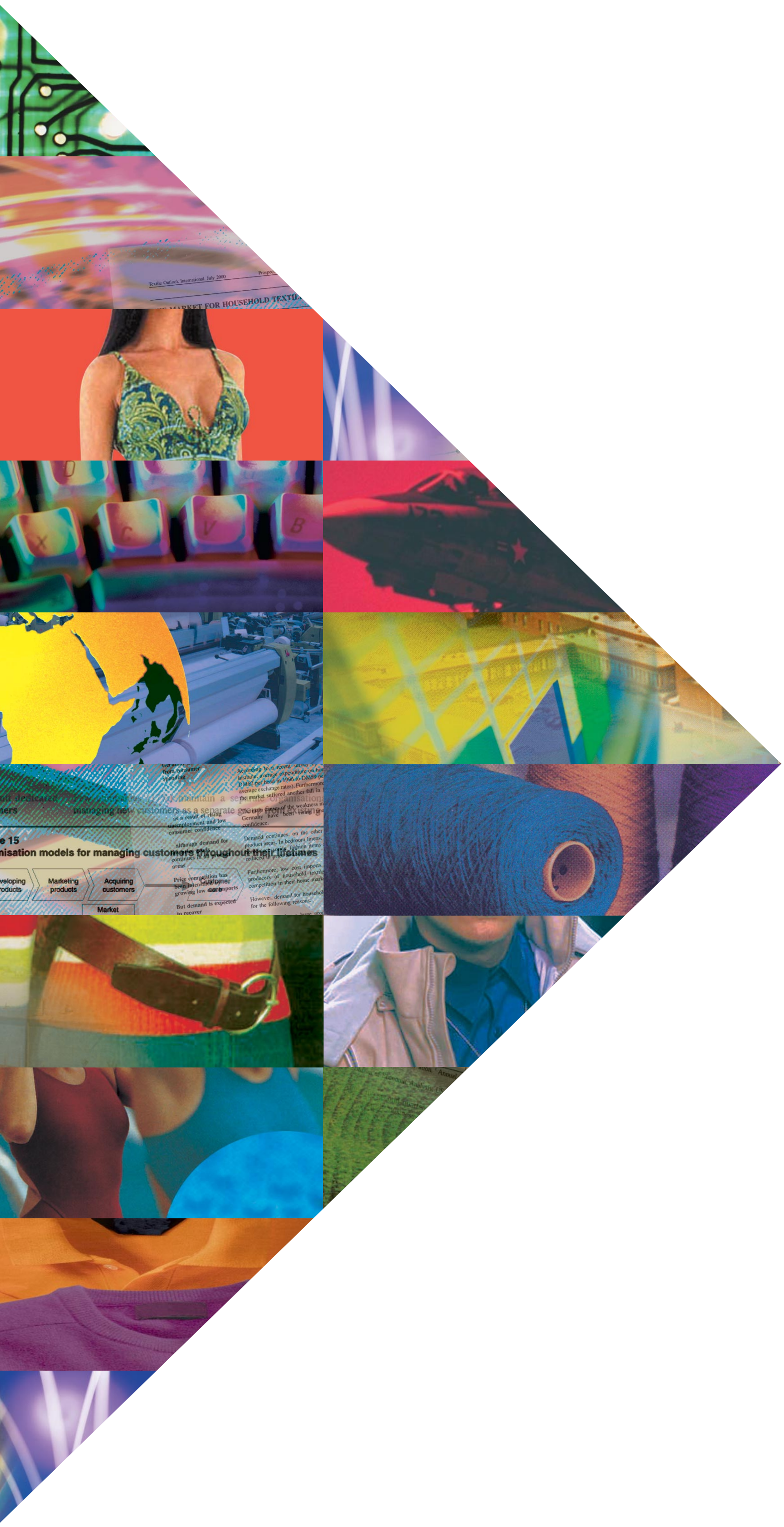
Textiles Intelligence



World Textile and Apparel Trade and Production Trends, Edition 1, 2006

by Textiles Intelligence

Published May 2006

ISBN 1-905576-34-X and 978-1-905576-34-0

Textiles Intelligence
Textiles Intelligence Limited
10 Beech Lane, Wilmslow SK9 5EY
United Kingdom

Telephone +44 (0)1625 536136
Facsimile +44 (0)1625 536137
Email info@textilesintelligence.com
Website www.textilesintelligence.com

All statistics are drawn from official national and international sources unless otherwise indicated.

All tons are metric tons unless otherwise stated.

n/a = not available or not applicable

Textiles Intelligence

Textiles Intelligence Limited is a company formed to handle the portfolio of fibres, textiles and clothing publications previously produced by the Economist Intelligence Unit.

It is our commitment, through a wide range of Special Reports and three regular titles, *Performance Apparel Markets*, *Technical Textile Markets*, and *Textile Outlook International* to supply you with the highest quality business information about the international fibres, textiles and clothing industries.

List of contents

List of tables

World Textile and Apparel Trade and Production Trends, Edition 1 2006

SUMMARY

US textile output fell for the eighth time in 2005 as import volumes rose. Clothing output was down for the 11th year in a row despite healthy consumer spending. Surprisingly, textile industry profits rose sharply, and clothing profits by a comfortable margin. Meanwhile, China stepped up its sales to the USA although growth was more moderate. In Argentina growth slowed after brisk expansion in recent years. Growth was also slower in Brazil as sales to the US market barely rose. Falling US demand also hit Colombia, leaving hopes pinned on the Andean Trade Promotion and Drug Eradication Act (ATPDEA), US safeguard quotas against China, and the Trade Promotion Agreement (TPA). Mexico suffered from a transfer of US orders to Central America and the Dominican Republic as well as to Asian countries. But anti-dumping duties are helping to fend off imports from China in the domestic market. EU output fell again in 2005 as imports grew, and consumer spending and exports remained sluggish. China stepped up its shipments by 41.3% in value and increased its share of imports to 28.9%, leaving Turkey a distant second with 15.0%.

The industry in China progressed in 2005 in spite of new US and EU quotas on its exports. Output and investment expanded as exports rose by over 20%. But officials say problems of misdirected investment and a lack of self-discipline need to be addressed if China is to maintain and enhance its competitive position. In Hong Kong domestic exports continued to fall as more production was shifted to mainland China—although the new quotas against China have led to a resurgence in outward processing arrangements (OPA). In Japan output continued to fall, especially in clothing, as operations were moved abroad and imports rose. China alone supplied 82% of Japanese clothing imports in 2005. South Korea's industry also faced growing competition, especially in clothing. The industry is looking for help from the US-South Korea Free Trade Agreement although a deal with India may be concluded in 2007. Taiwan also suffered from falling exports and output in 2005 as the shift to low cost countries continued.

USA

CONSUMER EXPENDITURE

US consumer spending on clothing expanded at a rapid pace in 2005

US consumer demand for clothing continued to expand at a rapid pace in 2005, helped by low prices at retail. Consumer expenditure on clothing and footwear grew by 5.0% to US$345.4 bn in 2005, following increases of 2.4% in 2003 and 5.9% in 2004.

But the share of clothing and footwear in total spending on non-durable goods has continued to fall

Despite this sound performance, the share of clothing and footwear in total spending on non-durable goods has continued to fall. In 2005 it was down to 13.5%, compared with 13.9% in 2004 and 15.3% in 2000.

Rising crude oil prices could hit spending, although lower prices should keep volumes up and even boost spending in value terms

Clothing demand is likely to remain on solid ground in 2006 although rising crude oil prices could have an adverse effect on economic growth and consumer spending. But declining prices for apparel at the retail end is likely to keep spending volumes at or above current levels—which may also help to boost spending in value terms.

RETAIL SALES

Two segments of the retail market reaped substantial benefits from the expansion in domestic demand for clothing

Two segments of the retail market reaped substantial benefits as a result of this expansion in domestic demand for clothing, namely:

- clothing and clothing accessory stores; and
- warehouse clubs and superstores.

In 2005 clothing and clothing accessory store sales rose 7.2% to an all-time high

Sales by clothing and clothing accessory stores grew by 7.2% to an all-time high of US$146,950 mn in 2005 after registering a 6.9% jump during the previous year.

Family clothing stores also performed well

Similarly, sales by family clothing stores performed well in 2005 with an increase of 7.3% to US$77,268 mn.

Women's and men's clothing stores also increased their sales

Sales by women's clothing stores also rose, by 5.8% to US$36,735 mn, while sales by men's clothing stores advanced by 4.2% to US$9,437 mn.

Warehouse clubs and superstores did even better at 11.7%

In the case of merchandise sold at warehouse clubs and superstores, growth was even higher as total sales by this segment increased by 11.7% to US$270,771 mn in 2005.

But sales by department stores fell 0.8%

On the other hand, sales by department stores fell by 0.8% to US$220,305 mn in 2005. At this level, they were 8.2% lower than in 2000.

