GLOBALIZATION & TRADE IN TEXTILE INDUSTRY

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ABSTRACT:

This paper outlines the Globalization as the growth of economic activity or spanning politically of national and regional boundaries. It means the increased movement across those boundaries of goods and services, via trade and investment, and often of people, via immigration. It is driven by the actions of individual economic actors, such as firms, banks, people usually in the pursuit of profit, and often spurred by the pressures of competition. The WTO has played an important role in the growth and development of the textiles industry at global level. The development and progress in free economy due to globalization, with competitive environment left countries way behind in the quality and competitiveness of its goods and services. Control on production, licensing restrictions along with high protective walls had fostered monopolistic trends within textile industries, made it import intensive and inward looking. For liberals, globalization promotes the disappearance of trade barriers and state regulation. This paper deals with impact of Globalization on Trade in Textile Industry. It outlines the trends in Trade in Textile industry, clothing trade and issues facing textiles. This paper concludes with some policy measures to overcome the negative impact of trade in textile industry.

Keywords: Globalization, Trade, Exports, WTO, Textile Industry

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Introduction:

Economists tend to regard “globalization” as a blessing for trade. They see it as freeing the forces of competition that help to channel the energies of people and the resources of countries into activities where they are likely to be most productive, i.e. global production would increase efficiency by allowing each country to specialize in its strengths. Less-developed countries are able to provide low-cost and abundant labor supply, while developed countries provide management, technical and financial resources. Consumers, in particular, are seen as the great beneficiaries in this global integration program. It could be noted that from 1955-2000, world export trade in total merchandise had increased by 64.8 times from US$ 96 bn. to US$ 6,243 bn. For the same period, total manufactures' exports demonstrated an amazing increase by 112 times from a value of US$ 41 bn. accelerated to US$ 4,630 bn. For the textile and clothing (T&C) export trade, despite having been conducted through a series of quantitative export restrained stages, also demonstrated increases of 34 times and 249 times respectively.

Before World War II, advanced industrial countries in Western Europe and the US dominated the world economy and controlled most of the industrial production. The less-developed countries tended to concentrate in the production and supply of raw materials. Starting from the late 1940s, major T&C industrial production has shifted out from developed countries and moved to Japan. Since then, Japan was the leader in industrialization and economic development in the Asian region. In 1970s, the high cost of production and labor shortages had compelled Japanese T&C firms to invest their production in other Asian nations.

Following Japan, Hong Kong, South Korea and Taiwan became three of the four Asian newly industrializing countries (NICs) with T&C as their major export industry. In 1975 the average wage for US clothing workers was US$3.79 per hour, compared to US$0.75 in Hong Kong, US$0.29 in Taiwan and US$0.22 in South Korea (Bonacich, et al 1994). NICs' cheap labor cost was the main attraction for the US and Japanese T&C firms to locate their productions overseas. Moreover, the Asian NICs quickly added other benefits including improved quality level, flexibility of production and stylish merchandise. Thus the NICs can offer good quality T&C products at a relatively lower price (Bonacich, et al 1994).

In response to the imposition of quotas by the US and other Western nations, the traditional Asian T&C producers have shifted their production to other less developed countries

(LDCs) in Asia including China, Indonesia, Thailand, Pakistan, Sri Lanka and Vietnam since the 1980s. Boosted by Japan's foreign direct investment, China's clothing supplies accelerated to 74.7% of Japan's total clothing imports in 2000, compared with 27.4% in 1990 (OECD 2001). Hong Kong T&C firms, in search for more quota holdings, also moved their production sites to Mainland China. According the Hong Kong Trade Development Council survey conducted in 1998, about 54% of Hong Kong's clothing exports were produced in Mainland China (HKTDC 1999). China has now become the largest T&C exporter with other Asian countries such as India, Indonesia, Pakistan and Thailand also become the major exporters in the global T&C market.

The shifts of T&C production to the Asian countries have witnessed the reliance of Asian economies on the T&C industry to gain their early economic successes. Today, quite a number of the major global T&C exporters are located in the Asian region. However, facing T&C trade restrictions and the establishment of regional trading blocs, this paper attempts to delineate the changing patterns of T&C trading scenarios in the EU and NAFTA regions.

One of the reasons leading to the T&C production shifted from NICs to other Asian LDCs is the arbitrary quantitative export restriction. T&C export restraints to developed countries were in fact, imposed since the 1950s. The first sign of a wider protectionism measure in the textile trade was marked by the "Short Term Arrangement (STA)" of July 1961 as textile exports from Asia began to penetrate the developed country markets. Regarding to the textile imports from LDCs increased rapidly and employment in western textile industries fell sharply, more severe trade restrictions such as the "Long Term Arrangement (LTA)" was introduced then.

