15th PECC General Meeting
Brunei Darussalam

## Focus Workshop on Trade

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Room J-3
International Convention Centre

# Implications of the End of the WTO Agreement on Textile and Clothing

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**1 September 2003**

**International Convention Centre**

Session 1: State of World Trading System

# Implications of the end of the Agreement on Textiles and Clothing

*by Willy Lin, Chairman,*
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01/09/03

# Implications of the end of the Agreement on Textiles and Clothing

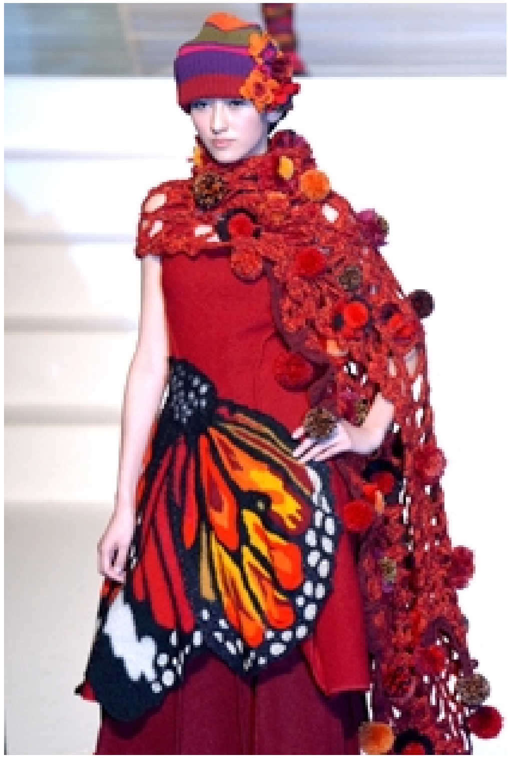
- On 1 January 1995, the Agreement on Textiles and Clothing (ATC) of the World Trade Organisation (WTO) replaced the 21-year-old Multi-fibre Arrangement (MFA) of the General Agreement on Tariffs and Trade (GATT)

# Implications of the end of the Agreement on Textiles and Clothing

- ATC calls for the gradual elimination of quotas over a 10-year period, divided into four stages:
  - Stage 1: 1 January 1995 to 31 December 1997
  - Stage 2: 1 January 1998 to 31 December 2000
  - Stage 3: 1 January 2002 to 31 December 2004
  - Stage 4: Full integration by 1 January 2005

# Implications of the end of the Agreement on Textiles and Clothing

- Early on, in the start of the 1980s, Hong Kong, like Singapore, Korea, Thailand and other Asian nations, was a major site of textiles and clothing production.



**Hong Kong Fashion Designers' Association House Show**

# Implications of the end of the Agreement on Textiles and Clothing

The elimination of quotas would therefore mean that Hong Kong industrialists like ourselves would have more room to expand not only in our base regions but in other regions as well where there are textiles and clothing industries already established.

*Visitors sourcing at the Hong Kong Fashion Week Fall/Winter 2003, organised by the Hong Kong Trade Development Council*

# Implications of the end of the Agreement on Textiles and Clothing

When China joined the Wold Trade Organisation, it committed two provisions that would allow the US and all other WTO members to restrict market access of China-made textile and clothing products.

China Merchant's Bank in Shenzhen, site of China's manufacturing powerhouse, the Pearl River Delta.



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# Implications of the end of the Agreement on Textiles and Clothing

- Principal non-tariff barriers (NTBs) relate to:

- ***Environmental issues***

  Environmental damage, consumer safety and worker safety, such as chemical contamination (from the use of pesticides) of growing cotton up to the weaving of textiles, can be a health risk for farm and mill workers and consumers, and for the environment as well. Hazards for the consumers are the allergies that may be triggered by textiles and the carcinogenic substances used in the processing of textiles. These considerations led to the banning, for example, of azo dyes by Germany, which has also voluntarily introduced ecolabels on textile products to enable consumers to buy 'clean' products.

# Implications of the end of the Agreement on Textiles and Clothing

- Principal non-tariff barriers (NTBs) relate to:

- ***Social issues***

Major concerns being focused on child labour, forced labour, health and safety, disciplinary practices, working hours and remuneration. These are currently being addressed in such voluntary standards/certification schemes as SA 8000, Worldwide Responsible Apparel Production (WRAP) certification scheme, and Compliance and Supply Chain Management (CSM) system.