In spite of offering better value and stronger brands, conventional department stores continue to lose out to discount stores

Conventional department stores—including Macy's, Sears and Saks—have sought to offer better value and stronger brands to consumers. Nonetheless, they have found it hard to compete with large discount stores such as Wal-Mart and Target in a market which continues to be driven mostly by price.

In order to compete, Sears has merged with Kmart and Macy's has joined with May

In an effort to increase their competitiveness, Sears merged with discount retailer Kmart in March 2005 while Macy's merged with May Department Stores in August 2005.

Wal-Mart remained the world's largest retailer in 2005/06 as sales rose 9.5%

Wal-Mart remained the world's largest retailer in 2005. The company's total sales grew by 9.5% to US$312,427 mn during its 2005/06 fiscal year, which ended on January 31, 2006.

Its net earnings grew by 9.4% to US$11,231 mn

Net earnings advanced by 9.4% to US$11,231 mn in 2005/06, from US$10,267 mn in 2004/05.

Target's sales advanced by 12.3% but its net earnings fell by a significant 24.7%

Sales by Target—Wal-Mart's closest competitor in the US market—advanced by 12.3% to US$52,620 mn during its 2005/06 fiscal year, which ended on January 28, 2006. However, Target's net earnings declined by a significant 24.7% during this time, from US$3,198 mn in 2004/05 to US$2,408 mn in 2005/06.

US IMPORT MARKET

Clothing imports

US clothing imports grew moderately in 2005

The US import market for clothing expanded at a moderate pace in 2005.

Growth was spurred by the end of quotas, but the overwhelming surges predicted did not materialise

Imports were spurred by the global elimination of quotas on international textile and clothing trade[1] at the end of the previous year. However, the overwhelming surges which the US textile industry had predicted did not materialise.

The volume of imports grew by 10.3% and their value by only 6.1%

Clothing imports went up by 10.3% to 22,009.8 mn sme (square metres equivalent) in terms of volume and rose by a somewhat more restrained 6.1% to US$68,713.3 mn in value terms.

But growth in cotton clothing was particularly upbeat at 13.9% in volume terms and 10.0% in value

Demand for cotton clothing was particularly upbeat in 2005. Total imports of these items grew by 13.9% to 12,796.2 mn sme in terms of volume and by 10.0% to US$41,142.0 mn in value terms during the year.

Man-made fibre garments performed less well, especially in value terms

Man-made fibre garments did not perform nearly as well although they still managed growth rates of 7.4% to 8,199.4 mn sme in volume terms and 1.6% to US$20,763.7 mn in value terms.

Wool clothing advanced by 7.7% in volume but SBVF clothing fell by 10.9%

Imports of wool clothing, meanwhile, advanced by 7.7% to 286.4 mn sme in volume terms (up 4.2% to US$4,130.0 mn in value), but imports of garments made from silk blends and non-cotton

[1] Until the end of 2004, a large proportion of US textile and clothing imports were regulated by quotas or quantitative restrictions negotiated under the terms of the MFA (Multi-Fibre Arrangement) and its successor, the ATC (Agreement on Textiles and Clothing). Quotas were normally agreed bilaterally during negotiations between a supplying country and the USA. Each quota regulated the quantity of exports of a particular product (or group of products) which the specific supplying country was permitted to ship to the importing country in a given year. The ATC came into force on January 31, 1995, and provided for the complete phasing out of quotas on textile and clothing trade between World Trade Organisation (WTO) members by December 31, 2004. However, quotas continue to restrict US imports from countries which are not members of the WTO (see page 22). They also continued to restrict imports of certain products from China under a special textile safeguard provision which forms part of China's WTO accession agreement (see page 19 and also "Impact of New US Textile and Apparel Quotas Against China", *Textile Outlook International,* No 108, November-December 2003).

vegetable fibres (SBVF) fell by 10.9% to 727.7 mn sme (down 9.5% to US$2,677.6 mn in value).

Demand for some imported categories was especially robust—

A more detailed breakdown of the market shows that demand was especially robust for cotton trousers, cotton knitted shirts and blouses, women's and girls' cotton and man-made fibre coats and jackets, cotton nightwear, men's and boys' cotton woven shirts, cotton skirts, and men's and boys' man-made fibre coats and jackets.

—but sales of a number of imported SBVF items were considerably lower

By contrast, sales of imported SBVF trousers, man-made fibre dresses, playsuits and sunsuits, and cotton robes and dressing gowns were considerably lower in 2005 than they were during the preceding year.

Textile imports

Imports of textile products grew 6.8% in volume and 10.5% in value

US imports of textile products increased by 6.8% to 28,829.1 mn sme in volume terms, and in value terms they grew by 10.5% to US$20,492.2 mn.

Most of the growth came from higher imports of textile made-ups, particularly from China and Pakistan

As was the case during 2002-04, most of the growth on the textile side was generated by higher imports of textile made-ups, especially shipments from China and Pakistan. In terms of volume, imports of textile made-ups went up by 10.2% to 15,677.3 mn sme in 2005. In value terms they rose by an even brisker 16.0% to US$13,059.1 mn.

Yarn and fabric imports were also up but growth was less dynamic at 3.3% and 2.9% respectively

Meanwhile, yarn imports also increased, but by a less dynamic 3.3% to 3,629.9 mn sme (up 4.0% to US$1,714.1 mn in value terms) while fabric imports went up by 2.9% to 9,521.8 mn sme (up 1.4% to US$5,719.1 mn in value).

Cotton sheets represented the best performing textile product with an increase of 84.4%

Imports of cotton sheets represented the best performing textile product category in 2005, having grown by 84.4% to 852.6 mn sme. This increase was attributable in large measure to substantial growth in shipments from China, India[2] and Pakistan.

Some synthetic filament products also did well—

Other imported textile products which sold particularly well in the US market in 2005 included synthetic filament fabric other than polyester, non-textured filament yarn, synthetic fibre blankets, sacks and bags for packing goods, and cotton quilts, eiderdowns and comforters.

—but a number of cotton products were sluggish

Conversely, imports of carded cotton yarn, cotton printcloth fabric, cotton sheeting fabric, speciality yarns and blue denim fabric were especially sluggish.

Import prices

The average unit value of imported clothing fell by 3.8% in 2005—

The average unit value of imported clothing declined by 3.8% to US$3.12 per sme in 2005 as a result of lower prices for man-made fibre garments (down 5.4% to US$2.53 per sme), cotton garments (down 3.4% to US$3.21 per sme) and wool clothing (down 3.3% to

[2] See also "Profiles of Three Leading Indian Exporters of Home Textiles", *Textile Outlook International*, No 120, November-December 2005.

US$14.42 per sme).

—but higher prices for made-ups boosted average textile prices by 3.4%

On the other hand, the unit value of imported textile products increased by 3.4% to US$0.71 per sme, due principally to higher average prices for textile made-ups (up 5.2% to US$0.83 per sme).

Table 1: USA: leading suppliers of textile and apparel imports[a], 2000-05 (mn sme[b])

