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A Stitch in Time

Helping Vulnerable Countries Meet the Challenges of Apparel Quota Elimination

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Introduction and Summary

On January 1, 2005, the United States, along with all other members of the World Trade Organization (WTO), eliminated remaining quotas on textiles and apparel exports from other WTO members. Now that there are virtually no limitations on the amount of textiles and apparel a country can export, analysts predict that in the next few years China and five or six other countries will dominate global textiles and apparel production.

The rise of China is likely to come at the expense of smaller, less industrialized developing countries. Although textiles and apparel quotas were initially imposed in the 1950s and 1960s to protect developed country producers from competition from producers in Japan and in the newly industrializing countries (such as South Korea and Taiwan), over time, the quota regime created unexpected opportunities for smaller, still agrarian developing countries to develop an apparel sector. In fact, over the last fifteen years, the quota regime not only has helped to create millions of jobs in such countries but also has helped to create—for the first time in some countries—an industrial base.

Many smaller, less industrialized developing countries may not be able to maintain their apparel sector now that China, India, and other larger industrialized developing countries are free from quota restraints. These smaller, less industrialized countries lack many of the advantages that larger industrialized developing countries intrinsically have (such as a vast domestic market) or have acquired through the process of industrialization (such as a modern transportation and telecommunications infrastructure, access to capital, and a skilled workforce).

The elimination or contraction of the apparel sector in smaller, less industrialized developing countries is alarming on many levels. At a household level, loss of the sector will result in unemployment and exacerbate already severe poverty. At the countrywide level, loss of the sector jeopardizes the path of industrial development that many of these countries had

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hoped to pursue—namely, using export-oriented apparel production as a stepping stone to other industrial development. At the international level, a downturn also may have national security consequences for the United States and other countries, if political instability results from economic turmoil in countries such as Bangladesh, Haiti, and Sri Lanka.

Despite these foreseeable consequences, little effort has been made to develop a comprehensive policy response to assist smaller, less industrialized developing countries to increase their competitiveness in a quota-free world or to address the inevitable dislocations that will occur. To date, developed country policy makers have focused on imposing trade restraints on China, largely in response to their domestic industries' defensive concerns. Although such measures have the tangential benefit of stemming the immediate exodus of investment from smaller developing countries, the measures are both temporary and limited in scope.

This paper argues that developed country policy makers should pursue a more comprehensive response. Such a response includes four key elements: (1) enhanced trade preferences for smaller, less industrialized developing countries likely to be seriously affected by quota elimination; (2) targeted technical assistance to help affected countries improve their overall competitiveness (for example, through improvements to infrastructure and customs facilitation); (3) assistance to help affected countries "differentiate" their exports in the global marketplace; and (4) assistance to help affected countries manage inevitable dislocations.

Importance of the Apparel Sector to Developing Countries

Textiles and apparel restraints have been a fixture in modern global trade for fifty years. The United States and a number of European countries first imposed restraints in the 1950s and 1960s on exports from Japan, as well as from what were then newly industrializing developing countries, such as South Korea and Taiwan. These bilateral restraints eventually evolved into a series of limited plurilateral agreements. Ultimately a comprehensive plurilateral agreement known as the Multifibre Arrangement (MFA) was agreed to in 1973.[1] In 1994, in response to developing country complaints about developed country protectionism, WTO members replaced the MFA with the Agreement on Textiles and Clothing (ATC). The ATC required WTO members to gradually eliminate all quotas on textiles and apparel imports from other WTO members over a ten-year period, which ended on January 1, 2005.

Quotas were always designed to protect developed country textiles and apparel producers. However, as is recognized today, the quota regime's efficacy in achieving that goal is questionable at best. From 1970 to 2000, the major developed country users of quotas—the United States, the United Kingdom, France, and Germany—each experienced major employment declines in textiles and apparel employment. France, for example, lost nearly 73 percent of its textiles and apparel employment over this period, and the United States lost 49 percent.[2]

Quotas were not particularly effective in preserving the industries of developed countries primarily because the regime had the unintended consequence of promoting a proliferation of developing country suppliers.[3] As quotas were imposed on suppliers in one country, suppliers from that country would establish operations in nonquota constrained countries,

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which typically were lower-income developing countries. For example, when Japanese exports were limited by quotas in the 1950s, Japanese producers worked around those quotas by shifting operations to South Korea. When South Korea's exports were constrained, Japanese and Korean producers established production facilities in Indonesia, the Philippines, and Thailand. This dispersion has largely occurred in the apparel industry; the textiles industry—fiber, yarn, and fabric production—has not experienced a similar migration. Textiles production is less mobile because it is more capital- and skill-intensive and requires much longer lead times to establish.

The dispersion of export-oriented apparel production to a broader group of developing countries, as unintended as it was, has had an undeniably beneficial impact on the developing world. The most obvious benefit has been the creation of industrial jobs in smaller, poorer countries. Importantly, these jobs pay better than the jobs otherwise available in many of these economies. For example, in Cambodia, the World Bank reports that only 4 percent of households with workers in the apparel sector fall at or below the poverty line in contrast to 80 percent of households in Cambodia's agricultural sector.[4] In fact, a 2001 study by the International Food Policy Research Institute found that increased trade in apparel in a developing country raised per capita income more than it increased trade in other industrial or agricultural goods.[5]

Beyond the immediate creation of relatively well-paid jobs, establishment of an export-oriented apparel industry also contributes to development by helping a rural economy start down the path of industrialization. The apparel sector contributes to the process of industrialization in two key ways. First, the apparel sector can help to transform rural workforces into industrial workforces. This occurs because developing country apparel sectors are usually established by foreign investors (for example, Korean and Taiwanese investors constrained by quotas in their own countries) who introduce traditionally agrarian workforces to the rhythms and expectations of work in a factory environment and teach workers more advanced skills, such as how to operate factory machinery. Such work habits and skills are a necessary building block toward helping workers become adept at more complex manufacturing operations and are necessary to attract other industrial investment. Moreover, because the industry is export-oriented, it tends to demand higher quality goods than those consumed domestically, which also raises worker skill levels.

Second, an apparel sector contributes to the process of industrialization by spurring developing country governments to make the type of infrastructure investments needed to attract other industrial development. In particular, export-oriented apparel manufacturing supports the development of communications and transportation links. As the government makes such investments, the country becomes more attractive for other types of industrial activity.[6]

Beyond the major developmental benefits of employment generation and stimulus for industrialization, the establishment of an export-oriented apparel sector also aids development in less obvious but still important ways. For example, apparel exports are a source of foreign exchange earnings. Many smaller developing countries rely on such earnings to service international debt and to purchase vital imports such as energy supplies and food. The apparel sector, as one of the few formal sector industries, is also an important source of tax revenue in developing countries, which can be used to support the development of infrastructure and the provision of basic social services such as health care and education. Finally, the apparel sector, which is female-dominated in both developed and developing countries, provides women with opportunities for employment and independence not otherwise available in traditional societies. In fact, anecdotal evidence suggests employment in the apparel sector has helped positively reshape societal perceptions of women in some developing countries.[7]

Impact of Quota Elimination

In recent years, conventional wisdom about the impact of quota elimination on smaller, less industrialized developing countries has changed. In the immediate aftermath of negotiation of the ATC, many analysts and economists believed that quota elimination would be a net positive for most developing country producers.[8] However, with China's rapid pace of industrialization and entry into the WTO in December 2001, many analysts now take a more nuanced view.

