

**MARKET ACCESS FOR LEAST-DEVELOPED COUNTRIES
IN THE TEXTILES AND CLOTHING SECTOR AFTER THE EXPIRY OF ATC**

Initial Submission from the Least-Developed Countries

The following communication, dated 18 October 2004, is being circulated at the request of the Delegation of Tanzania on behalf of the least-developed countries.

1. International trade in Textiles and Clothing is to be integrated into the normal rules and disciplines of the GATT/WTO from the beginning of 2005. This will bring an end to a quota system that prevailed almost half a century, and heavily influenced the pattern of trade in Textiles and Clothing.
2. The MFA, and subsequent ATC, although a derogation from the basic principles of the multilateral trading system – was not the only derogation. It immensely contributed to the growth of LDCs' exports of textiles and clothing. The quota availability has given predictable market access for LDCs, and motivated local as well as foreign entrepreneurs to develop local industries.
3. Along with quota availability, preferential market access played a critical role in the export growth of LDCs. The EBA initiative of EU (adopted by EU in 2001), the AGOA initiative (adopted by US in 2000), and recent market access improvements in favour of LDCs adopted by many, including Canada and Australia, have provided unprecedented opportunities to expand markets for LDCs' exports. With a view to taking advantage of these preferential schemes, many LDCs have started building their capacity in sectors such as Textiles and Clothing. Several LDCs have been able to attract FDI in Textiles and Clothing sector as a result of the preferential schemes. Some other LDCs are now in the process of developing their Textiles and Clothing Industry, and have been preparing themselves to effectively utilize the preferences given to them.
4. Textile and Clothing, particularly the latter, play a vital role in economic development of LDCs. It offers opportunities for diversification, generates foreign exchange earnings, contributes to the development of Small and Medium scale enterprises and, most importantly, generates employment at comparatively low cost. In fact, women make up the vast majority of workforce in garment factories. Any dislocation in this sector would have severe consequences in terms of job and income losses, jeopardizing their socio-economic situation.
5. The export basket of LDCs is very narrow. While half of the LDCs, for their export earnings, rely on the export of primary products, a large number of LDCs entirely depend on two/three-manufactured products, including textiles and clothing. The overall performance of their economies is thus highly contingent on the success of these sectors.
6. With the imminent phase out of the ATC, the established pattern of trade would be disturbed. The market structure evolved over the past decades would undergo massive change. Existing supply network will be upset. In this process, some countries will emerge as winners, while many others will

be crowded out. Already, we have seen the impact in areas where quotas have been lifted. Preliminary studies indicate a possible major loss of LDCs' market share in textiles and clothing trade.

7. The LDCs have made whatever market inroads they could, despite operating under severe structural handicaps. Effective backward linkage has not taken place to encourage vertical integration in this sector. Port, shipping and related infrastructure is fragile. Given the present level of development, if the preferences are eroded, many LDCs may be driven out of business. They are also highly vulnerable in areas which will determine the future of trade in this sector after the withdrawal of quotas. These include, but are not limited to, proximity to major markets, links in the supply chain and distribution network, bargaining position with the transnational intermediaries, and sheer economic size. The impact of phase out of ATC and other preferences may be significant for LDCs.

8. It is recognized that given different levels of development, benefits from MFN trade liberalization cannot be evenly distributed. Countries that benefit most are those that have developed competitive productive capacities and have created a diversified export base to take maximum advantage of new trade opportunities. The low level of economic development in the LDCs attests to the fact that their industrial capacity needs to be strengthened before they embark on any adjustment process, and participate under free play of market forces.

9. Historically, trade policy in Textiles and Clothing has always been selective. The early industrializers traversed the ladder of growth with the boom of Textiles and Clothing, and which flourished under protection and active government intervention. Even now, this sector is subject to tariffs peaks and non-tariff barriers. Most LDCs are at the initial stage of their industrial development and need the gestation period, and appropriate cushion, to move up to a mature stage. The *sine qua non* of a robust economic growth is a booming manufacturing export sector.

10. With the emerging trends, particularly in the clothing sector, the scenario of LDCs' market access after the expiry of ATC appears bleak. Apart from the projected loss of share in textiles and clothing, the preferential margins that the LDCs currently enjoy are also soon to be eroded under the NAMA negotiations. The LDCs will need to be assisted through concrete measures to adjust to the new and more competitive market access conditions, and to prevent their further marginalization in the world economy.

11. The challenges for the LDCs to survive in the post ATC environment are daunting. Without international support and intervention in the WTO, most LDCs will not be able to withstand this shock.

12. LDCs are committed to the multilateral trading system, and are ready to discuss the issue within the parameters of the system, and to accept any solution that is consistent with the objectives and principles of the system. The Marrakech agreement establishing the WTO recognized the need for positive efforts designed to ensure that developing countries, and especially the LDCs, secure a share in the growth in international trade. The LDCs see trade as an instrument of development, and the Members can ensure that in a development round the LDCs do not lose an opportunity for accelerated economic development.

13. These concerns have prompted the LDCs to request the WTO to: (a) identify the problems associated with the phase out of the ATC; (b) analyze the scenario of market access in the textiles and clothing sector for LDCs after the expiry of ATC; and (c) suggest measures so that market share of LDCs is retained, the adjustment process in the post ATC period is less painful, and the transition to the integration of the Textiles and Clothing sector into the multilateral trading system for LDCs is smooth, while market disruption is minimal.

14. A group of countries had made a submission in the Council for Trade in Goods held on 1 October 2004 requesting WTO to undertake a study on the impact of the phase out of ATC and to develop a work programme. Several LDCs have joined that initiative. Any outcome from the consideration of this issue in the Sub Committee on the LDCs could assist the CTG in their effort.