	2000	2001	2002	2003	2004	2005	% share 2005	% change 2005/04
Textiles								
China	1,288.7	1,234.7	3,398.2	5,997.8	8,689.8	10,879.7	37.7	25.2
Canada	2,904.0	2,986.3	3,095.1	3,049.6	3,027.3	2,819.3	9.8	-6.9
Pakistan	1,666.6	1,842.3	2,154.9	2,246.3	2,450.9	2,713.4	9.4	10.7
Mexico	2,219.7	1,999.8	2,177.9	1,948.9	2,204.4	2,180.0	7.6	-1.1
South Korea	724.6	751.5	1,382.2	1,521.6	1,677.0	1,667.9	5.8	-0.5
India	849.1	847.4	1,035.9	1,133.7	1,305.4	1,544.9	5.4	18.3
Taiwan	562.6	610.2	815.6	765.5	730.1	691.9	2.4	-5.2
Turkey	568.8	565.4	721.4	651.6	674.6	604.4	2.1	-10.4
Indonesia	530.6	570.9	620.7	532.8	571.4	530.8	1.8	-7.1
Thailand	848.6	855.9	825.8	602.2	580.8	515.1	1.8	-11.3
Others	4,665.5	4,441.7	4,804.8	4,913.0	5,073.4	4,681.7	16.2	-7.7
World	**16,828.8**	**16,706.1**	**21,032.5**	**23,363.0**	**26,985.1**	**28,829.1**	**100.0**	**6.8**
Clothing								
China	929.2	976.0	1,565.0	2,289.8	2,972.5	5,883.4	26.7	97.9
Mexico	2,526.8	2,290.1	2,157.2	1,977.3	1,896.2	1,703.4	7.7	-10.2
Honduras	1,028.1	1,020.7	1,090.2	1,151.9	1,198.5	1,246.8	5.7	4.0
Bangladesh	966.6	965.9	927.7	913.0	941.7	1,124.8	5.1	19.4
El Salvador	719.2	723.8	777.2	856.3	852.6	866.0	3.9	1.6
Indonesia	522.0	593.7	594.6	618.0	703.4	823.5	3.7	17.1
Vietnam	28.1	315.4	315.4	739.2	777.1	801.4	3.6	3.1
India	399.2	402.8	508.7	532.1	609.3	790.2	3.6	29.7
Dominican Republic	836.6	753.0	730.0	750.2	761.4	715.5	3.3	-6.0
Cambodia	253.7	358.6	439.9	527.7	634.7	710.0	3.2	11.9
Others	7,825.8	7,703.5	8,149.8	8,508.3	8,603.6	7,344.8	33.4	-14.6
World	**16,035.3**	**16,103.5**	**17,255.7**	**18,863.8**	**19,951.0**	**22,009.8**	**100.0**	**10.3**
Textiles and Clothing								
China	2,217.9	2,210.7	4,963.1	8,287.7	11,662.3	16,763.1	33.0	43.7
Mexico	4,746.5	4,289.9	4,335.1	3,926.2	4,100.6	3,883.5	7.6	-5.3
Pakistan	1,996.8	2,189.3	2,536.9	2,689.9	2,970.2	3,291.3	6.5	10.8
Canada	3,204.0	3,267.5	3,386.8	3,311.7	3,271.9	3,009.0	5.9	-8.0
India	1,248.3	1,250.2	1,544.6	1,665.8	1,914.8	2,335.1	4.6	22.0
South Korea	1,311.8	1,383.5	2,032.2	2,097.1	2,301.4	2,027.3	4.0	-11.9
Indonesia	1,052.7	1,164.6	1,215.4	1,150.8	1,274.8	1,354.2	2.7	6.2
Bangladesh	1,130.8	1,169.0	1,149.8	1,109.8	1,108.5	1,313.7	2.6	18.5
Honduras	1,032.3	1,098.8	1,098.8	1,164.5	1,208.9	1,262.3	2.5	4.4
Taiwan	1,233.3	1,224.4	1,391.4	1,356.2	1,302.1	1,083.4	2.1	-16.8
Others	13,689.8	13,561.7	14,634.1	15,467.1	15,820.6	14,516.0	28.6	-8.2
World	**32,864.2**	**32,809.6**	**38,288.2**	**42,226.8**	**46,936.1**	**50,838.9**	**100.0**	**8.3**

NB: numbers may not sum precisely due to rounding. [a] Made from MFA fibres. [b] sme = square metres equivalent.
Source: US Department of Commerce.

TRENDS IN IMPORTS FROM LEADING SUPPLIERS AND THE IMPACT OF QUOTA REMOVAL

Major shifts in global trends have followed the elimination of quotas—

The elimination of quotas on textile and clothing trade at the end of 2004 has led to some major shifts in global trade and production trends.

—which had been preventing China and India from dominating the US market

Quotas prevented the most efficient textile and clothing producers, most notably China and India, from achieving a dominant position in the US market.

But quotas also enabled regional, least developed, and higher cost Asian suppliers to maintain a significant presence

At the same time—by holding back the most competitive producers—quotas enabled a number of other countries to develop or maintain a significant presence in the USA, notably regional suppliers in Central America and the Caribbean, certain small developing and least developed countries, and higher cost Asian suppliers.

Once quotas were removed US importers quickly switched their sourcing to low cost Asian suppliers

Once quotas were removed, US importers quickly altered their sourcing trends to adapt to the new realities of the global marketplace. Importers in the USA have generally favoured low cost Asian suppliers such as China, Bangladesh, Cambodia, Indonesia, India and Pakistan, although several other countries have also thrived—including Jordan, Haiti and Nicaragua.

China has benefited most from the end of quotas

China has undoubtedly been the biggest beneficiary of the elimination of quotas.

Clothing imports from China rose 97.9% in 2005 and its share of US imports almost doubled to 26.7%

US clothing imports from China rose 97.9% to 5,883.4 mn sme in 2005. As a result, of this massive surge, China's share of the US import market almost doubled—from 14.9% in 2004 to 26.7% in 2005.

Textile imports from China rose by a more modest but still impressive 25.2%

Textile imports from China increased by a more modest but still impressive 25.2% to 10,879.7 mn sme and China's share of the US textile import market went up from 32.2% in 2004 to 37.7% in 2005.

Imports of Chinese wool clothing rose 301.2%, cotton clothing 129.9% and man-made fibre clothing 128.0%

Chinese exporters have benefited from strong demand for a wide spectrum of textile and apparel products of all fibre types. In 2005 imports of Chinese wool clothing led the way in terms of total volume growth with an increase of 301.2% to 99.0 mn sme, followed by cotton clothing (up 129.9% to 2,543.6 mn sme) and man-made fibre clothing (up 128.0% to 2,596.6 mn sme).

Yarn imports from China grew by 185.6%, fabrics by 78.1% and textile made-ups by 18.0%

On the textile side, yarn imports from China surged by 185.6% to 117.4 mn sme while fabric imports rose by 78.1% to 1,651.9 mn sme. Shipments of textile made-ups, meanwhile, advanced by 18.0% to 9,110.4 mn sme.

China excelled in several product categories

Products in which China excelled in 2005 include: cotton trousers; women's and girls' cotton, man-made fibre and wool coats and jackets; women's and girls' wool and man-made fibre sweaters; men's and boys' man-made fibre non-suit coats and jackets; cotton nightwear; cotton skirts; women's and girls' cotton woven shirts and blouses; man-made fibre swimwear; nonwoven fabric; and cotton sheets.

In the first half of 2005 the focus was basic cotton and man-made fibre items

Chinese producers focused on basic cotton and man-made fibre garments—such as trousers, shirts and underwear—during the first half of 2005.

But safeguard quotas forced a switch to other items in the second half of the year

However, they were forced to switch to other products in the second half of the year because safeguard quotas[3] imposed on these items in spring 2005 became fully utilised and so any imports of such items which were in excess of the quota limits became embargoed over the course of the summer.

Thanks to the flexibility of Chinese producers, the transition was painless—

It appears that Chinese producers, helped by their outstanding flexibility and efficiency and skilled labour force, performed this transition this rather painlessly.

—and their focus is now broader

Some of the apparel items where Chinese manufacturers have increased their focus include nightwear, coats and jackets, swimwear, headwear, sweaters and skirts.

The USA did much negotiating with China to find a way of protecting US and Western Hemisphere producers

The USA held several rounds of negotiations with China during the second half of 2005. Their aim was to establish a mechanism which would, first, protect the US textile industry from mounting Chinese competition and, second, preserve the share of the US clothing market held by Western Hemisphere producers—namely Mexico, the Caribbean Basin and the Andean region.

The two sides reached a bilateral agreement in 2005 and quotas were fixed on a range of items until December 31, 2008

The USA and China finally reached a bilateral agreement on November 8, 2005, in which the two sides agreed to the establishment of quotas on US imports of a wide range of Chinese textile and clothing products covering the period from January 1, 2006, to December 31, 2008.

22 quotas have been established with various growth rates

Under the agreement a total of 22 quotas were established with annual growth rates in the range 10%-15% in 2006, 12.5-16.0% in 2007 and 15-17% in 2008.

[3] At the insistence of the USA, a special textile safeguard clause was incorporated into China's World Trade Organisation (WTO) accession agreement. The safeguard can be used by any WTO member to limit growth in imports of a textile or clothing product category from China where such imports are causing, or threatening to cause, market disruption. Under a set procedure, the authorities in the importing country issue a request to the Chinese authorities to enter into consultations with a view to easing or avoiding market disruption. Limits are automatically imposed, pending the outcome of consultations. If the consultations are inconclusive, the limit will remain in place for the duration specified in the textile safeguard. So far, only Argentina, Colombia, the European Union, Turkey and the USA have made use of the safeguard. In May 2005 the European Commission initiated consultations with China in accordance with the special textile safeguard clause with a view to imposing quotas on Chinese imports of flax yarn and cotton T-shirts. However, safeguard action was suspended in June 2005 when a comprehensive trade agreement was negotiated between the Commission and the Chinese authorities. (See also "Post-Quota Scenarios in Textiles and Clothing: Europe's Bra Wars", *Textile Outlook International*, No 118, July-August 2005.)

A clause requires the USA to allow "prompt entry" to merchandise in certain categories which had previously been denied entry because of safeguard quotas

The deal also contained a clause which required the USA to allow "prompt entry" to merchandise in certain categories which had been denied entry prior to November 8, 2005, as a result of the application of safeguard quotas. These goods were released during November 28-December 2, 2005. The categories were 338/339 (men's and boys' and women's and girls' cotton knit shirts), 347/348 (men's and boys' and women's and girls' cotton trousers), 352/652 (cotton and man-made fibre underwear), 638/639 (men's and boys' and women's and girls' man-made fibre knit shirts) and 647/648 (men's and boys' and women's and girls' man-made fibre trousers and shorts).