In general, most recent studies conclude that apparel buyers will consolidate the number of suppliers they use because they will no longer need to work around quota limitations by using multiple supplier countries. Most studies to date also agree that China, and to a lesser extent India, will be among the dominant supplier countries. Beyond China and India, however, there is no clear consensus on which other developing countries stand to lose or gain in a quota-free world. Most studies identify a wide range of developing countries as potential losers.[9]

That said, the impact on each potential loser is likely to differ greatly. For example, some of the countries likely to see a drop in their apparel sectors, such as Indonesia and the Philippines, have diversified industrial bases and are relatively resource rich. The contraction or loss of the apparel sector in such countries, while causing significant hardship at the household level over the short term, is not likely to have economy-wide or long-term development repercussions.

In contrast, there is a subset of countries within the universe of potential losers for which the contraction or loss of this sector poses a much more serious threat. This subset comprises countries that are highly dependent on apparel for export. This paper defines highly dependent on apparel production as apparel comprising 50 percent or more of a country's total goods exports or generating 50 percent or more of total manufacturing employment. The United Nations has designated most of these countries as least developed countries (LDCs) or low-income developing countries. These countries, identified as "at-risk countries" in table 1, are likely to face the hardest adjustment to adverse impacts from quota elimination because they have neither alternative forms of employment nor the financial resources to cushion dislocations.

Table 1. At-Risk Countries

Country	GNI per Capita[a]	Apparel Exports as % of Total Goods Exports, 2003[b]	Apparel Sector as % of Total Manufacturing Sector Employment[c]	Estimates from Recent Studies on Impact of Quota Elimination[d]
Bangladesh[e]	$400	62.3	40	ITC: Status as supplier to the U.S. market uncertain. IMF Bangladesh report: GDP contracts by 2.3%, and employment declines by 4.5%.
Cambodia[e]	$300	75.5	64	IMF Cambodia report: Among the most vulnerable in Asia to removal of the quota system. Preliminary estimates suggest that GDP growth could drop by about 2 percent after removal of quotas.
Cape Verde[e]	$1,490	50.0	Not available.	ITC: Region's share of U.S. apparel imports will fall.
Dominican Republic	$2,070	51.4	70[g]	ITC: Share of U.S. apparel imports may decline, but likely to be source for quick turn-around orders.
El Salvador	$2,200	62.6	57	ITC: Status as a supplier to U.S. market uncertain.
Haiti[e]	$380	83[f]	40[g]	ITC: Share of U.S. apparel imports likely to decline significantly.
Laos PDR[e]	$340	62[f]	Not available.	Not available.
Lesotho[e]	$590	90[f]	90	ITC: Share of U.S. apparel imports likely to decline.
Madagascar[e]	$290	50[f]	40[g]	ITC: Share of U.S. apparel imports likely to decline.
Mauritius	$4,090	49.9	90[g]	ITC: Share of U.S. apparel imports likely to decline.
Nepal[e]	$240	68	Not available.	Not available.
Sri Lanka	$930	52.4	33	ITC: Share of U.S. apparel imports likely to fall, but expected to be a niche supplier.
OTHER COUNTRIES OF CONCERN				
Honduras	$970	38.3	26	ITC: Future as a supplier to U.S. market uncertain.
Maldives[e]	$2,350	31.9	Not available.	Not available.

Note: Myanmar (Burma) is another country of concern that had a fairly sizable apparel industry. However, the country is not listed here because it is subject to U.S. trade sanctions because of severe human rights violations.

a. GNI per capita, nominal, from the World Bank.

b. WTO, *Background Statistical Information with Respect to Trade in Textiles and Clothing* (Geneva: WTO, 2004), available at www.wto.org.

c. Accountability, "Mapping the End of the MFA" (London: MFA Forum Secretariat, 2004).

d. USITC, *Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market,* inv. no. 332-448, USITC Publication 3671 (Washington, D.C.: USITC, January 2004); Montfont Mlachila and Yongzheng Yang, "The End of Textiles Quotas: A Case Study of the Impact on Bangladesh," IMF working paper no. WP/04/108 (Washington, D.C.: International Monetary Fund, June 2004); IMF Staff, "Cambodia, Selected Issues," IMF Country Report no. 04/331 (Washington, D.C.: International Monetary Fund, October 2004).

e. UN Least Developed Country (LDC). The UN Economic and Social Council designates LDCs every three years, based on three criteria: (1) low gross national income per capita; (2) weak human assets (measured by indicators such as the level of nutrition, health, and education in a population); and (3) a country's economic vulnerability.

f. Data obtained from different source: Haiti (USITC, *Textiles and Apparel*), Laos (percentage of exports to the United States composed of apparel, 2004, trade data from the USITC), Lesotho (Accountability), Madagascar (John Hargreaves, vice president of the Madagascar Free Zone Association), Nepal (percentage of exports to the United States composed of apparel, 2004, trade data from the USITC).

g. Data obtained from different source: Dominican Republic (percentage of apparel sector employment in free trade zones, 2004 data from the Embassy of the Dominican Republic), Haiti (industry estimate), Madagascar (John Hargreaves, vice president of the Madagascar Free Zone Association), Mauritius (Peter Craig, Mauritian Trade Commissioner to the United States, Embassy of Mauritius).

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Most of the at-risk countries have not yet experienced a decline in their apparel sector. This is not unexpected; current sourcing decisions reflect buyers' concerns that the United States and the European Union (EU) will restrict Chinese exports under a China-specific WTO safeguard provision. Those concerns are likely to be allayed as U.S. and EU intentions become clearer over the next few months and may dissipate entirely when the China-specific safeguard expires in 2008. At that point, at-risk countries can be expected to see adverse consequences for their economies.

The Argument for Intervention

Developed countries have a number of self-interested reasons for intervening to address the impact of quota elimination on at-risk countries, including economic interests, security interests, and concern for the viability of the world trading system. Each of these "self-interest" reasons is explored in greater detail below.

At the outset, however, it is also important to answer critics who would argue against intervention because, in their view, it amounts to propping up otherwise uncompetitive industries and serves as a disincentive for at-risk countries to transition into other productive pursuits. This line of thinking holds that even if the at-risk countries lose apparel sector jobs due to quota liberalization, they will ultimately benefit because it will create pressure on the countries to enter other sectors where they do have a comparative advantage.

Critics of intervention, however, fundamentally underestimate both the challenges these countries face and the human dimension involved. On the challenges, in most of the countries, few other industries currently exist. It is not realistic to count on new industries springing up to fill the vacuum. Most of these countries have just started the process of industrialization and at this early stage can not attract other industrial investment because of their low-skilled labor force and infrastructure impediments. Over time—with both outside assistance and more dedicated efforts by the home governments—these countries can improve in both areas, but certainly not in the short term and not without active assistance.

