Government policy**

The government's policy shift from import-substitution to export-orientation in most developing nations significantly promotes their textile and apparel exports where they have clear comparative advantages in apparel assembly and commodity goods production. Some measures may be argued to be unfair for foreign players in view of WTO-based rules, such as direct production subsidy and export credit, but such a shift does promote the export performance in these labor-intensive sectors. At the same time, governments in developed nations, in order to maintain the survival of domestic competitive textile and apparel enterprises, have tried hard to work out sector-specific policies, such as OPT arrangements and the imposition of high import tariffs.

- **Multilateral/bilateral arrangements with other nations such as the MFA and preferential trade arrangements (PTA)**

MFA (ATC) and PTA are actually the result of government trade policies, but they are far more influential power, as they have already gone beyond national boundaries. These "artificial" arrangements mean that world trade is carried out in a very strictly managed manner, greatly affecting the direction of trade flows. Exporters in a nation subject to the MFA have to acquire quotas first, an issue sometimes out of their control and having little to do with competitiveness. And even if they get the quota, they have to limit the export volume within the quota level and fail to realize economies of scale. An outsider of a particular PTA may find it hard to compete with insiders, especially if his/her products are similar to those of the insiders'. The loss of market share of China to Mexico is the best example of this.

- **World market demand**

Since the US, EU and Japan are the three largest denim consumers in the world, their domestic demand is very important for other countries' export performance. The economy in the US has developed healthily for a long time and as a result, demand for fashion items is strong. From 1995 to 1997, denim apparel imports into the US increased by 30.9%. On the contrary, the Japanese economy is sluggish after the collapse of the bubble economy. Its denim apparel import from the US dropped by 59.0% from 1993 to 1997 and those from HK slumped by 75.5% from 1992 to 1998.

- **Entry time**

Early movers enjoy special advantages such as the learning curve, a relatively larger market share and consumers' brand loyalty. The US is the home of "denim and jeans". It started denim manufacturing much earlier than other players. The well-established "Levi's" brand can be partly attributed to its earliest move in the denim world. After so many years' efforts, "Levi's" enjoys very high brand loyalty and brand awareness, to the extent that it is now denim's synonym. With the hotter market competition, it is much more difficult to achieve the same success as Levi's did 100 years ago when there were only a few players in the market and when consumers were not so demanding and sophisticated.

B. Factors determining a nation's denim import pattern²²

$$P_I = F(I, SC, SD, A, C, E, M)$$

P_I : Denim apparel import pattern

I: Income

SC: Social and cultural context

SD: Domestic supply and demand situation

A: Availability of other causal items

C: Climate

E: Exchange rate

M: Market access

- Income

Denim apparel is less perceived as work wear than fashion items nowadays. Therefore, income per capita is a key variable in the above formula.

Table 1.13 shows the top 10 denim apparel (jeans) importers from the EU, US and HK in 1997. It is not surprising to see that nations with income per capita over US\$ 25,870²³ dominate the scene. As regards EU exports, the top 10 are all EU members in the high-income category, accounting for 83.5% of EU total jeans exports. Among the top 20 importers, 18 are of high income per capita. The US export markets are a little different, with 13 of the 20 importers in the high-income group. Of the top 20 export destinations for HK denim apparel, 17 are high-income nations or regions. South Korea, Taiwan and Japan suffered economic setback in 1998. Their GDP per capita dropped from US\$ 10590, US\$ 13130, US\$34534 in 1997 to US\$ 6800, US\$ 12009, and US\$ 34092 respectively in 1998 [43]. As a result, their denim apparel imports from HK in 1998 were only 7.3%, 68.2% and 36.4% of the 1997 level. China is a developing country of low income per capita. But it is the second largest export market for HK denim apparel with an average annual growth rate of 50.6%. This can