China will also be able to increase a quota limit by using carryover and/or carryforward

China will also be able to increase a quota limit during a particular quota year by borrowing from the previous year's quota (carryover) and/or the following year's quota (carryforward). An amount equal to 3% of the base level can be carried forward for use in 2006 and 2007, while 2% of the base level can be carried over and used in 2007 and 2008. However, there is an upper limit on the combined use of carryover and carryforward. In any given year, such use may not increase an agreed quota for a category by more than 3%.

Both sides are committed to the prevention of illegal transshipment, helped by an electronic visa system

In addition, both sides have made a commitment to preventing illegal transshipments of textile and clothing goods. Within this context, an electronic visa system has been established under the deal for products which fall within the scope of the agreement.

The USA must "exercise restraint" on safeguard quotas on products outside the agreement—

Chinese negotiators were also able to include wording in the agreement which requires the USA to "exercise restraint" in the application of any safeguard quotas on products outside the scope of the agreement. Such restraint will be applied until the end of 2008.

—and will not pursue safeguard actions with respect to products covered by the new agreement

Furthermore, the USA has committed itself not to pursue any safeguard actions with respect to products covered by the new agreement, and products which were removed from quota before January 1, 2002.

The re-establishment of quotas on Chinese products has heightened competition among others in the US market

Paradoxically, the re-establishment of comprehensive quotas on Chinese textile and clothing products on January 1, 2006, has heightened the level of competition in the US market as a number of suppliers—primarily in Asia and the Western Hemisphere—try to attract the orders that would have been placed with Chinese manufacturers if the quotas had not been imposed.

Low cost Asian countries, will benefit the most although some gains will also go to Mexico, the Caribbean Basin and the Andean region

Countries expected to benefit the most from these comprehensive quotas include low cost Asian countries such as Bangladesh, Cambodia, India, Indonesia and Pakistan.

Also, manufacturers in Mexico, the Caribbean Basin and the Andean region may also benefit to some extent.

Co-production arrangements with China will help Hong Kong and Macau

In addition, producers in Hong Kong and Macau are expected to increase their exports to the US market by taking advantage of their longstanding co-production arrangements with China.

US textile and clothing imports from India grew by 22.0% in 2005

As far as India is concerned, US textile and clothing imports from the country grew by 22.0% to 2,335.1 mn sme in 2005 as Indian exporters took advantage of low production costs, ample access to raw materials and a vertically integrated chain of production.

Supplies were boosted by strong US demand for cotton products

Supplies were boosted by strong US demand for cotton products, including knitted shirts and blouses, trousers, underwear, skirts, nightwear, bed sheets and combed yarn.

But India increased its share of the US market by only 0.5 percentage points

Despite this solid performance, however, India managed to increase its share of the US textile and clothing import market by only 0.5 percentage points—from 4.1% in 2004 to 4.6% in 2005.

Bangladesh also did well with US imports from the country up by 18.5%

Bangladesh also did well. In 2005 US imports from the country rose by 18.5% to 1,313.7 mn sme as traders took advantage of Bangladesh's low labour costs.

Growth was boosted by higher shipments of several items

Underlying the growth in supplies were increased shipments of cotton nightwear, cotton trousers, cotton knitted shirts and blouses, men's and boys' cotton woven shirts, women's and girls' cotton coats and jackets, and women's and girls' man-made fibre sweaters.

But its share of US textile and clothing imports rose only slightly

That said, as in the case of India, Bangladesh's share of US textile and clothing imports rose only slightly—from 2.4% in 2004 to 2.6% in 2005.

Pakistan also has the resources to challenge China and India

Pakistan, like Bangladesh, is another large South Asian supplier with the necessary tools and resources to challenge China and India in the years to come.

Its shipments to the USA in 2005 rose by 10.8%, which was slower than expected

In 2005 it achieved double digit growth in its shipments to the USA, although the rise, at 10.8%, was not as strong as many had expected.

Sales were boosted by demand for cotton bed linen and cotton garments

Nonetheless, sales reached 3,291.3 mn sme, having been boosted by increased US demand for cotton bed linen, cotton terry towels, cotton trousers and cotton nightwear.

Up-and-coming Cambodia seems able to compete with India and China

Cambodia is an up-and-coming clothing producer which, so far, appears to have been able to compete with China and India in the post-quota trading environment.

US imports from the country rose by 10.0% in 2005, boosted by strong growth in some sectors

Overall, US textile and clothing imports from the country rose by 10.0% to 740.2 mn sme in 2005. Shipments were boosted by increases of 95.9% (to 57.0 mn sme) in deliveries of cotton knitted shirts and blouses, 55.8% (to 100.8 mn sme) in cotton trousers, and 18.4% (to

158.8 mn sme) in man-made fibre nightwear.

Vietnam also has enormous potential but is limited by a US quota arrangement

Vietnam also has enormous potential but its ability to expand its share of the US textile and clothing market has been severely limited by a comprehensive quota arrangement established by the US government in spring 2003.

However, quotas will have to be eliminated when Vietnam joins the WTO

However, the USA will be legally obligated to eliminate existing quotas against imports from Vietnam when the country joins the World Trade Organisation (WTO)—which could take place some time in 2006.

The removal of quotas on existing WTO members has had a negative effect on a number of countries—

As expected, the removal of quotas on imports from existing WTO members at the end of 2004—and the consequent opening of the US textile and clothing market to fully-fledged competition—has had a negative effect on a number of countries.

—notably higher cost Asian suppliers, and developing countries in Africa, Asia and the Pacific region

Among those faring particularly badly in 2005 were higher cost Asian suppliers, such as Hong Kong, Japan, Macau, South Korea and Taiwan, as well as many developing countries in Africa, Asia and the Pacific region.

Maldives and Fiji are less competitive suppliers which relied on quota protection

The experience of the Maldives and Fiji provides a particularly poignant illustration of the critical importance of quota protection for less competitive suppliers.

Both developed a US presence because competitors were restricted by quotas

Both of these two small island nations had gradually managed to develop a significant presence in the US clothing market because their competitors were restricted by quotas.

But without protection, US imports from the Maldives dropped by 93.7% and from Fiji by 80.5%

But with quotas no longer in place to protect their tiny market shares, US textile and clothing imports from the Maldives plummeted by 93.7% to 2.4 mn sme in 2005 while imports from Fiji dropped 80.5% to 4.2 mn sme.

Textile and clothing imports from Mexico, the USA’s second largest supplier after China, declined by 5.3% in 2005

Textile and clothing imports from Mexico, the USA’s second largest supplier after China, declined by 5.3% to 3,883.5 mn sme in 2005. Underlying the fall was a considerable downturn in demand for women’s and girls’ cotton trousers, men’s and boys’ cotton knitted shirts, man-made fibre nightwear, man-made fibre underwear, man-made fibre dresses, special fabric, cotton yarn, speciality yarns, and blue denim fabric. On the other hand, Mexican textile producers benefited from strong sales of non-textured filament yarn, knitted fabric, and sewing thread and yarn put up for retail sale.

Imports from the CBI (Caribbean Basin Initiative) region barely rose in 2005

Textile and clothing imports from the CBI (Caribbean Basin Initiative) region were also sluggish in 2005, having increased by a mere 0.03% to 4,169.4 mn sme. Import growth was held back by significantly lower demand for trousers, nightwear, dresses, and robes and dressing gowns.

Clothing manufacturers in the Dominican Republic and Central American countries are hoping that the CAFTA-DR will help them to compete

Clothing manufacturers in the Dominican Republic and Central American countries are hoping that the implementation of the US-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) will enhance their competitiveness and provide another means by which they can compete with Asian suppliers in a quota-free trading environment.

Implementation of the CAFTA-DR was planned for January 1, 2006, but has had to be delayed

The implementation of the CAFTA-DR—initially planned for January 1, 2006—had to be delayed as the US government had to certify that each partner country had made the requisite legal changes to implement the agreement.

It entered into force in March 2006 but only the USA and El Salvador were participants at that stage

The CAFTA-DR entered into force on March 1, 2006, but only the USA and El Salvador were participants at that stage. Honduras and Nicaragua joined these two countries on April 1. Guatemala is expected to be ready for accession on June 1, and the Dominican Republic is likely join its partners on July 1. Costa Rica, on the other hand, has not even ratified the CAFTA-DR and is therefore unlikely to join the others before the end of 2007.

The USA hopes that the Doha Development Round will produce a solution to the “China threat”

The US textile manufacturing industry—although grateful for the 2005 deal establishing comprehensive quotas on China from January 1, 2006—is hoping that the Doha Development Round will produce a more permanent solution to the so-called “China threat”.