Critics of intervention also fail to consider how other countries' trade policies limit the options available to at-risk countries. For example, the one area where at-risk countries could currently enjoy a comparative advantage—agriculture—provides no hope because of developed country tariffs, non-tariff barriers, and subsidy policies. This problem also extends to developing country trade policies; India, for example, maintains a number of tariff and nontariff trade barriers against Bangladeshi products, as evidenced by the relatively low level of Bangladeshi exports to its mammoth neighbor. It is highly unlikely that these barriers will be dismantled in the short term.

Taking into consideration the human dimension, arguments that these countries can move into other productive pursuits *over time* ignores the *immediate* needs of millions of people. At-risk countries are poor, and the workers engaged in the apparel sector, while better off than many in their countries, are also, by any standards, poor. The loss of apparel sector jobs will thrust these workers into even deeper poverty, which in many cases could mean the difference between families eating or going hungry. These families will find little comfort in economic theories that promise a better life at some unforeseeable point in the future.

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Finally, it is important to note that interventionist policy responses recommended here—preferential access and capacity-building assistance for poorer countries—are well accepted deviations from the traditional free market thinking that underpins trade theory. There is a general consensus among trade policy makers that assistance to poorer developing countries is appropriate and may be necessary for such countries to benefit from trade liberalization. This consensus was most recently reaffirmed in the 2001 WTO Doha Ministerial Declaration, which stated the commitment of WTO members to support both preferential access and trade-related technical assistance as a means to help poor countries develop.[10] Given this consensus for intervention on behalf of poorer countries, arguments for a more laissez-faire approach are misplaced.

Beyond answering the critics of intervention, there are several reasons why developed country policy makers should see it in their self-interest to help at-risk countries manage the impact of quota elimination. First, developed countries have an economic self-interest in promoting both global economic stability and growth. Rising incomes in developing countries create more consumers for developed country goods and services. Conversely, increases in poverty subtract from consumer demand.

Significant declines in the apparel sector in at-risk countries' economies threaten the short-term economic stability of these countries as well long-term prospects for economic growth and development. In the short term, workers shed from this sector are not likely to be reemployed in another industrial sector, leading to widespread, persistent unemployment and increases in poverty. In the long term, loss of an apparel sector may make it difficult for these economies—which are just beginning to diversify beyond agriculture—to continue to climb the industrial ladder.

Second, widespread unemployment could have ramifications for developed country security interests. A number of these countries, including Bangladesh, Cambodia, Haiti, Nepal, and Sri Lanka, have tenuous political situations that could be exacerbated by an increase in unemployment and poverty. Although the link between unemployment, poverty, and terrorism is not established, the desperation of poverty can breed instability, and create a climate conducive for radical groups to operate. The United States should be particularly concerned about the impact of massive unemployment in the Central American region and Haiti and the ramifications for drug trafficking, gang activity, and illegal migration.[11]

Third, if quota elimination devastates these economies, it may be more difficult to make progress in the current round of WTO negotiations. Developing countries pushed for quota elimination as part of the Uruguay Round. However, many now point out that they have not seen the expected benefit from quota elimination because developed country members reneged on promises of gradual market access increases and because of China's entry into the WTO in late 2001. These developing countries are reluctant to take on new obligations as part of the Doha negotiations because they do not believe that they have realized meaningful benefits from past rounds.

Policy Responses

In light of the potentially adverse consequences for at-risk countries and the ramifications beyond their borders, policy makers from developed countries and international institutions should work with the affected countries to develop a comprehensive response to quota elimination. Such a response should aim both to help affected countries improve their competitiveness and to facilitate adjustments that inevitably must occur.

Developed countries' responses to quota elimination to date have focused on two areas: (1) extension of limited trade preferences to some developing countries; and (2) actions to curtail Chinese textiles and apparel exports. The inadequacy of current trade preferences and recommendations for their enhancement are discussed later in this section.

With respect to actions to limit Chinese exports, both the United States and the EU have acted under a safeguard provision in China's WTO accession agreement that allows WTO members to limit Chinese textiles and apparel exports in certain circumstances through 2008. The EU has used this provision to negotiate new quotas on ten categories of Chinese textiles and apparel exports,[12] and the United States has imposed new quotas on thirteen products.[13] Additional restraints can be expected.

U.S. and EU action under the safeguard provision will likely deter apparel buyers from abandoning at-risk countries in the short term. Buyers will not want to shift all or even a majority of their orders to China until there is more certainty about China's access to the EU and U.S. markets. That said, the safeguards are a short-term, and likely inadequate, response to the threat faced by at-risk countries. The restraints can only be maintained for three more years (until December 31, 2008) and do not prevent other more industrialized developing countries—such as India—from stepping in to supplant Chinese production. Moreover, the safeguard actions do nothing to promote at-risk countries' exports or assist the countries in overcoming their own efficiency limitations. As such, they do little to promote long-term economic development, and at best, merely preserve an unsatisfactory status quo for a few more years.

In light of the limits of a "contain China" approach, a more comprehensive response is warranted. Such a response should include four elements: (1) enhanced trade preferences for at-risk countries; (2) targeted technical assistance to help at-risk countries improve their overall competitiveness; (3) assistance to help at-risk countries "differentiate" their exports in the global marketplace; and (4) assistance to help at-risk countries manage inevitable dislocations.

Extend and Enhance Preferences

The most immediate and effective means to ensure that at-risk countries retain their current apparel industries in the new hypercompetitive climate is for developed countries to extend enhanced duty-free market access to their apparel exports. The EU and the United States together consume 74 percent of all apparel imports and are the largest overall apparel markets in the world. [14] Access to these two markets is therefore crucial if at-risk countries are to preserve their apparel industries.[15]

Both the European Union and the United States currently provide some preferential access for apparel exports from some of the at-risk countries (see table 2). The EU extends benefits for apparel products under its global Generalized System of Preferences (GSP) scheme, its GSP-plus schemes, and its Everything But Arms (EBA) initiative. The United States extends benefits under three regional GSP schemes—the African Growth and Opportunity Act (AGOA), the Caribbean Basin Trade Preferences Act (CBTPA), and the Andean Trade

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Partnership and Drug Eradication Act (ATPDEA). The U.S. global GSP program does not provide benefits for apparel products.

All of these preference schemes have limitations and should be reformed in at least three ways. First, the programs should be expanded to cover all LDCs and other at-risk countries identified earlier in table 1. (For more on the compatibility of preferences for developing countries with WTO rules, see the box on page 13.) Second, fairly restrictive rules of origin in all the programs undermine the benefits provided; these rules should be modified to fit commercial realities. (Rules of origin determine whether a product receives preferential treatment under a program.) And, third, given that the EU and U.S. programs have the same goals (promoting development in poor countries), policy makers should consider harmonization of the programs—in terms of eligibility requirements, customs requirements, and rules of origin. Harmonization would promote efficiencies and economies of scale to improve at-risk countries' access to and benefit from Western markets.

Country Coverage. The major developed country markets only recently began extending full duty-free treatment to apparel from least developed and developing countries under their GSP and regional preference programs. The EU began this practice in 2001, and the United States started in 2000. However, neither the EU nor the United States provide this benefit to all of the at-risk countries because of explicit exclusions in legislation and the operation of specific exceptions.