Table 1.13²⁴ Top 10 denim apparel importers from the EU, US and HK in 1997

Top 10 Denim Apparel (Jeans) Importers from the EU, US and HK			
Ranking	EU jeans exports	US denim apparel exports	HK denim apparel exports
1	<i>Germany</i>	Mexico	USA
2	<i>France</i>	Costa Rica	China
3	<i>Netherlands</i>	Canada	<i>Germany</i>
4	<i>UK</i>	<i>Belgium</i>	<i>UK</i>
5	<i>Belg.-Luxbg</i>	Honduras	<i>South Korea</i>
6	<i>Italy</i>	<i>France</i>	<i>Canada</i>
7	<i>Austria</i>	<i>Japan</i>	<i>Netherlands</i>
8	<i>Ireland</i>	<i>United Kingdom</i>	<i>Italy</i>
9	<i>Spain</i>	Dominican R.	<i>Sweden</i>
10	<i>Sweden</i>	<i>Spain</i>	Venezuela
Top 10	83.5 %	91.6 %	94.0 %
Top 20	95.8 %	97.4 %	98.6 %

²² This part will focus upon denim apparel.

²³

²⁴ Italic countries are in the high-income group with income per capita over \$25870. Bold countries are in the low-income group with income per capita below \$490. Countries with single underline are in the upper-middle income group with income per capita between \$1740-4600 and others are in the lower-middle income group with income per capita between \$490-1740. This division is based on the World Bank standards 42. Sarathy, V.T.R., *International marketing*. Eighth Edition?ed.2000?The Dryden Press, Harcourt College Publishers.72-73..

be partly attributed to its rapid economic development which has significantly increased the income per capita, especially in the urban areas.

Though income is in direct proportion to denim import volume, it is not the only variable affecting denim apparel imports. Other factors play a role as well. These include:

- **Cultural and social context**

Thanks to great technological breakthroughs, the world is now becoming more integrated with blurred geographic boundaries. However, the different cultural and social contexts remain unique to individual nations, cultivating various tastes and preferences towards fashion items which are prone to the traditions, customs and value concept.

Denim apparel, such as jeans, has strong image implications. It is often associated with the pursuit of freedom, individuality and anti-establishment, the spirit championed by Americans for so many years. But this is not well accepted in some countries (such as most Arab-countries) whose cultural and social context is very different from that in the US. Therefore, denim apparel is not and will not be preferred in the near future in these nations. For example, Kuwait belongs to the high-income group. However, its denim apparel imports from the EU, US and HK were very small, only ranking the 59th, 53rd and 35th respectively.

At the same time, as the only super power in the world nowadays, the American influence is very strong in many aspects. Its economic penetration into foreign markets by large MNCs has brought American culture to these markets as well, directly or indirectly influencing the host country's view of American-labeled products, especially among the younger generation who are quick learning and ready to absorb new ideas and concepts. There is some debate about whether young consumers are becoming more homogeneous or more differentiated in their tastes. The debate result is relatively unimportant; what really matters is the increasing internationalization trend of domestic demand patterns in some consumer goods [44]. For example, Japanese young consumers favor American apparel embodying the American life style. Denim apparel imports from the US to Japan amounted to US\$ 19.4 million in 1997, ranking the seventh in US export markets. Those from HK only reached US\$ 0.9 million²⁵ despite closer transportation distance. Therefore, cultural differences, though impossible to be eliminated completely, can be reduced with time. Current globalization trend will no doubt accelerate this process.

- **Domestic supply and demand conditions**

Domestic supply and demand conditions also influence the ultimate import volume. Domestic production capacity, local industry's internationally competitive position and foreign investment are important in determining the available quantity and quality of final products. Demand conditions are closely associated with market size, based on population and purchasing power as well as consumers' preferences over fashion items. The gap between the two is crucial to the ultimate import volume.

The US is the home of denim products. Though US denim apparel manufacturers such as Levi's, Lee and Wrangler, are world famous, they can hardly meet the demand. Therefore, each year, the US imports a lot from the outside world, especially from Mexico.