One option is to establish a sectoral initiative for textiles and clothing which will leave tariffs unchanged and extend the safeguard

One option is to establish a sectoral initiative for textiles and clothing which would allow the US government to leave textile and clothing tariffs relatively unchanged and, more importantly, extend China’s safeguard mechanism beyond its December 31, 2008, expiry date. However, China is expected to do all it can to thwart any such efforts.

But Turkey’s proposal in March 2006 was opposed by China and India—

In March 2006 Turkey put forward a proposal for the establishment of a sectoral initiative for textiles and clothing but this proposal was opposed by China and India.

—as well as several leading US importers’ and retailers’ associations

Turkey’s proposal for a sectoral initiative for textiles and clothing was also opposed by the American Apparel and Footwear Association, the US Association of Importers of Textiles and Apparel, the National Retail Federation and the Retail Industry Leaders Association. On April 18 the four organisations sent a letter to President Bush urging him not to endorse the proposal.

Goals sought by the NCTO for 2006 include—

Goals sought by the National Council of Textile Organizations (NCTO) for 2006 include:

—working with US Customs to enforce trade agreements—

- working closely with US Customs and Border Protection (CBP) to ensure strict enforcement of both the US-China bilateral textile agreement and US trade preference programmes;

—forcing the revaluation of China's currency—

- urging Congress to pass legislation forcing China to revalue its currency, the renminbi;

—working with US officials to finalise changes to the CAFTA-DR—

- working with US officials to finalise changes to the CAFTA-DR regarding pocketings and linings and the tariff preference level for non-originating cotton and man-made fibre clothing from Nicaragua (for the most part, this goal has already been achieved);

—ensuring that trade deals address industry priorities and that Vietnam does not become "a new China" once it joins the WTO—

- ensuring that the priorities of the textile industry are included in ongoing free trade agreement negotiations;
- ensuring that appropriate measures are put in place to prevent Vietnam from becoming "a new China" once it finally accedes to the WTO—which could be accomplished by including a safeguard provision in Vietnam's WTO Accession Agreement similar to the provision included in China's accession package; and

—and fighting legislative efforts which might conflict with textile industry interests

- fighting any legislative efforts which may be contrary to the interests of the textile industry, including tariff preference levels for non-originating clothing[4] from Haiti and duty-free/quota-free access for least developed countries (LDCs).

PRODUCTION AND EMPLOYMENT

Quota elimination has been bad for US manufacturing

Not surprisingly, the elimination of quotas has had a detrimental effect on the US textile and clothing manufacturing industry.

Textile production fell in 2005 for the eighth consecutive year

In the textile industry, production fell by 1.8% compared with the previous year, while employment declined by 5.4%, from 412,600 to 390,200. The fall in textile production in 2005 represented the eighth consecutive decline.

32 textile mills ceased operations in 2005, as did another seven plants in the first four months of 2006

According to the NCTO, 32 textile mills ceased operations in 2005 and an additional seven plants closed during the first four months of 2006—thereby raising the total number of closures since 1997 to 370. 12 of the 32 plants which closed in 2005 were located in North Carolina, 12 in South Carolina and three in Georgia.

Production of clothing fell in 2005, for the 11th year in succession

Production of clothing fell in 2005, for the 11th year in succession, by 3.3%, while employment in the sector declined from 285,500 to 260,200.

US clothing makers have shifted an increasingly larger share of their production to lower cost countries

US clothing manufacturers have, in recent years, shifted an increasingly larger share of their own production to lower cost countries such as Mexico, the Caribbean Basin, the Andean region and even China and other Asian suppliers in order to benefit from lower labour costs.

[4] Limited quantities of clothing assembled in Haiti using foreign (non-Haitian) inputs are allowed to enter the USA duty-free.

SALES AND PROFITS

More positively, textile industry profits surged by 90.3% in 2005 despite lower sales

On a more positive note, the textile manufacturing industry was able to greatly enhance its profitability in 2005. Although total textile industry sales declined by 0.2% to US$49,459 mn in 2005, industry profits surged by 90.3%, from US$828 mn in 2004 to US$1,576 mn in 2005. Profit margins, meanwhile, increased from a meagre 1.7% to 3.2%.

Clothing sales rose by 5.6% and profits 11.9%

For its part, the clothing manufacturing industry increased its sales by 5.6% to US$89,518 mn and its profits by 11.9% to US$6,424 mn.

The average earnings margin also rose

Moreover, the average earnings margin for this sector rose from 6.8% in 2004 to 7.2% in 2005.

Foreign demand for US textile products expanded by a moderate 4.6% in 2005

Foreign demand for US textile products expanded at a moderate pace. Total US exports increased by 4.6% to US$12,145.3 mn in 2005, after growing by 10.5% in 2004. Within the total for 2005, yarn exports rose by 8.7% to US$1,554.0 mn, fabric exports by 0.8% to US$8,124.1 mn, and shipments of textile made-ups by 16.0% to US$2,467.1 mn.

Mexico remained the largest market with a 29.8% share, followed by Canada, Honduras and the Dominican Republic

Mexico remained the largest market for US textile products with a 29.8% share in 2005 (down slightly from 29.9% in 2004), followed by Canada with 22.7% (up from 22.0% in 2004), Honduras with 8.3% (down from 8.6% in 2004) and the Dominican Republic with 5.0% (down from 6.0% in 2004).

US textile exports to Mexico rose by 4.1%

US textile exports to Mexico rose by 4.1% to US$3,613.6 mn in 2005 while shipments to Canada increased by 7.5% to US$2,753,3 mn.

But sales to CBI countries were lacklustre and fell 3.6%

Demand for US textile products in CBI countries, however, was lacklustre. Total US exports to the region were down by 3.6% to US$2,623.5 mn.

Ironically, China was the most important source of growth for the US textile industry in 2005, with sales up 28.9%

Somewhat ironically, China was the most important source of growth for the US textile industry in 2005. Total US textile exports to the country rose by 28.9% to US$329.1 mn as a result of considerably higher demand for uncarded and uncombed cotton, for artificial (cellulosic) filament tow and for nonwoven fabric.

It was also the sixth largest market with a 2.7% share

China was also the sixth largest market for US textile exporters in 2005 with a 2.7% share of the total (up from 2.2% in 2004).

Total US clothing exports fell by 3.4% to US$4,471.1 mn in 2005

Total US clothing exports fell by 3.4% to US$4,471.1 mn in 2005. One of the main causes of the decline was shipments of clothing parts and semi-finished clothing to Mexico and the CBI region.

But exports to Canada and Japan were up strongly

Exports to Canada, however, were up vigorously in 2005, having climbed by 19.1% to US$915.6 mn, while shipments to Japan advanced by 20.1% to US$280.4 mn.

LATIN AMERICA

ARGENTINA

Expansion of Argentinean textiles and clothing slowed in 2005

The Argentinean textile and clothing manufacturing sector expanded at a moderate pace in 2005 after experiencing brisk growth during the previous two years.

Clothing led the way for the third year in a row with exports up 10.6% to US$68.5 mn

The clothing sector led the way for the third year in succession with export sales of US$68.5 mn, 10.6% more than in 2004. The increase was driven by solid performances from knitted garments (up 8.7% to US$40.4 mn) and woven garments (up 13.7% to US$28.1 mn).

Domestic sales of clothing and sporting accessories increased by 34.0% in greater Buenos Aires

On the domestic front, after recording an unparalleled 49.2% growth rate in 2004, sales of clothing and sporting accessories by shopping centres located in the greater Buenos Aires region increased by an additional 34.0% to Ps254.3 mn (US$86.9 mn) in 2005.

Textile exports were more restrained than clothing

Textile exports were a lot more restrained than clothing shipments in 2005, having increased by only 4.4% to US$418.3 mn.

Exports of special woven fabrics soared by 141.0%

However, exports of special woven fabrics performed especially well in 2005, having soared by 141.0% to US$23.7 mn.

Cotton fibres and textiles rose by 29.7%, and felts and nonwovens by 11.9%

Shipments of cotton fibres, yarns and fabrics went up by 29.7% to US$48.9 mn and sales of felts and nonwoven fabric advanced by 11.9% to US$43.6 mn.

But exports of wool fibres and textiles were surprisingly lethargic, having dropped 4.5%

On the other hand, exports of wool fibres, yarns and fabrics were surprisingly lethargic in 2005, having declined by 4.5% to US$170.0 mn. Within the total, sales of wool tops—Argentina's primary textile export with a 25.1% share of total textile shipments in 2005—dropped by 2.8% to US$105 mn.

Man-made fibres and textiles fell 6.2%, coated and laminated fabrics 1.5% and knitted fabric 2.1%

Other products which did not live up to previous standards included man-made fibres, yarns and fabrics (down 6.2% to US$75.1 mn), impregnated, coated, covered and laminated fabrics (down 1.5% to US$34.1 mn) and knitted fabric (down 2.1% to US$7.4 mn).