EU coverage, while slightly wider than U.S. coverage, still omits a number of at-risk developing countries, including, for example, Sri Lanka and the Dominican Republic. On June 23, 2005, the EU announced a major reform of its GSP preference programs. The new EU scheme, which will come into force on January 1, 2006, could address current coverage issues, depending on how vigorously the new scheme's eligibility criteria are applied.[16]

With respect to the United States, the most glaring omission is the failure to extend apparel preferences to the fourteen UN-designated LDCs not covered by AGOA, CBTPA, or the ATPDEA. Among the fourteen LDC countries not covered, five are at-risk countries: Bangladesh, Cambodia, Laos PDR, the Maldives, and Nepal. In addition, the United States does not extend apparel preferences to one at-risk country that is not an LDC—Sri Lanka. Legislation has been introduced in the U.S. Congress to address these omissions.

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Table 2. Summary of EU and U.S. Preference Programs

Program	Country Coverage	Apparel Rule of Origin (ROO)[a]	Problems with Program/ROO	Percent of Apparel Exports Covered, 2004[b]
EU GSP	All developing countries are eligible. 178 countries are eligible and are participating; some countries are no longer eligible to ship apparel because their exports have reached a certain level (graduation).	Double substantial transformation, bilateral cumulation rule: Apparel qualifies if it undergoes two types of significant processing in a beneficiary country (for example, yarn to fabric, fabric to apparel). Processing in the EU may be counted. Double substantial transformation, regional cumulation rule: Apparel qualifies if it undergoes two types of significant processing in a beneficiary country. Some regional processing may be counted toward meeting this requirement, provided that the value added in the beneficiary country exceeds the value added by other countries in the region. Three regions: South Asia (SAARC), ASEAN, and Latin America.	Program provides a very limited duty preference—qualifying apparel is eligible for only a 20% reduction on the MFN tariff (for example, if MFN tariff is 20%, then the GSP tariff is 16%). Double substantial transformation, bilateral cumulation ROO is very restrictive. Lack of export quality yarns and fabrics in most beneficiary countries undercut commercial feasibility. Bilateral cumulation not feasible for beneficiary countries not close to the EU. Double substantial transformation, regional cumulation ROO is also restrictive. Regional blocks leave out major textiles producers—for example, China, Japan, South Korea, Taiwan and the United States. Also, value addition requirement is typically too high (that is, if apparel is cut and assembled from imported regional fabrics, it is very difficult to meet value-added requirement).	Both rules: 47% of apparel exports from participating countries qualify for limited duty free treatment.
EU GSP Labor	All developing countries that meet certain labor criteria. All 178 GSP-eligible countries are eligible; 2 have met the program's eligibility criteria.	See ROO for EU GSP.	Program provides a very limited duty preference: qualifying apparel is eligible for only a 40% reduction on the MFN tariff (for example, if MFN tariff is 20%, then GSP-L tariff is 12%). See criticisms for EU GSP ROO (above).	Not available.

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EU GSP Environment	All developing countries that meet certain environmental criteria. All 178 GSP-eligible countries are eligible; none have met the program's eligibility criteria.	See ROO for EU GSP.	Program provides a very limited duty preference: qualifying apparel is eligible for only a 40% reduction on the MFN tariff (for example, if MFN tariff is 20%, then GSP-E tariff is 12%). See criticisms for EU GSP ROO (above).	Not applicable.
EU GSP Drugs	Central American and Andean countries, and Pakistan. 12 countries are eligible and all are participating.	See ROO for EU GSP.	See criticisms for EU GSP ROO (above).	Both rules: 88% of apparel exports from these countries qualify for preferences.
EU EBA	All 50 LDCs are eligible and are participating.	See ROO for EU GSP.	African countries do not benefit from regional cumulation provision. See criticisms for EU GSP ROO (above).	Both rules: 58% of apparel exports from EBA countries qualify for preferences.
U.S. GSP	NA	NA	NA	NA
U.S. AGOA	48 countries of sub-Saharan Africa eligible; 37 meet the program's general eligibility criteria and 24 meet the additional apparel eligibility criteria. 2 countries do not qualify for the most generous apparel benefits (the third country fabric rule).[c]	General rule: Apparel qualifies if assembled from U.S. fabric or regional fabric made with U.S. or regional yarns. Special rule ("third-country fabric rule"): Apparel from poorer and designated countries may be made with non-U.S., nonregional fabrics and yarns, up to a cap. Provision expires October 2007.	General rule extremely restrictive. Lack of availability of export quality regional fabrics and yarns, and transportation cost of U.S. fabric make requirements commercially infeasible. Third country fabric provision, under which most qualifying trade occurs, is capped and expires in 2007.	General rule: 9.3% of all apparel exports from the region occur under general rule. Third country fabric rule: 78.4% of all apparel exports from the region occur under the special rule. No preferences: 7.8% of trade does not receive preferences under this program.

U.S. CBTPA	27 countries in the Central American and Caribbean Basin region are eligible and are participating.	General rule: Apparel qualifies if assembled from U.S. fabric made with U.S. yarns. Special rule: Apparel made with regional fabric made with U.S. yarns qualifies up to a cap.	General and special rule are restrictive. Cost and limited selection of U.S. fabrics and very limited regional fabric production reduce utility of the program.	General rule: 54.1% of all apparel exports from the region occur under general rule. Special rule: 13.3% of all apparel exports from the region occur under the special rule. No preferences: 29.8% of trade does not receive preferences under the program.
U.S. ATPDEA	4 Andean countries eligible and are participating.	General rule: Apparel qualifies if assembled from U.S. fabric made with U.S. yarns. Special rule: Apparel made with regional fabric made with U.S. or regional yarns qualifies up to a cap.	General rule extremely restrictive. Very little U.S. fabric is being used in the region. Special rule, under which most qualifying trade occurs, is capped.	General rule: 9.3% of all apparel exports from the region occur under general rule. Special rule: 74% of all apparel exports from the region occur under the special rule. No preferences: 15.5% of trade does not receive preferences under the program.

a. Only the major provisions are described, and they have been simplified. Very specific exceptions to the major provisions and partial preferences (for example, the U.S. 807 program) are not included in the analysis of the amount of trade covered. As a result, figures in the last column do not add up to 100 percent.
b. For EU statistics, percentages received from staff of the European Commission Directorate-General for Trade. For U.S. statistics, OTEXA trade data used.
c. One of the two countries—Mauritius—was given a very limited allowance to use third-country fabric for a very limited period of time.

Rules of Origin. Even for the countries covered, neither the U.S. nor EU programs provide particularly generous benefits because of restrictive rules of origin. Rules of origin determine when a good will be regarded as a product of a country, and in preferential trade programs, also determine whether a product qualifies for preferential access. Rules of origin under preferential trade programs are typically structured to achieve two objectives. The first is to ensure that significant processing occurs in the intended beneficiary countries and not some other country. The second is to promote use of inputs from the country extending the trade preferences (for example, under the U.S. CBTPA program, apparel enters the U.S. duty-free if it is assembled in the region from U.S. or regional fabrics made with U.S. yarns, creating an incentive to use U.S. fabrics and yarns). The first objective is aimed at promoting economic activity in the target country; the second is aimed at creating captive markets for developed country inputs.