- ***Anti-dumping actions***

Dumping takes place when a ***company*** sells a product in a foreign country at a price lower than the one in its own home market. To prove dumping a country needs to establish three things: (i) *Dumping test*: that imported goods are being sold at ‘below the normal price’; (ii) *Injury test*: that a domestic firm is being injured by these exports; and (iii) *Causality test*: that dumping is causing injury.

# Implications of the end of the Agreement on Textiles and Clothing

- Principal non-tariff barriers (NTBs) relate to:
  - ***Safeguard measures***

While both safeguard and anti-dumping measures are aimed at import surges, safeguard measures act in a blanket non-discriminatory manner, whereas anti-dumping measure is against a specific firm in the exporting country. When a safeguard measure is applied, the country affected has to be compensated through a trade concession or a tariff concession of equivalent value to that lost by the imposition of the safeguard measure. Whereas under anti-dumping actions, no compensation is required.

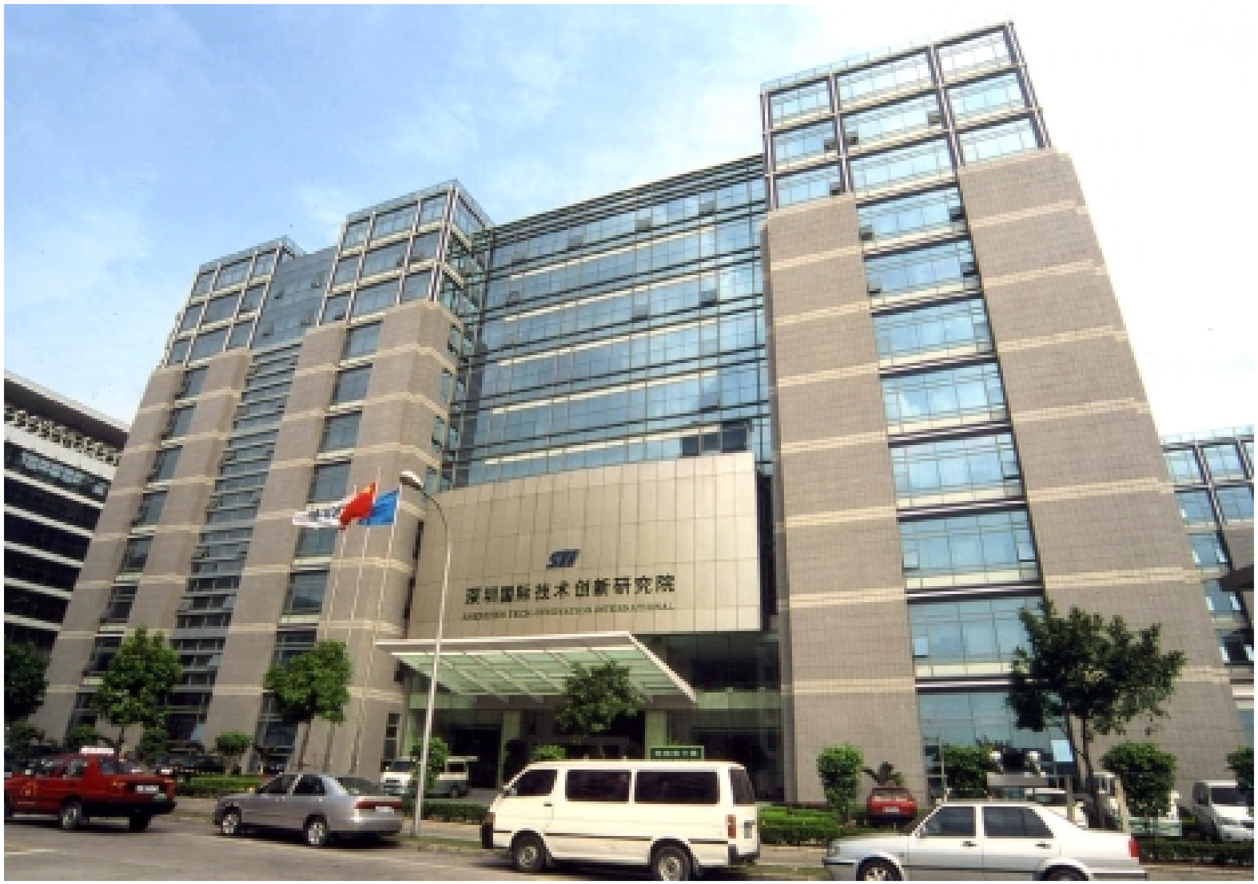
# Implications of the end of the Agreement on Textiles and Clothing

- Principal non-tariff barriers (NTBs) relate to:

- ***Preferential Rules of Origin***

  Preferential rules of origin could be used by countries to discriminate between imports from different countries. These allow a country to deny the benefits of an agreement to countries that have not signed up to a treaty or agreement (e.g. NAFTA, AGOA, CBTPA, ATPA, EU, etc.). This discrimination can operate in a positive and negative manner, positive for countries which are members of an agreement or treaty, and negatively if they are not.