Brazil was again the largest market in 2005

The largest market for Argentinean textile and clothing products in 2005, as in previous years, was Brazil.

Exports to Brazil were up by 8.9% and represented 27.7% of shipments to all markets

In 2005 Argentinean exports to Brazil rose by 8.9% to US$135.0 mn, which represented 27.7% of total shipments to all markets. The rise was attributed to increased demand for terry towelling and similar woven terry fabrics.

Woven terry fabrics to the USA were up 110.0%, and represented 58.0% of Argentinean textile and clothing sales to the USA

Demand for woven terry fabrics was also strong in the USA. Here, sales advanced by 110.0% to US$16.8 mn.

Furthermore, this figure accounted for 58.0% of total Argentinean textile and clothing sales to the US market in 2005.

But US imports of all textiles and clothing from Argentina grew 18.1%

However, as far as textiles and clothing as a whole are concerned, US imports from Argentina grew by a lesser 18.1%, indicating slacker demand for other Argentinean products.

The export successes had a beneficial effect on domestic production

Expectedly, the good showing of the export market had a beneficial effect on domestic textile production in 2005, although rising domestic demand for textile inputs also played an important role.

Textile production rose by 9.4% in 2005—

In value terms, textile production rose by 9.4% in 2005. Within the overall total, fabric production grew by 9.7% and cotton yarn production by 8.8% although output of man-made fibres declined by 2.6%.

—and clothing was up 22.6%

Clothing fared even better than textiles, with production 22.6% higher during the first nine months of 2005 than in the same period in 2004.

As a result, the industry was able to raise its capacity utilisation—

This favourable state of affairs allowed the textile industry to increase its industrial capacity utilisation rate from an average of 74% in 2003 to 78% in 2004 and 81% in 2005.

—and has become one of the leading industrial sectors in this category

According to Argentina's Ministry of the Economy, as a result of this exceptional growth the textile sector has become one of the leading industrial sectors in this category.

Textile manufacturers have made significant investments

Textile manufacturers, and especially fabric producers, have made significant investments over the past year to expand installed capacity and acquire high technology machinery.

Capital investment in the textile sector reached Ps350 mn in the first eight months

Total capital investment in the textile sector reached Ps350 mn (US$120 mn) during the first eight months of 2005, compared with Ps327 mn during the same period in 2004.

Projects include—

Specific projects include:

—Colortex's new cotton spinning mill and—

- Colortex's construction of a new cotton spinning mill in La Rioja's industrial park; and

—a US$2.2 mn yarn investment by Hispania

- the announcement by textile manufacturer Hispania that it will invest Ps6.5 mn (US$2.1 mn) on its Columbres textile plant with the goal of doubling its total yarn production in 2006.

For 2006 the outlook is "moderately optimistic"

For 2006 the outlook for the Argentinean industry is "moderately optimistic".

But there is concern over the growth of some textile imports

Nonetheless, textile manufacturers have continued to express concern over the growth experienced by certain textile imports into Argentina, most notably nylon and polyester filament yarns and fabrics from Asia and fabrics and clothing from Brazil.

So the government has introduced anti-dumping measures

In response, the government has introduced anti-dumping measures to thwart the flow of these products—a move which the industry has endorsed.

Argentina and Brazil have a bilateral agreement—

The textile sector was certainly encouraged by the signing of a bilateral agreement between Argentina and Brazil in February 2006.

—which will allow each side to temporarily restrict imports of specific products from the other side

The agreement—known as Mecanismo de Adaptación Competitiva, Integración Productiva y Expansión Equilibrada del Comercio (MAC—Mechanism for Competitive Adaptation Productive Integration and Balanced Expansion of Commerce) will allow each side to temporarily restrict imports of specific products from the other side if those imports are deemed to cause “important injury” to the domestic industry.

BRAZIL

Brazil’s exports of textiles and clothing expanded by a moderate 5.9% in 2005

Brazil’s exports of textiles and clothing expanded by a moderate 5.9% in 2005, to US$2,201.9 mn, thanks to growing demand in Argentina, China, Chile, Mexico, Paraguay and Uruguay.

But within the total, textiles advanced by 7.2% whereas clothing fell 1.1%

Within the overall total, textile shipments advanced by 7.2% to US$1,865.1 mn but clothing shipments suffered a 1.1% decline to US$336.8 mn.

Brazilian textile manufacturers specialise in a broad spectrum of products

Brazilian textile manufacturers specialise in a broad spectrum of products, ranging from cotton fibres and denim fabric for use in apparel production to household linens and advanced industrial yarns and fabrics.

A few performed well in 2005 with cotton terry towelling linen up 18.5%—

A few of these products performed very well in 2005. For example, exports of toilet and kitchen linen made of cotton terry towelling and similar terry fabrics rose by 18.5% to US$266.4 mn.

—uncarded and uncombed cotton up 10.8%—

Shipments of uncarded and uncombed cotton, meanwhile, went up by 10.8% to US$449.7 mn.

—nylon tyre cord fabric up 54.8% and synthetic woven fabrics up 40.5%

Other products whose performances were notable in 2005 included tyre cord fabric made from nylon or other polyamide high tenacity yarn (up 54.8% to US$26.7 mn) and woven fabrics made of synthetic filament yarn (up 40.5% to US$38.6 mn).

But cotton woven fabric exports fell 1.3% and knitted fabrics 1.9%

On the other hand, exports of cotton woven fabrics declined by 1.3% to US$263.5 mn while knitted fabric sales dropped 1.9% to US$52.2 mn.

The USA was the main destination for Brazil's exports with a 23.1% share

The most important destination for Brazil's textile and clothing exports in 2005 continued to be the USA with a 23.1% share of the total.

But sales growth was only 0.8%

However, the US market did not perform up to the standards set in 2004 as sales, at US$509.1 mn, were only 0.8% more than in the previous year.

Cotton terry towels accounted for 35.4% and rose by a brisk 27.5%

Sales of cotton terry towels—which accounted for 35.4% of total textile and clothing exports to the USA in 2005—rose by a brisk 27.5% compared with 2004.

Other products were also in high demand

Other products in high demand in the US market in 2005 included cotton bed linen, men's and boys' cotton knitted shirts, man-made fibre printcloth fabric and nonwoven fabric.

But exports were marred by lower sales of cotton yarn and cotton trousers

Brazil's export performance was marred, however, by a substantial let-down in sales of cotton yarn and especially of women's and girl's cotton trousers.

One important source of growth is Argentina where exports grew 19.8% to US$229.6 mn

One important source of growth for Brazil's textile producers is the Argentinean market. In 2005 textile exports to Argentina rose by 19.8% to US$229.6 mn. Sales were driven chiefly by increased exports of cotton yarns and fabrics, nonwoven fabric, synthetic staple fibres and yarns, tyre cord fabric made from nylon or other polyamide high tenacity yarn, and woven fabrics made from synthetic filament yarn.

Apparel fared less well but still grew by 5.8%

Apparel sales did not fare nearly as well although they still managed to grow by 5.8% to US$32.7 mn.

Textile and clothing sales to China were up a vigorous 245.3% while sales to Mexico and Paraguay were up 25.5% and 24.9%

Demand for Brazilian textile and clothing products in China was up a vigorous 245.3% to US$110.5 mn.

Other growth markets included Mexico (up 25.5% to US$54.7 mn) and Paraguay (up 24.9% to US$45.8 mn).

Within the total for China, uncarded and uncombed cotton yarn sales surged by 370.5%

Within the total for China, sales of uncarded and uncombed cotton yarn surged 370.5% to US$90.2 mn. China is a particularly attractive market for Brazilian textile manufacturers because the demand for textile raw materials in the country is growing rapidly and Chinese producers are unable to satisfy such demand alone.

But shipments to the EU, the Andean Community, Japan, Canada and India were sluggish

Conversely, shipments to a number of destinations were disappointingly sluggish, including the EU (down 14.1% to US$280.9 mn), the Andean Community (down 0.9% to US$183.6 mn), Japan (down 16.0% to US$57.3 mn), Canada (down 33.4% to US$21.6 mn) and India (down 66.7% to US$5.6 mn).

Despite the fairly good export performance, output fell 2.1% in textiles and 5.1% in clothing

The fairly good showing of Brazilian producers in various global markets failed to have an equally positive effect on domestic textile and clothing output. Quite to the contrary, textile production fell by 2.1% in 2005 while clothing output went down by 5.1%.

Brazil's textile industry has lobbied to have safeguards implemented to limit cheap Chinese shipments

Brazil's textile industry has long been concerned about an increasing inflow of cheap Chinese goods into the domestic market and has lobbied Brazilian authorities to implement safeguard measures (see page 19) aimed at limiting such shipments.

Imports from China rose by 43.2% in 2005, giving China a 23.7% share

Textile and clothing imports from China advanced by a substantial 43.2% in 2005, to US$359.6 mn. This gave China a 23.7% share of total imports in 2005, up from 17.6% in 2004.