Both objectives have some validity. However, more often than not, and particularly with regard to apparel, the objectives are implemented in ways that drastically lessen the actual benefits provided. In particular, the EU and U.S. apparel preference programs include extraordinarily stringent rules of origin that essentially mandate the use of inputs from the country receiving preferences or the country providing the preferences. Such rules of origin often do not match the commercial reality of global apparel trade.

Preferences for Developing Countries and WTO Rules

Unilateral preferences for developing countries violate one of the central principles of the WTO—nondiscrimination or the requirement to treat products from all WTO members the same. That said, WTO rules do allow for unilateral preference programs in certain situations: One is when preferences fall within the terms of the Enabling Clause, and the other is when the member extending the preference obtains a waiver under GATT Article XXV:5. The recommended extension of preferences to at-risk countries could easily be structured to fit within one of these two well-established exceptions.

The Enabling Clause is generally considered the primary basis for most developed country preference programs. In fact, the provision was adopted by WTO members (then known as the GATT contracting parties) in 1979 specifically to enable developed countries to give more favorable treatment to products of developing countries.[a] The Enabling Clause does, however, appear to have some limitations with respect to its scope. Specifically, the WTO's Appellate Body recently interpreted the Enabling Clause as not permitting discrimination between similarly situated developing countries.[b] Therefore, if the United States and EU extended additional preferences to at-risk countries only, they would have to show that the development, financial, and trade needs of the countries warrant such differential treatment and that similarly situated countries are being treated the same.[c]

The second basis for a targeted preference program is a waiver under GATT Article XXV:5. In considering requests for such waivers, WTO members typically consider whether a waiver is sought to address an extraordinary circumstance and whether the waiver promotes the general objectives of the WTO. The Article XXV:5 waiver authority has been used as a basis for insulating actions taken by WTO members to assist developing countries and was the basis for developed country GSP programs prior to the Enabling Clause. Even with the adoption of the Enabling Clause, the waiver authority has been used to justify developed country preference programs that do not conform precisely to the requirements of the Enabling Clause. The United States, for example, sought and received Article XXV:5 waivers for its region-specific GSP programs—namely, the 1984 Caribbean Basin Economic Recovery Act (CBERA) and the 1990 Andean Trade Preference Act (ATPA)—neither of which fit squarely within the terms of the Enabling Clause because of their geographic restriction.

a. The Enabling Clause is formally known as the "Decision of 28 November 1979 on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries."

b. WTO, *European Communities—Conditions for the Granting of Tariff Preferences to Developing Countries*, Appellate Body Report, doc. no. WT/DS246/AB/R, adopted by the Dispute Settlement Body (DSB) on April 20, 2004, doc. no.WT/DSB/M/167 (Geneva: WTO, 2004). The Enabling Clause does specifically allow for discrimination in favor of LDCs. Therefore, the United States and the EU could extend special preferences to LDCs that they do not to other developing countries.

c. The Appellate Body based its conclusion on the language of paragraph 3(c) of the Enabling Clause, which states that preferences "shall…be designed…to respond positively to the development, financial, and trade needs of developing countries." See WTO, *European Communities—Conditions for the Granting of Preferences to Developing Countries,* Appellate Body Report, para. 173.

For example, the general rule under the U.S. AGOA program is that qualifying apparel must be made from U.S.- or regionally produced fabrics. This requirement, however, is not commercially feasible, as reflected in the low percentage of AGOA exports entering under the general rule. First, it is too expensive and time consuming to ship U.S. fabric to the region. For example, it would take fifty-nine days to ship U.S. fabric to South Africa for assembly and shipment back, which would increase the cost of any apparel produced by almost 40 percent.[17] Second, there is little export quality fabric produced in the region.[18] (The AGOA program includes a "special rule" that allows some AGOA countries to temporarily use fabric from any country in the world. That special rule, however, expires in less than two years and is subject to a number of limitations, including a cap on total exports. Many apparel buyers have indicated they will stop sourcing from sub-Saharan Africa once the special rule expires.[19])

Likewise, the European Union's EBA program also imposes commercially infeasible rules of origin. For example, under the EBA's rules, Bangladeshi apparel can qualify for preferential treatment if it is made from Bangladeshi fabric, EU fabric, or in certain circumstances, fabric from one of the other countries in Bangladesh's regional cumulation bloc (the regional cumulation rule). Most Bangladeshi producers cannot use Bangladeshi fabric because of its limited supply and do not use EU fabric because of cost and transit times.

Bangladeshi producers also find it very difficult to use the regional cumulation rule as a basis for qualifying for EBA preferences, because the rule requires that Bangladeshi content exceed all other regional content. That is, if a producer uses Indian fabric, the value of cutting and assembly performed in Bangladesh must exceed the cost of the fabric used. In the real world, fabric costs almost always exceed labor costs. For example, for a pair of men's cotton trousers, fabric production accounts for approximately 58 percent of the value of the garment, while cutting and assembly accounts for 28 percent.[20] In this example, Bangladeshi content, while substantial, is insufficient to meet the EBA's rules of origin requirements.

Given the importance of rules of origin in determining the utility of preference programs, U.S. and EU policy makers should liberalize apparel rules of origin under existing preference programs.[21] One approach policy makers should consider is that taken by Canada in 2003 for the LDCs. Under the Canadian program, LDCs only have to show that apparel assembled in their countries includes at a minimum 25 percent local content (Canadian content can be counted toward meeting that 25 percent threshold). This liberal rule of origin has allowed a number of LDCs, including Cambodia and Bangladesh, to dramatically boost their clothing exports to Canada within a very short period of time.[22]

Harmonization. Currently, developing countries exporting to the EU and U.S. markets have to meet similar, but not identical, customs requirements and rules of origin. Harmonization of both would ease administrative burdens on the countries and producers and could help promote economies of scale.

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The Argument for Restrictive Rules of Origin

Some developed country policy makers argue that rules of origin mandating the use of regional inputs promote long-term development by creating incentives for developing a textiles industry. Textiles production is considered a benefit because the industry is more stable than the apparel industry and results in greater value added in the target country.

This argument, however, is flawed in two respects. First, there is no evidence that strict rules of origin have promoted the development of textiles industries in developing countries.[a] Second, and more significant, this argument ignores the experience of the largest and most successful apparel exporting country to date—China. China is both the largest apparel and largest textiles manufacturer in the world. Yet, nearly half of Chinese apparel exports are manufactured using foreign inputs. This is not because China lacks sufficient textiles capacity. China has significant idled productive capacity, much of it state of the art. Rather, the frequent use of imported fabrics occurs because Chinese manufacturers use imported textiles when necessary to meet their customers' demand. China's apparel producers understand that to be competitive, they must be able to produce exactly to their customers' specifications, including when those specifications require use of foreign inputs because the same input is not domestically available. Apparel-producing countries that cannot source fabric freely are less competitive compared with China.

a. Paul Brenton, "Integrating the Least Developed Countries into the World Trading System: The Current Impact of EU Preferences under Everything But Arms," World Bank Research working paper 3018 (Washington: World Bank, 2003), 18.