China, on the other hand, imports much less denim apparel than fabrics. Though its denim apparel consumption has increased in recent years and market potential is huge, it is still a developing country with a slow urbanization process and wide

²⁵ US\$ 1= HK\$ 7.8

regional economic gaps. When most people are still troubled to provide basic living substances, how could they be expected to spend money on something "unnecessary" such as jeans and denim skirts? On the other hand, China itself is the world largest apparel manufacturer. Though there are no world famous brands, local brands are adequate enough to satisfy most market niches. Therefore, denim apparel imports to China are small in volume, and most of them are from HK, whose price is relatively cheaper than those from the US and EU. In 1997, denim apparel from HK to China was priced at around US\$ 4.0 per unit with 12.3 million units, while those from the US were imported at US\$17.3 per unit with a mere 1560 units.

In the US, women own almost twice as many pairs of denim jeans (7.8) and other denim apparel (18.8) as women around the world [45], followed by Colombian women (6.1 pairs of jeans) and Brazilian women (17.6 denim apparel). The international survey commissioned by Cotton Council International also reached the conclusion that Latin American women are the most fervent in clothes shopping. Keeping these facts in mind, it is not surprising to see different import patterns concerning the MB and the WG denim apparel trades. As regards US denim apparel exports in 1997, 65.5% of MB denim apparel were exported to other American countries while 95.5% of WG denim apparel were concentrated on the continent. At the same time, the American countries imported 0.7% and 1.8% of EU MB and WG jeans exports respectively. Since there is no special preferential arrangement between HK and other nations and HK is close neither to the EU nor to the US market, its trade data is perhaps more relevant for analysis. In 1997, the US and Germany, of comparable economic level²⁶, were the second and third importers of HK MB and WG denim apparel. However, the former imported five times as much WG denim apparel than the latter, while the gap was narrowed to 1.6 times for MB denim apparel.

- Availability of other casual items

Consumers nowadays tend to prefer a casual approach both in the office and out of it. "Casual Friday" is the result of such a trend, leading to the increased sale of casual attire such as wrinkle-resistant cotton slacks. Then one question is raised: As a member of the whole casualwear family, will denim apparel take the lead again? A report from the Cotton Incorporated Lifestyle Monitor may give some hints. It seems that the biggest challenge comes from clothes made of khaki fabric whose history can be traced back to the Crimean War of 1853. The report cites one merchandising manager as saying: "khaki pants are the perfect clothing item to span the gap between weekend and business wear. Khakis fit that in-between place because they're versatile, they look polished but not uptight, and you don't look like you are trying too hard." It further reports that 70% of women aged 56 to 70 choose casual slacks over denim jeans, as do 43% of women aged 35 to 55. Almost half of the Fashion Innovators, the trendiest of shoppers, take the non-jeans option. Another survey conducted by the Cotton Inc. shows that the percentage of consumers between the ages of 16 and 19 saying they either like or love denim has dropped from 84% to 79% since 1994. Therefore, though denim apparel still enjoys a favorable market position, it will face more pressure from other casual items in the near future. Of course, these casual clothes are not perfect substitutes for denim apparel because the latter has its own unique image implications. But the rapid development of the former does present a potential threat for the latter's further growth, especially when the population in some developed nations, such as the US, is growing older. According to the Fairchild Fact

²⁶ In 1997, GNP per capita in the US and Germany were US\$ 27738 and 28228 respectively.

File (1980), the median age of the male population in the US was 28.6 years in 1979, but it is expected to jump to 34.1 by 2000. The demographic change will lead to fashion preference shift as well, ultimately affecting the domestic demand for denim products and a nation's import volume.

- **Climate**

Climatic conditions also affect denim apparel consumption level. Countries having extremely hot or cold weather all around the year, such as those near the equator or the Arctic Ocean, are not suitable markets for denim apparel. Climate also plays a role in deciding the consumption patterns for the variety of denim apparel. For instance, soft jeans are much more popular in Japan than in the US or EU. Lightweight soft jeans made of rayon became the main stream instead of basic products made of 14 oz. denim in 1994 [46]. Around 60 to 80% of women's jeans from major jeans manufacturers are soft jeans [47]. Though one may explain that soft jeans fit Japanese better than basic ones both in the light of their smaller-than-the-west figures and reserved rather than straight dispositions, there is no denying that hot weather in the summer makes lightweight jeans more appealing than the basic or extra-heavy ones.