A textile deal with China was signed in February

After several months of bilateral negotiations in 2005 and early 2006, Brazil and China signed a textile agreement on February 9, 2006.

As a result, quotas were established on a number of Chinese textile and apparel products—

Under the agreement, quota restrictions were established on a number of Chinese textile and apparel products. These products include silk fabrics, synthetic fabrics, cut weft pile fabrics, textured polyester filament yarn, embroidery in the piece, knitted shirts, blouses and T-shirts, knitted sweaters and pullovers, and man-made fibre coats and jackets (Table 2).

Table 2: Brazil-China textile agreement, February 2006

		Quota level (tons)		
Product	**HS Code**	**Apr-Dec 2006**	**2007**	**2008**
Silk fabric	5007.10.10, 5007.10.90, 5007.20.10, 5007.20.90, 5007.90.00	45	66	73
Textured polyester filament yarn	5402.33.00	13,823	21,196	25,435
Woven fabrics made of synthetic fibres	5407.20.00, 5407.30.00, 5407.41.00, 5407.42.00, 5407.43.00, 5407.44.00, 5407.51.00, 5407.52.10, 5407.52.20, 5407.53.00, 5407.54.00, 5407.61.00, 5407.69.00, 5407.71.00, 5407.72.00, 5407.73.00, 5407.74.00, 5407.78.10, 5407.82.00, 5407.83.00, 5407.84.00, 5407.91.00, 5407.92.00, 5407.93.00, 5407.94.00, 5408.31.00, 5408.32.00, 5408.33.00, 5408.34.00, 5515.12.00, 5515.21.00, 5515.91.00, 5516.21.00, 5516.22.00, 5516.23.00, 5516.24.00, 5907.69.00	36,241	55,569	66,683
Cut weft pile fabrics	5801.22.00, 5801.23.00	378	580	696
Embroidery in the piece	5810.91.00, 5810.92.00, 5810.99.00	207	317	396
Knitted shirts, blouses, T-shirts, tank tops and similar garments	6105.10.00, 6105.20.00, 6105.90.00, 6106.10.00, 6106.20.00, 6106.90.00, 6109.10.00, 6109.90.00	1,404	2,153	2,691
Man-made fibre jackets and coats	6101.30.00, 6102.30.00, 6103.23.00, 6104.23.00, 6104.33.00, 6201.13.00, 6201.93.00, 6202.13.00, 6202.93.00, 6203.23.00, 6204.23.00, 6204.33.00, 6210.20.00, 6210.30.00	5,139	7,879	9,455
Knitted sweaters and pullovers	6110.11.00, 6110.12.00, 6110.19.00, 6110.20.00, 6110.30.00, 6110.90.00	878	1,275	1,402

Source: Ministério do Desenvolvimento, Indústria e Comércio Exterior (Brazil's Ministry of Development, Industry and Trade).

—and will remain in place until the end of 2008

The quota levels entered into force on April 3, 2006, and will remain in place until the end of 2008.

Brazil could try to compete by fostering global market leaders in niche products

One way in which Brazil and other countries can compete with China is to foster the development of companies which are world leaders in markets for certain niche products.

A proposed merger between Spain's Tavex Algodonera and Brazil's Santista Textil may create a global leader

In fact a potential global industry leader was created in March 2006 when Spanish textile manufacturer Tavex Algodonera and Brazilian producer Santista Textil announced a merger of their operations. The merger is expected to be finalised in the coming months.

The resulting company will be the world's largest denim producer

The resulting company will be the world's largest denim producer[5]. It will have an annual production capacity of 150 mn metres, a workforce of nearly 6,000 employees, annual sales of approximately Euro420 mn (US$513 mn) and a total of 12 textile mills in the Americas, Europe and North Africa.

Brazil is rising to China's challenge through innovation

Brazilian textile companies are also trying to rise to China's challenge by focusing on innovative new products.

A new clothing fabric made from bamboo fibre—

For example, Malharia Marles, based in São Paulo, has been offering a new fabric made from bamboo fibre to domestic clothing producers since September 2005.

—is soft, reduces odours, and provides high moisture absorption and protection against ultraviolet rays

According to the Brazil Textile and Clothing Industry Association (ABIT), the fabric has a soft texture, reduces sweat odours, and provides high moisture absorption and protection against ultraviolet rays.

COLOMBIA

The Colombian industry did well in 2005, despite an 8.5% fall in US demand for its garments

Colombia's textile and clothing industry performed surprisingly well in 2005, despite an 8.5% fall in demand for Colombian garments in the US market. The cause of the decline was substantially lower sales of cotton trousers, cotton underwear, and men's and boys' wool suits.

The USA is its biggest clothing market, and takes over half of total exports

The USA is the biggest market for Colombian clothing exports. In 2005 it took US$484.7 mn worth of Colombian clothing, which represented 50.5% of the country's total clothing exports.

Textile sales to the USA fared better, having been boosted by cotton towels

Textile exports to the USA fared much better in 2005 than in 2004, having grown by 10.2% to US$21.3 mn. Sales were boosted by increased demand for cotton terry towels.

82.9% of Colombian clothing shipments to the USA in 2005 entered duty-free under ATPDEA, up from 52.6% in 2003

An overwhelming 82.9% of all Colombian clothing shipments to the USA in 2005 entered the country free of duty under the Andean Trade Promotion and Drug Eradication Act (ATPDEA). This percentage has grown significantly over the years. In 2004 the share was 75.0%, up from 52.6% in 2003.

[5] See also "Trends and Innovations in the Denim Industry", *Textile Outlook International,* No 121, January-February 2006.

ATPDEA gives tariff-free treatment to all clothing made in Andean countries from US parts, as well as limited amounts of clothing assembled from Andean fabric which has been made from Andean or US yarns

The ATPDEA provides duty-free treatment to unlimited amounts of clothing assembled in Andean countries provided such clothing has been made from US components.

In addition, the ATPDEA provides duty-free entry to a limited—but generous—amount of clothing assembled from Andean fabrics which have themselves been manufactured from Andean or US yarns.

And yet the Colombian sector has been unable to compete with China and other Asian suppliers

Despite having these duty advantages and benefiting from close geographical proximity to the US market, the Colombian textile and clothing sector has been unable to compete with China and other Asian suppliers on a range of products.

It hopes, therefore, that the US comprehensive quota deal with China, and the TPA with the US government will enable it to hold or raise its share of the US market

The industry is hoping, therefore, that two agreements will enable it to preserve or even increase its share of the US market in the years ahead.

One is the comprehensive quotas placed on US imports of Chinese textile and clothing merchandise, while the other is the Trade Promotion Agreement (TPA), which was recently concluded between the US and Colombian governments.

Once the TPA enters into force, textiles and apparel meeting its rule of origin will be granted duty-free treatment

The TPA still needs to be approved by the US Congress and the Colombian legislature. According to a fact sheet issued by the Office of the US Trade Representative (USTR), textiles and apparel will be granted duty-free treatment when the agreement enters into force if the products meet the agreement's rule of origin.

To benefit, clothing must be made from yarns and fabrics made in the USA and/or Colombia under a "yarn-forward" rule—

For example, with certain exceptions, clothing will have to be manufactured from yarns and fabrics produced in the USA and/or Colombia in order for that clothing to benefit from tariff-free treatment. This requirement is known as a "yarn-forward" rule of origin.

—although certain clothing products may be produced with foreign textiles if the latter are in short supply

Certain Colombian clothing products may be produced with foreign fabrics and still benefit from preferential treatment—namely brassières and garments made from yarns and fabrics which are deemed to be in short supply in the USA and Colombia.

Falling sales in the USA were offset by strong demand elsewhere

The decline in Colombian textile and clothing shipments to the USA was more than offset by strong demand in a number of other foreign markets.

Shipments to Venezuela, the second largest export market, have performed incredibly well

Textile and clothing shipments to Venezuela, Colombia's second largest export market, have performed incredibly well over the past two years: in 2004 they grew by 161.7% to US$212.6 mn, and in 2005 by 27.7% to US$271.6 mn.

But Colombia's trade relationship with Venezuela may be hurt if Venezuela withdraws from the Andean Community

However, Colombia's bilateral trade relationship with Venezuela may be hurt if, as has been recently suggested by Venezuela's president, Hugo Chavez, Venezuela withdraws from the Andean Community. Mr Chavez has stated that the free trade agreements negotiated between the USA and Andean Community members Colombia and Peru have "fatally wounded" the regional trade pact.

Demand for Colombian products was also brisk in Ecuador, Mexico, Peru, Chile and Brazil

Demand for Colombian textile and clothing products was also brisk in several other markets in 2005. For example, shipments to Ecuador went up by 26.2% to US$112.4 mn, while those to Mexico rose by 27.4% to US$110.0 mn. Sales to Peru increased by 31.8% to US$34.9 mn, to Chile by 24.6% to US$18.5 mn, and to Brazil by 57.5% to US$8.5 mn.