With respect to customs requirements, the EU and U.S. programs require that beneficiary countries adopt measures to prevent illegal apparel transshipments. Such measures include (1) requiring beneficiary governments to issue export certificates of origin, (2) requiring beneficiary governments to conclude agreements allowing EU and U.S. customs authorities to conduct on-site factory inspections, and (3) requiring producers to maintain fairly detailed production records. These requirements all impose significant administrative costs, both on the beneficiary government and on the factories. Unfortunately, because the EU and U.S. customs rules are not identical, countries and producers that ship to both markets effectively incur twice the cost. Given that the EU and U.S. customs requirements have the same objective—preventing illegal transshipments—it should be feasible to harmonize the requirements, thereby reducing the administrative burden on the countries and producers.

A similar situation exists with respect to apparel rules of origin. As indicated in the previous section, the EU and the United States impose different rules of origin for apparel products that mandate use of different inputs. As a result, producers in countries eligible for preferences in both markets have to either set up two entirely different production lines for the same product or sell into only one of the two markets. In reforming rules of origin, policy makers should explore ways to harmonize them to help developing country producers efficiently export into both markets.

Improve Overall Competitiveness with Targeted Technical Assistance

Although the extension of preferences is likely to help at-risk countries maintain their apparel industries, it is a short-term response at best. Once the WTO safeguard provision expires and as China's reliability as a supplier increases, at-risk countries will face increased competitive pressures that may not be offset by trade preferences alone. Therefore, developed country policy makers need to consider additional steps to promote the viability of the apparel industries in these countries over the long term. One major step they can take is to provide targeted technical assistance and capacity building to help at-risk countries improve their overall competitiveness. Such capacity building needs to be more focused than that provided to date and, specifically, should center on how to help at-risk countries meet apparel buyers' expectations and demands.

It should be noted that this technical assistance does not "prop up" uncompetitive industries. The assistance advocated is similar to the assistance wealthier countries provide to their industries, such as creating a reliable transportation and communications infrastructure and ensuring the presence of a skilled workforce (through access to education). Moreover, private sectors in wealthier countries also have access to mature capital markets, which provide the financial assistance that support modernization and expansion efforts similar to those recommended here.

What Buyers Want. There are three major types of apparel buyers: (1) retailers (such as Gap, Wal-Mart, and so on); (2) marketers (such as Nike and Liz Claiborne, which focus on design and marketing functions but contract actual production to others); and (3) branded manufacturers (apparel companies, such as the Sara Lee Corporation, that manufacture apparel but that also source from unrelated factories). Each of these groups may have different methods of sourcing, but each also makes sourcing decisions based on common priorities. Broadly, the most common priority is price, as buyers face ever increasing competition for consumers in developed country markets. Although a range of factors affect price, buyers cite two factors other than tariffs as particularly significant: (1) the ability of a producer to handle all aspects of apparel production ("full package" production); and (2) speed and reliability to market.[23] The challenge for at-risk countries is to increase their proficiency in both areas.

Full Package Production. Apparel production in developing countries has evolved considerably over the last fifteen years. Initially, apparel producers in developing countries operated as contract assemblers for apparel buyers. All three types of apparel buyers (retailers, marketers, and branded manufacturers) provided the design, fabric, and trims for an apparel product and hired developing country producers to cut and sew the products according the buyer's specifications. Developing country apparel producers never "owned" the inputs or final products and were not responsible for handling any logistics (for example, selection of fabrics and trims, purchase and importation of fabrics and trims, export of the final products).

Increased competition among all types of apparel buyers for market share in developed countries has, however, led to fundamental changes in buyer sourcing behavior. Today, in an effort to lower costs by reducing overhead, buyers now expect apparel producers to assume many of the functions that buyers used to perform. This sourcing model is known as full package production. Full package production requires managerial know-how in design, fabric procurement, intellectual property rights protection (design protection), export financing, and handling trade formalities.[24]

Most of the at-risk countries are just beginning to transition from contract assembly to full package production. However, they face a number of obstacles in making this transition, including:

- **Harmful home government policies.** The most important aspect of full package production is the ability to give the customer precisely what is requested. That means having quick access to the many specialty fabrics, yarns, and trims used in the production of most apparel today. However, most at-risk countries do not produce textiles or trims in the variety or quality that apparel buyers demand and must source these inputs from other countries.[25] Unfortunately, to encourage consumption of domestically produced inputs, many at-risk country governments maintain policies that impede or raise the costs for their apparel producers to purchase needed inputs abroad. The clearest examples of such policies are the high tariffs applied to imported fabrics and trims, and restrictions on the ability of apparel producers to get access to capital to purchase foreign inputs. For example, Bangladesh's average duty on imported textiles is 28.4 percent.[26] More often than not, these policies do not encourage the consumption of domestic inputs (which often cannot be used because they do not precisely meet the buyer's specifications) and only serve to raise costs for producers.

- **Lack of human capital.** At-risk country producers often lack managers with the full range of skills needed to provide full package services. Examples of areas where additional expertise is needed include product design, translating apparel designs into production patterns, and supply chain management. Most at-risk countries do not have vocational or graduate schools that provide instruction in these areas.

- **Infrastructure impediments.** Full package production requires apparel producers to have access to modern equipment and facilities to provide the new services demanded. For example, JCPenney, Wal-Mart, and other retailers increasingly want producers to provide "point of sale" (POS) replenishment, which means that a producer "automatically" begins to restock a product based on POS data collected directly at the retail level. To access POS data, a producer must be able to tap into a retailer's inventory system, which requires a modern and reliable telecommunications infrastructure.

Developed country policy makers and multilateral institutions should assist at-risk countries in identifying and addressing the myriad impediments to creating full package apparel industries. In some areas, the key action needs to be taken by the at-risk country (for example, reduction of import tariffs). In other areas, such as training managers in supply chain management and addressing infrastructure issues, outside assistance is crucial.

Speed and Reliability to Market. As indicated above, fierce competition among all types of apparel buyers for market share in developed countries has led buyers to look for ways to reduce their costs. One technique widely embraced by all apparel buyers to achieve this goal has been to move to a low- or no-inventory business model. However, to make this business model work, buyers need to know that their suppliers are capable of just-in-time delivery. As

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a result, speed and reliability to the market now play an increasingly important role in apparel buyer purchasing decisions.

Four key factors are at play regarding speed and reliability: (1) proximity to the export market; (2) adequacy of the transportation infrastructure; (3) efficient customs administration; and (4) adequacy of the telecommunications infrastructure. With respect to proximity to the export market, most of the at-risk countries are not close to the two major developed country markets (the U.S. and EU markets). However, at-risk countries can compensate for their lack of proximity by improving the other components of speed and reliability.

Transportation Infrastructure. An efficient transportation infrastructure can make a geographically distant supplier more competitive globally because it reduces shipping time and thereby reduces costs. In fact, economists estimate that each day saved in shipping time is equivalent to a 0.5 percent reduction in import tariffs.[27] Among the key determinants of an efficient transportation infrastructure are good roads, railways, ports, and airports.