World T&C trade was under the regime of the Multi Fiber Arrangement (MFA) effective on January 1, 1974 and lasted for two decades. The MFA provides guidelines for member nations regarding trade in T&C. Under the system, the US and other developed sometimes have negotiated bilateral agreements with most major T&C suppliers to their markets. Facing the growing restrictions on T&C products, most of the developing (exporting) countries chafed and made it clear that they would not proceed with the new round of trade talks (Uruguay Round) unless trade restraints on their textile exports were lowered (Dickerson 1999). Thus, the Uruguay Round lasted for 8 years from 1986-1994 and culminated the formation of the World Trade Organisation (WTO) in 1995. With the completion of the Uruguay Round, the MFA regulatory

framework governing import quantities of T&C products into developed countries was replaced by the Agreement in Textile and Clothing (ATC). The ATC provides eventual elimination of quotas in T&C trade over 10 years in a 3-stage transitional period, meaning the global T&C trade will be liberalized by 2005. This marked the beginning of liberalization of world T&C trade with the anticipated application of free trade norms.

Trends in Trade:

According to WTO and OECD statistics, it was revealed that world merchandise trade had increased from 3,442 billion in 1991 to US$ 6,243 billion in 2000, with about 7% annual compound growth rate. For the same the total intra trade of EU has recorded a 4.6% average growth (US$897 billion in 1991 to US$1,347 billion 2000), which was below the world's average. In contrast, the total intra trade of NAFTA had recorded a 13.4 % annual growth in the last decade (from US$221 billion to U$ 683 billion), which was nearly double the growth rate in world trade.

Textile Trade:

The textile complex in Western Europe had an illustrious past that included England's launching of the Industrial Revolution with textile production as well as France and Italy's positions as the fashion centers of the world for more than a century. However, the textile-trading pattern has been changed. Both the value and share of T&C export trade from the less-developed countries grew at a faster rate than exports from the developed countries. Textile production and employment are projected to decline further in Western Europe as companies relocate some or all of their manufacture activities to lower-wage countries. Although Germany, Italy, France, UK and Belgium are still the leading global textile exporters, their aggregate shares have decreased from 24.2% in 1991 to 13.6% in 2000. Thus, the reduction in trading volume also led to reduce shares in EU's intra textile trade. Except for the year after the EU formation, the share was seen to increase from 29% to 36% between 1992 and 1993, and then gradually decreased to 24% in 2000. For the NAFTA market, the US, Canada and Mexico altogether accounted for 6.9% of world share in 2000 and their intra textile trade also recorded a positive

growth. For the period 1991-2000, the value of textile exports from Mexico to the US had increased by 12 times.

Clothing Trade:

Global clothing trade shifts are very much similar to the textiles; there was a marked increase in the less-developed countries' shares at the expense of the developed countries. Owing to the labour-intensive characteristics of apparel production, along with the minimal technology and capital requirements had fostered production shifts to occur far more dramatic than the textiles counterpart. This trend could be reflected by the increasing clothing supply delivered to the US from Mexico with value jumped from US$ 71 million in 1991 to US$ 8,193 million in 2000 which was 115 times higher. It also indicated that the intra trade for clothing in NAFTA had increased from 1% to 7% for the same period. According to the USITC study, clothing is one of the sectors that showed significant imports on NAFTA intra trade, the study had found evidence of trade diversion in clothing products; there were significant increases in US imports from NAFTA partners with commensurate decreases in imports from the Caribbean Basin countries, especially the Pacific Asian economies (USITC 1997 and Wylie.P.J. 1995). For instance, traditionally US are the major market for Hong Kong's clothing products; however, its share in the US has reduced from 15% in 1991 to 7% in 2000. With a commonly shared Canadian-US-Mexican interest in exporting to each other's markets, this simply implies a reduction in market share for other exporters in the world.

In the EU scene, the share of EU's intra trade in clothing had decreased form 26% in 1991 to 16% in 2000. This can partly be explained by the fact that the EU group gives preferential treatments to the Mediterranean basin countries including Cyprus, Egypt, Turkey and Morocco and other developing countries, many of which were former European colonies. Goods from these countries entering the EU are entitled to special trade privileges (treated with fewer restrictions) or free of customs duties. For proximity and cost reasons, developed European countries also turn to purchase clothing from Eastern Europe countries such as Turkey and Romania instead of the Asian producers. Traditionally, the Asian countries were the biggest supplier to the EU markets in both textiles and clothing; however, products from Central and Eastern Europe are now filling the market at the expense of Asian suppliers.