- **Exchange rates**

Frequently fluctuating exchange rates are always cited as one of the big risks associated with foreign trade. Therefore, the currency integration in the EU is expected to boost intra-regional trade in the near future. The exchange rate sometimes plays a key role in a nation's trade volume. Some nations in Asia (such as Japan, South Korea, Malaysia and the Philippines) witnessed a sharp currency devaluation during the devastating Southeast Asian financial turmoil in 1997. As a result, imports into these nations slumped significantly. Denim apparel imports in the above four nations in 1998 dropped by 53.6%, 92.7%, 36.0% and 91.3% respectively over 1997. Though such big reductions had other contributing factors such as less disposable incomes and a sluggish domestic market, the weaker domestic currency against the US dollar also played a role.

- **Market access**

Last but not least, market access in a nation's domestic market sometimes may exercise more influential power on its import volume and pattern because it goes far beyond economic implications and is the result of various trade and administrative policies.

Previous analysis has already shown that easier market access in specific countries resulting from regional preferential arrangements has led to clear sourcing bias against "outsiders". In addition to the "artificial" trade barriers, transportation is a natural one, which is particularly important for fashion items requiring quick availability to consumers and short turn around times. Among the top 20 export destinations for EU denim apparel, only the US and Japan, which ranked 17th and 20th, are not located in or close to the EU. As regards the top 20 importers for US denim apparel, Mexico and Canada ranked the first and third respectively. The other six Latin American countries were in the 2nd, 5th, 9th, 11th, 12th, and 13th position respectively. CBI countries totally imported 28.2% of US total denim apparel exports. As for HK denim apparel exports, four East Asian countries/regions (China, South Korea, Taiwan and Japan) and one Southeast Asian country (Singapore) are among its top 20 destinations, while there were only two Latin American importers. Since HK doesn't have any formal preferential arrangement with other nations, geographic proximity is a very important factor here. If it is difficult to access a nation's domestic market in view of various artificial and natural barriers, an apparel manufacturer in the exporting country may choose franchising or direct involvement in local production instead of direct export.

If this is the case, it will no doubt affect the target nation's final import volume and pattern.

REFERENCES

1. Dickerson, K.G., Textile and apparel in the global economy. Third Edition ed.1999 Upper Saddle River, New Jersey; Columbus, Ohio Merrill, an imprint of Prentice Hall. 336-418.
2. Yang, Y., The impact of MFA phasing out on world clothing and textile markets. *Journal of Development Studies*, 1994? p.892-915.
3. MITI, J., The Future of Japanese Textile Industry.1998 Shanghai China Textile University Press.
4. Hughes, J.K., The ATC sky clouded over. *Textile Asia*, 1998 p.52-61.
5. Majmudar, M., The MFA phase-out and EU clothing sourcing: Forecasts to 2005. *Textile Outlook International*, 1996 p.33.
6. MITI, J., 2000 report on the WTO consistency of trade policies by major trading partners. 2000 MITI.
7. OTEXA, Export Advantage: EU.2000 OTEXA, US.
8. WTO, Agreement on implementation of article VI of the general agreement on tariffs and trade.1994 WTO.
9. WTO, Agreement on subsidies and countervailing measures. 1994 WTO.
10. Spinanger, D., Liberalization good, but open markets... *Textile Asia*, 1999 p.50-57.
11. Stephenson, S.M., Standards and technical barriers to trade in the free trade area of the Americas, in *Trade rules in the making: challenges in regional and multilateral negotiations* P.L. Miguel R. Mendoza, and Barbara Kotschwar Editor.1999 Organization of American States, Brookings Institute Press Washington DC.p.280-301.
12. Galli, A., Germany--new goals in halting downturn. *Textile Asia*, 1999 p.103.
13. Commission, E., 1999 report on United States barriers to trade and investment.1999 EU.
14. HKTDC, Antidumping likely to remain US weapon of choice even after China joins WTO.2000 HKTDC.
15. Anon, The textile sector: overview.2000 EU.
16. OTEXA, Export advantage: EU.2000 OTEXA, US.
17. Torre, J.d.l., *Clothing-industry adjustment in developed countries*.1986 London Macmillan.
18. US Embassy Tokyo, J., *Country commercial guide Japan, FY 2000*.2000 US Embassy Tokyo, Japan.
19. HKTDC, *Market profiles: Japan*.2000 HKTDC.
20. Franklin Dehousse, K.G., Philippe Vincent, *Market access study to identify trade barriers affecting the EU textiles industry in certain third country market*.1999 EU.
21. HKTDC, R.D., *A General View of Japan's Distribution System for Consumer goods*. 987 HKTDC HK.
22. Larke, R., *Japanese retailing*.1994 London and New York Routledge.56-126, 226-236.
23. Chen, M., *Asian Management Systems: Chinese, Japanese and Korean Styles of Business*.1995 London and New York Routledge.263-278.
24. HKTDC, R.D., *China to adjust trade policies*.2000 HKTDC.