Most at-risk countries could improve in each of these areas. For example, in a recent report on the Bangladeshi apparel industry, International Monetary Fund staff identified congestion on roads and a lack of cranes at the main port (Chittagong) as two major impediments constraining the competitiveness of the Bangladeshi apparel industry.[28] Both issues should be resolvable, particularly with targeted aid from developed countries.

Customs Administration. Customs administration is another key factor affecting speed and reliability, and it has repercussions for both production and transit times. On the production end, apparel manufacturers that use imported textiles inputs (fabrics, yarns, and trimmings) depend on the efficient processing of imported goods. If fabric is delayed at a port of entry, entire production cycles can be disrupted, resulting in lost orders. Likewise, customs administration also affects the exit of goods. In many developing countries, producers may be able to quickly fill an order, only to find themselves unable to complete the transaction when the goods are held at port by customs officials.

Customs administration is a difficult issue to address, because it not only involves streamlining government processes (for example, reducing documentation requirements and automating customs processes), but also involves attacking problems of corruption. One avenue to pursue improvements to customs administration is through the trade facilitation negotiations occurring in the current round of WTO talks.

Telecommunications Infrastructure. Yet another factor is the telecommunications infrastructure, which plays an important role in ensuring that suppliers can provide full package production. Telecommunications is essential for many advanced elements of production such as POS replenishment. It is also crucial for basic full package services, such as being able to locate and coordinate with input suppliers.[29] Action by both at-risk country governments and developed countries is likely needed to be able to address this impediment.

Differentiate Exports in the Global Marketplace

Beyond the traditional competitiveness factors identified above, developed country policy makers and international institutions should find other ways to help at-risk countries make themselves more attractive in the global marketplace. One area to consider is helping at-risk countries differentiate themselves from other apparel producing countries by creating a reputation for respecting workers' rights.

Over the last twenty years, as apparel manufacturing has migrated from developed countries to poorer and poorer countries, developed country consumers have expressed concern about the conditions under which apparel is being produced. Activists have driven this growth in consumer awareness by exposing egregious working conditions in factories around the world and through aggressive consumer boycotts against retailers who source (knowingly or unknowingly) from abusive producers. As a result of these campaigns, many apparel buyers have developed codes of conduct for producers from which they purchase and monitor compliance with such codes themselves or through outside monitors.

Developed countries should work with at-risk countries to capitalize on the increased weight buyers place on working conditions in factories. Such a strategy would make at-risk countries more attractive to buyers in at least three respects. First, image-conscious buyers will be attracted to sourcing from countries that pose a low risk to their reputations. Second, if a country or industry raises its standards and improves its monitoring mechanism, it should obviate the need for separate codes and monitoring and thereby reduce buyers' costs. Third, better working conditions can result in more reliable and efficient production. For example, in Cambodia, prior to an aggressive effort to improve respect for labor standards in the late 1990s, Cambodian apparel factories were plagued by frequent work stoppages and high worker turnover. With the implementation of a unique labor monitoring program, the numbers of strikes have dropped, and factory retention rates have risen.

In fact, the Cambodian experience provides a potential model for policy makers to consider in this area. This innovative project between the Cambodian and U.S. governments, Cambodian manufacturers, local labor groups and the International Labor Organization is widely credited with not only improving conditions for workers in factories and improving overall industrial relations, but also creating a "brand security" market niche for Cambodian producers.[30]

Address Inevitable Dislocations

The fourth and final area that policy makers should consider as part of a comprehensive response to quota elimination is assisting at-risk countries in creating externally funded adjustment assistance programs to help workers and poor households in the apparel sector secure employment in other areas. This recommendation addresses the harsh fact that even with all the steps outlined above, some at-risk countries will lose a significant portion of their apparel sector.

This recommendation has two components. The first focuses on helping at-risk countries diversify their economies and create new jobs to replace those lost. The second component is to ensure that displaced apparel workers have the necessary skills for these new jobs.

The first component—job creation—is likely the most vexing. As discussed above, many of these countries lack diversified economies and face considerable internal and external impediments to diversification. Still, there are steps that can be taken to help the countries diversify. As a starting point, assistance should be given to at-risk countries to undertake in-

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depth studies to identify (1) existing exports that could be increased by improving productivity or quality, (2) new products or services the countries could produce based on their natural endowments, and (3) value-added products that could be produced by further processing of existing export products (such as exporting chocolate rather than cocoa beans). Such studies should also identify major domestic and international barriers that may be inhibiting growth in these sectors and make recommendations on how the countries can overcome such barriers.

Another step developed countries can take to help at-risk countries diversify is to create incentives for investment in the countries. Many of the at-risk countries simply lack the access to capital needed to finance the development of new industries or make improvements to existing industries. Developed countries can bridge this capital gap by providing their investors with favorable financing for investments, as well as favorable tax treatment for income earned.

With respect to the second component—retraining for apparel workers—some may question why it is appropriate to provide special treatment to apparel workers in economies with large unemployed populations. Ideally, job training and employment opportunities would be available to the entire working population. Given resource and administrative limitations, however, widespread intervention may not be feasible, necessitating a more targeted approach.

Targeting apparel workers can be appropriate for two reasons. First, loss of an apparel sector job is likely to pull more households back into poverty than the loss of jobs in other sectors. Second, apparel sector workers in some at-risk countries are among the most skilled workers in workforces dominated by agricultural workers. In many instances, they are the only workers with some proficiency in manufacturing work. Preservation and use of such skills is important for at-risk countries to continue to climb up the industrial development ladder.

One model to consider in structuring such a program is the trade adjustment assistance (TAA) program used by many developed countries. Such programs aim to retrain workers who lose their jobs so that they are better positioned to compete in an increasingly global marketplace. Developed-country TAA programs typically provide eligible workers with income support while they are in training, subsidized or free training, and job placement assistance.

The primary challenges to implementing similar programs in developing countries are threefold: (1) funding; (2) creating capacity to administer the programs; and (3) identifying appropriate training and mechanisms to deliver training. Most at-risk countries cannot afford to finance such programs on their own. Accordingly, external funding is necessary. International financial institutions are the most logical source of funding, and some receptivity may exist there. Both the World Bank and International Monetary Fund have already indicated that they will support trade policy-related adjustment assistance for developing countries as part of the Doha round. The question is whether that support can be broadened beyond assistance to address national balance of payments problems, which has been the focus to date.

Developing capacity to administer such a program will be difficult and require management, accounting, logistical, and financial control systems that are lacking in many of these countries.[31] Yet, the burden of implementing a program targeted at workers in one sector should be easier than a general program, because the universe of workers is more easily defined. Moreover, government officials should be able to work with employers and unions (where they exist) to reach the appropriate workers and create mechanisms to disseminate benefits.

With respect to training, two problems emerge from studies of the limited worker training programs available in developing countries. The first is the tendency of governments to promote short-term training, which is not as effective at fostering skills development. The second is the tendency to rely on a single training provider that often fails to adapt training to meet current challenges.[32] One way to address these problems is to develop the training programs in conjunction with the analysis of existing and new export opportunities.