Issues Facing Textiles:

Textiles and apparel became a deal-breaker for many of the participants as the U.S. and E.U. – the two major textile importers – signaled an unwillingness to agree to an acceleration of quota growth under the terms of the Uruguay Round Agreement on Textiles and Clothing (ATC). The U.S. and E.U. maintained that they have lived up to the terms of the ACT and have also lowered tariffs as agreed in the Uruguay Round.

U.S. negotiators made the point that the American textile industry had borne the burnt of the ATC quota liberalization and tariff cuts as stated in the Uruguay Round. Over the past two years, the American textile industry has slashed more than 100,000 jobs in an effort to compete with a flood of low-cost imports. Further, both the U.S. and E.U. insisted that exporting nations have done very little to open up their markets to competition. For example, U.S. and E.U. negotiators explained that under the terms of the Uruguay Round agreement, developing countries were afforded much higher tariff rates than developed countries.

In turn, exporting nations – led by India – continue to push for greater market access for textiles. Exporting countries maintain that the ATC has not been implemented by importing countries as set forth in the Uruguay Round. These countries explain that most of the quota liberalization has been put off by importing counties until the last stages of the ATC quota phase-out. They maintain that most quotas will not be eliminated until the end of the transition period in 2005.

For many developing countries, concern has arisen that they way in which developed countries have implemented the ATC has in fact been misleading. At the same time, these countries express outrage that textile tariffs in importing countries remain higher than that for other manufactured products. When confronted by what appears to developing countries, coupled with sharply declining export sales this year, anxiety runs high in the ranks of exporting nations these days.

For the forces of globalization, the question remaining is will the WTO globalization process have enough goodies for all of the participants? In textiles, at least, it appears it does not. There are a lot of unhappy people, with relatively few winners. Talk with the exporting

countries and they are unhappy; talk with the importing counties and it is clear they are unhappy as well. Both sides appear to be dug in.

At the same time, a global shakeout in the international textile and apparel businesses is claiming a staggering number of firms with resulting bankruptcies, unemployment and hardship. This shakeout affects both importers and exporters, both developed and developing nations. The U.S. may have lost tens-of-thousands of textile jobs, but a similar number has been lost in Korea, Taiwan and Indonesia. In order for the WTO to be successful, and for globalization to be realized as a positive force, issues such, as international trade in textiles and apparel needs to be settled once and for all.

Industrialized Countries:

The liberalization of clothing and textiles has been controversial because the sectors make a substantial contribution to employment in both developed and developing countries. However, manufacturing in most developed countries has contracted and changed its focus. Currently, the United States, the EU and Japan are the largest consumers of textiles and clothing, yet the majority of clothing and textiles in these countries is imported. The Japan Textile Importers Association estimates that 87 per cent of clothes on sale in Japan are imported. Between 1990 and 2002, the United States' share of world imports of textiles and clothing rose from 12 per cent to 21 per cent, before dropping back down to 19 per cent in 2007 (WTO, 2008). During 2001 alone, 344,000 jobs in the industry were lost (Flanagan, 2003). Thus, it can be seen that clothing and textiles production in the United States has been declining and that an increasing proportion of demand is satisfied by imports. Although there is almost no clothing industry left in the United States or Japan, a sizeable one remains in the EU, especially in southern Europe. In 2007, the European industry consisted of approximately 175,850 firms employing 2.474 million people with a turnover of $289.1 billion (European Commission, 2008). In that year, EU countries imported 57.7 per cent of their garments from each other (WTO, 2008). Although it has fluctuated slightly between 1995 and 2007 the EU share of world imports of clothing has remained between 32 per cent and 37 per cent (WTO, 2008). Despite this, EU production has been declining, with nearly a 6.4 per cent decrease in employment in 2007 alone (European Commission, 2008).

Conclusion:

It could be seen clearly from the above discussion that the WTO was formed to Foster and Facilitate world trade with the removal of tariff and non-tariff barriers and to accelerate the process of globalization.

In this connection the following policy measures can be considered. Textile industry is gradually integrating into regional and global networks of production. Its future is seen to depend on this dual process of rationalizing and restructuring production on the one hand, and aggressively developing export markets on the other.

The open question remains: Is this 'rationalization' process having positive effects on the sector? After ten years of 'restructuring' is the sector globally competitive, export-oriented, prosperous and sustainable? There is some evidence that niche producers specializing in capital – intensive market segments and thriving.

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