25. HKTDC, Market profile on Chinese mainland.2000 HKTDC.
26. Cole, J., Geography of the World's major regions.1996 London and New York Routledge.
27. Zimmermann, R., Denim: what might the future hold for the world's hottest textile sector ITS Textile Leader, 1998 p.34-48.
28. Anon, Outward processing program.2000 OTEXA.
29. Anon, The textile industry is facing a new international competitive environment.2000 www.ctei.gov.cn.
30. Robin Anson, P.S., World textile and apparel trade and production trends. Textile Outlook International, 1999 p.20.
31. Anon, EU world trade & WTO: overview.2000 europa.eu.int.
32. Coster, J.d., Where quality tells. Textile Asia, 2000 p.9.
33. Coster, J.d., CEC threat to Asia. Textile Asia, 2000 p.14-15.
34. Anon, Analysis of trends in the Lome Trade Regime and the consequences of retaining it.2000 EU.
35. Anon, Apparel imports in a period of change. JTN Monthly, 1998 p.16-18.
36. Anon, Comparison of EU, US and Japanese trade--textile sector.1999 europa.eu.int.
37. Anon, Why a free trade agreement (FTA) now .2000 www.jetro.go.jp (Japan External Trade Organization).
38. Anon, EU world trade & WTO: legislation, reports and texts.2000 europa.eu.int.
39. Anon, NAFTA's influence on textile & apparel industries in the region and in Asia. JTN Monthly, 1999 p.28-30.
40. Anon, Denim in distress. JTN Monthly, 1998 p.68.
41. Porter, M.E., On competition.1998 Boston Harvard Business School Publishing.1-271.
42. Sarathy, V.T.R., International marketing. Eighth Edition .2000 The Dryden Press, Harcourt College Publishers.72-73.
43. Anon, OTEXA export advantage: overseas market information.2000 OTEXA.
44. Singleton, J., The world textile industry.1997 London and New York Routledge.
45. Anon, A Global: US leads the world in casual mindset.2000 www.cottoninc.com.
46. Anon, Japan: soft jeans become the main-stream. JTN Monthly, 1995 p.72.
47. Anon, Great changes in Japan's jeans industry. JTN Monthly, 1996 p.69-70.
48. European Commission., Sixteenth annual report from the Commission to the European Parliament on the Community's anti-dumping and anti-subsidy activities 1999 <http://europa.eu.int/comm/trade/pdf/16report.pdf>
49. Franklin Dehousse, Katelyne Ghemar, Philippe Vincent., Market access study to identify trade barriers affecting the EU textiles industry in certain third country market. 1999 <http://europa.eu.int/comm/trade/pdf/mastb1.pdf>