Conclusion

For fifty years, developed country protectionism in the apparel sector inadvertently helped poorer developing countries start on the path to industrial development. With quota elimination, that path has become much steeper and more challenging. Smaller, less industrialized developing countries can rise to this new challenge, but to do so, they need the active assistance of developed countries, including the United States and the EU.

This paper recommends that developed countries provide assistance in four areas: (1) enhanced trade preferences; (2) targeted technical assistance to improve overall competitiveness; (3) assistance with "differentiating" exports in the global marketplace; and (4) assistance to manage inevitable dislocations. The window for such assistance is limited and should occur during the three-year period of transition created by U.S. and EU actions under the China safeguard. The failure to act now will have major long-term ramifications, both within the affected developing countries and outside their borders. ■

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[1] For discussion of the history of quotas, see Dean Spinanger, "Textiles Beyond the MFA Phase-Out," CSGR working paper no. 13/98 (Warwick, UK: Centre for the Study of Globalisation and Regionalisation, University of Warwick, July 1998), 2; and *Overview and Compilation of U.S. Trade Statutes*, Committee on Ways and Means Committee, U.S. House of Representatives, WMCP-108-5 (Washington, D.C.: GPO, June 2003), 157–63.

[2] Organization for Economic Cooperation and Development (OECD), *A New Map in Textiles and Clothing: Adjusting to Change* (Paris: OECD, 2004), 95, table 3.1.

[3] U.S. International Trade Commission (USITC), *Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market*, inv. no. 332-448, USITC Publication 3671 (Washington, D.C.: USITC, January 2004), 2–7; OECD, *A New Map*, 35.

[4] World Bank, *Cambodia: Seizing the Global Opportunity: Investment Climate Assessment and Reform Strategy* (Washington, D.C.: World Bank, August 2004), ii.

[5] Xinshen Diao and Agapi Somwaru, "Impact of the MFA Phase-Out on the World Economy: An Intertemporal Global General Equilibrium Analysis," TMD discussion paper no. 9 (Washington, D.C.: International Food Policy Research Institute, October 2001), 8–9.

[6] Diao and Somwaru, "Impact of the MFA Phase-Out," 2.

[7] See for example, Mohammad Yunus, "Reducing Barriers to Trade Between the United States and the Least Developed Countries: A Congressional Policy Forum," remarks given at the U.S. Senate, Washington, D.C., April 28, 2005, available at www.carnegieendowment.org/files/TRADE_Act%20Speakers.doc; Evelyn Iritani, Marla Dickerson, and Tyler Marshall, "A World Unravels: When Fear Follows Fabric along the Assembly Line," *Los Angeles Times*, January 17, 2005.

[8] See for example, J. F. Francois, B. McDonald, and H. Nordstrom, "The Uruguay Round: A Numerically Based Qualitative Assessment," in *The Uruguay Round and the Developing Countries* (Cambridge: Cambridge University Press, 1996), 183–215.

[9] For a review of the literature, see OECD, *A New Map*, Annex A.

[10] World Trade Organization (WTO), *WTO Ministerial Declaration* (Geneva: WTO, November 20, 2001), para. 42 and 43.

[11] Nayyar Deepak, "Cross-Border Movements of People," working paper no. 194 (New York: World Institute for Development Economics Research, United Nations University, August 2000), 8–10; Alain Labrousse, "Dependence on Drugs: Unemployment, Migration and an Alternative Path to Development," *International Labour Review* 129, no. 3 (1990).

[12] Available at www.europa.eu.int/comm/trade/issues/sectoral/industr/textile/memo100605_en.htm.

[13] Available at www.otexa.ita.doc.gov/safeguards05.html.

[14] OECD, *A New Map*, 79.

[15] One additional area worth exploring is whether industrialized developing countries such as Brazil, China, and India should extend preferential treatment to apparel exports from at-risk countries and LDC at-risk countries in particular. All three of these major industrialized developing countries have growing consumer classes and, given their proximity to some of the at-risk countries, are potentially lucrative export markets. Moreover, all three maintain fairly high tariffs on apparel. OECD, *A New Map*, 57, table 2.8.

[16] Council Regulation (EC) No. 980/2005 of 27 June 2005 on Applying a Scheme of Generalised Tariff Preferences, *Official Journal of the European Union* (Brussels: European Union, June 27, 2005).

[17] OECD, *A New Map*, 182, table 5.2.

[18] USITC, *Textiles and Apparel*, 3–42.

[19] See for example, Rodney Birkins, Jr., "The AGOA Acceleration Act of 2004," testimony before the U.S. House of Representatives, Committee on Ways and Means, Subcommittee on Trade, Hearing on Trade with Sub-Saharan Africa and H.R. 4103, April 29, 2004, available at http://waysandmeans.house.gov.

[20] For a breakdown of the costs of production for a pair of cotton trousers, see OxFamGB's written submission for the European Commission, "Rules of Origin in Preferential Trade Agreements," March 1, 2004, para. 8.

[21] In addition, the EU is in the process of reviewing its preference program rules of origin and may propose a major modification in the next few months.

[22] OECD, *A New Map*, 24.

[23] For an overview of the factors that buyers deem significant in making sourcing decisions, see USITC, *Textiles and Apparel,* ch. 3; OECD, *A New Map*, ch. 1, 5; Soamiely Andriamananjara, Judith Dean, and Dean Spinanger, "Trading Textiles and Apparel: Developing Countries in 2005" (May 2005), presented at the Seventh Annual Conference on Global Economic Analysis, Washington DC, 2004.

[24] Richard P. Appelbaum, "Assessing the Impact of the Phasing-out of the Agreement on Textiles and Clothing on Apparel Exports on the Least Developed and Developing Countries," Global and International Studies Program Paper no. 33 (Santa Barbara, CA: University of California, Santa Barbara, 2004), 6.

[25] OECD, *A New Map*, 13.

[26] OECD, *A New Map*, 194, table 5.6.

[27] OECD, *A New Map*, 179.

[28] Montfont Mlachila and Yongzheng Yang, "The End of Textiles Quotas: A Case Study of the Impact on Bangladesh," IMF working paper no. WP/04/108 (Washington, D.C.: International Monetary Fund, June 2004), 22.

[29] Other factors play into reliability, such adequacy of the power infrastructure. Assistance should be considered in this area as well.

[30] For more information on the Cambodia program, see Sandra Polaski, "Cambodia Blazes a New Path to Economic Growth and Job Creation," Carnegie paper no. 51 (Washington, D.C.: Carnegie Endowment for International Peace, October 2004).

[31] See for example, W. James Smith and Kalanidhi Subbarao, "What Role for Safety Net Transfers in Very Low Income Countries?" World Bank Social Protection Discussion Paper 0301 (Washington, D.C.: World Bank, January 2003.)

[32] See for example, Gustavo Márquez, "Unemployment Insurance and Emergency Employment Programs in Latin America and the Caribbean: An Overview," Inter-American Development Bank Conference on Social Protection and Poverty (Washington, D.C.: Inter-American Development Bank, February 5, 1999).

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