# Implications of the end of the Agreement on Textiles and Clothing



China is spending heavily to develop highly sophisticated industries. The Shenzhen Tech-Innovation International development is a leading example of its R&D capabilities.

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# Implications of the end of the Agreement on Textiles and Clothing

Hong Kong is a well-developed hub for sourcing garments, managing production and services like order placement, product development, material sourcing, quality control, marketing and logistics.

*Hong Kong Fashion Week Fall/Winter 2003, organised by the Hong Kong Trade Development Council*

# Implications of the end of the Agreement on Textiles and Clothing

Information technology, automation and the well-developed infrastructure of Hong Kong enables the product to be delivered to the client's door in just a matter of days.


Traffic on the Tsing Long Highway on Tsing Yi Island.



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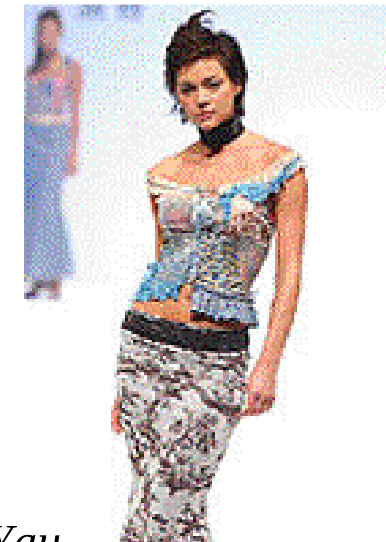
# Implications of the end of the Agreement on Textiles and Clothing

### *"The Best of Hong Kong Designer Fashion" Show*

*Benny Yeung*

*Walter Ma*



*Cecilia Yau*

The clothing industry in Hong Kong has evolved from OEM, or manufacturer and exporter of basic, label-less garments, to OBM, Original Brand Manufacturer and ODM, Original Design Manufacturer. Hong Kong has established upmarket brandnames in the global fashion market that can be found side by side with elite brands in the fashion centres of Paris, New York and London.

# Implications of the end of the Agreement on Textiles and Clothing

**Hong Kong's innovative and high quality knitwear designs attracted UK buyers at a recent London promotion by the Hong Kong Trade Development Council**

# Implications of the end of the Agreement on Textiles and Clothing

- **Closer Economic Partnership Arrangement (CEPA)**
  - A free trade deal between Hong Kong and mainland China
  - Effective from 1 January 2004
  - Significant China market liberalisation
  - Preferential access to China market from Hong Kong
  - Offers better deal than China WTO commitments

**What does it mean?**

  - Initially zero tariffs on 90% of Hong Kong exports to China
  - Faster/easier market access for 17 service sectors
  - Lower entry thresholds for smaller players (capital/trading history requirements)
  - 100% ownership of many China ventures
  - Makes Hong Kong the simplest, most profitable route into/out of China
  - Manufacturers in China able to use Hong Kong services

# Implications of the end of the Agreement on Textiles and Clothing

- **Closer Economic Partnership Arrangement (CEPA)**

**Who qualifies?**

Hong Kong-based companies, regardless of size or nationality, can be eligible.

Service providers (in 17 CEPA-eligible areas):

- Must be incorporated in Hong Kong
- Engaging in substantive business operations in Hong Kong for past 3-5 years
- Liable for profits tax
- Employing 50% of staff locally

Manufacturers/distributors of goods (273 categories of goods covered):

- Goods must qualify as “made in Hong Kong” under CEPA Rules Of Origin
- Rules being finalised – decision expected in October 2003

# Implications of the end of the Agreement on Textiles and Clothing

The removal of quota and other trade barriers would serve to increase the competitive edge of countries with a mature textile and clothing industry like Hong Kong and China. With Hong Kong as the example, moving production towards more upmarket, high-value products certainly gives them the edge.

**Left to right: Bank of China Tower, Cheung Kong Center, HSBC HQ in Central.**

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