Elsewhere, exports to the Middle East soared

Outside the Americas, exports to the Middle East region soared by 391.6% to US$10.4 mn.

But shipments to the EU fell by 13.4%

Shipments to the EU did poorly, however, having declined by 13.4% to US$40.4 mn.

Total textile and clothing shipments rose by 6.7%

In all, total textile and clothing shipments advanced by 6.7% to US$1,266.5 mn in 2005.

Clothing increased by 4.0% and textiles 16.1%

Within this total, clothing sales increased by 4.0% to US$959.1 mn and textile sales grew by 16.1% to US$307.4 mn.

But the export growth was not reflected in output

This moderate expansion in export sales was not, however, reflected in textile and apparel production levels in 2005.

Yarn and woven fabric fell 9.3%, knitted rose only 0.2% and apparel fell 5.6%

In fact yarn and woven fabric production fell by 9.3% during this time while knitted and crocheted fabric production rose by a meagre 0.2%. Apparel production was also sluggish, having fallen by 5.6%.

Colombia, with others, is trying to achieve a balancing act with China

Colombia is one of several Latin American countries trying to achieve a difficult balancing act in its bilateral trade and economic relationship with China.

The government wants to increase its exports of agricultural products and attract foreign direct investment from Chinese sources

- On the one hand, the Colombian government wishes to increase its exports of agricultural products to China and attract increasingly larger amounts of foreign direct investment from Chinese private and public sources. Although China remains a minor player in Colombia, Chinese investment has risen steadily over the past few years.

But it is also eager to shield textile and clothing firms from Chinese competition—

- On the other hand, the Colombian government is eager to shield the textile and clothing manufacturing industry from Chinese competition and has recently adopted measures to ensure an adequate level of protection for domestic producers.

—and in August 2005 introduced safeguard tariffs on—

These measures include the imposition, on August 17, 2005, of safeguard tariffs ranging from 59% to 91% on a wide range of textile and clothing imports from China, including:

—fabrics—

— **fabrics:** certain woven fabrics made of cotton, man-made filaments and man-made staple fibres; certain fabrics coated or impregnated with plastic; certain synthetic fibre warp knitted fabrics; and cotton terry towelling;

—clothing and—

— **clothing:** men's and boys' cotton woven overcoats; men's and boys' cotton woven trousers and shorts; men's and boys' cotton/synthetic fibre suit-type jackets and blazers; and men's and boys' cotton/synthetic fibre woven shirts; and

—textile made-ups

— **textile made-ups:** knitted synthetic fibre curtains; synthetic fibre tents; toilet and kitchen linen made from terry towelling; man-made fibre bed linen; woven table linen of cotton and/or man-made fibres; and quilts, eiderdowns, comforters and similar articles classified under HS (Harmonized System) 9404.90.

In March 2006 Colombia decided to eliminate the tariffs

On March 6, 2006, Colombia decided to eliminate the tariffs after obtaining the acquiescence of domestic textile and clothing manufacturers.

It justified this decision by saying that safeguard tariffs can last only a year under WTO rules

The government justified this decision by arguing, among other things, that WTO rules require that any safeguard measures imposed on Chinese textiles be applied for a limited time period (ie a maximum of one year).

Also they made relations with China difficult

The government also claimed that the safeguard action had become "difficult to handle" in its diplomatic relations with China.

The industry has not been left completely unprotected, however, and temporary quotas on hosiery imports from China became effective in March 2006

The Colombian government has not left the textile and clothing industry completely unprotected, however. Temporary quantitative restrictions on imports of hosiery from China became effective on March 30, 2006, and will last until June 28 (Table 3).

Table 3: Colombia: temporary quantitative restrictions on imports of hosiery from China, March 30-June 28, 2006

Product	HS Code	Quota (no of pairs)
Cotton hosiery	6115.92.0000	435,403
Synthetic fibre stockings[a]	6115.93.2000	602,037
Other synthetic fibre hosiery	6115.93.9000	2,261,062
Hosiery from other textile materials	6115.99.0000	147,608

[a] Except for stockings for varicose veins and other medical purposes.
Source: Ministerio de Comercio, Industria y Turismo (Colombia's Ministry of Commerce, Industry and Tourism).

Also, the government is considering the imposition of anti-dumping tariffs on imports of Chinese hosiery and other products

Furthermore, the government is conducting an investigation with a view to imposing anti-dumping tariffs on imports of Chinese hosiery. The government is also collecting information for another potential anti-dumping action against Chinese products which were previously subject to safeguard duties.

Anti-dumping tariffs are seen as a more effective measure because they can be maintained for longer

Anti-dumping tariffs are seen as a more effective measure than safeguard tariffs or quotas because they can be implemented for a much longer period of time.

MEXICO

Mexico's competitiveness eroded further in 2005 as quotas were eliminated

The competitiveness of Mexico's textile and clothing industry eroded further in 2005, principally as the result of the elimination of MFA quotas at the end of 2004.

Its manufacturers had been thriving in the USA because of geographical proximity and quota- and tariff-free access

Between 1994 and 2000, at a time of tight US quotas on China and other Asian suppliers, Mexican textile and clothing manufacturers—especially the latter—thrived in the USA from a combination of geographical proximity and quota-free and tariff-free access to the USA under the North American Free Trade Agreement (Nafta).

But after 2000 a period of stagnation began as importers moved to cheaper producers in the region—

But after 2000 a period of stagnation began as US importers continued to shift a larger share of their orders to cheaper producers in Central America and the Dominican Republic. Like Mexico, the competitive edge of these countries is based almost exclusively on geographical proximity, and on quota-free and tariff-free access to the US market.

—and identified opportunities in Asian countries

US importers also started to identify important supply opportunities in up-and-coming Asian countries such as Cambodia and Vietnam.

Things got steadily worse for Mexico and in 2003 it was replaced by China as the leading US supplier

Things have got progressively worse for the Mexican industry over the past three years. In 2003 Mexico was replaced by China as the largest US clothing supplier. And between 1999 and 2005 its share of the US clothing market declined from a high of 14.8% to only 8.8% in 2005.

In 2005 US imports from Mexico were down by 7.1%, representing the fifth fall in succession

US textile and clothing imports from Mexico fell for the fifth year in succession in 2005, by 7.1% to US$7,246.3 mn. Within the overall total, clothing shipments went down by 9.1% to US$6,078.3 mn but textile shipments rose by 5.4% to US$1,168.0 mn.

US demand was especially slack for a number of textile and clothing items—

Demand in the USA was especially slack for Mexican cotton trousers, men's and boy's cotton knitted shirts, women's and girls' man-made fibre trousers, man-made fibre brassières, man-made fibre nightwear, cotton skirts, blue denim fabric and combed cotton yarn.

—although some products experienced substantial growth

By contrast, imports of man-made filament yarn, special weave fabric, and cotton poplin and broadcloth fabric experienced substantial growth.

Canadian imports of Mexican textile and clothing products rose by 4.0%

Canadian imports of Mexican textile and clothing products rose by 4.0% to US$398.2 mn in 2005, helped by increased demand for woven garments (up 11.1% to US$190.3 mn) and synthetic filament yarn (up 16.2% to US$23.4 mn).

But EU imports declined by 1.8% as sales of knitted garments fell 27.3%

By contrast, EU textile and clothing imports from Mexico fell by 1.8% to Euro188.1 mn (US$233.7 mn) due to a substantial drop-off in demand for knitted garments (down 27.3% to Euro24.8 mn).

Mexico's total clothing exports declined by 2.8%

Mexico's total clothing exports declined by 2.8% to US$7,128.7 mn in 2005.

Woven garments increased by 0.1% but knitted apparel fell by 7.6%

Shipments of woven garments increased by 0.1% to US$4,552.0 mn but this increase was offset by a 7.6% decline, to US$2,576.8 mn, in exports of knitted apparel.

Textile shipments rose by 1.5% to US$2,386.0 mn, helped by technical textiles

Textile shipments rose by 1.5% to US$2,386.0 mn. The increase was helped in no small measure by the good showing of nonwoven fabric, narrow woven fabrics and textile products for technical uses.

Output has suffered as manufacturers have failed to find alternative markets

Textile and clothing production has suffered as a result of the inability of Mexican manufacturers to find alternative markets for their exports. Output of soft fibre yarns and fabrics fell by 6.5% in 2005 while production of hard fibre yarns and fabrics declined by 2.6%.

Clothing production fell by 6.2% in 2005, the fifth fall in succession

Mexican clothing production was down by 6.2% in 2005, representing the fifth fall in succession. As a result, it fell to a level which was 24.6% lower than in 2000.

Employment in Mexico's *maquiladora* or in-bond textile and clothing industry also fell for the fifth consecutive year

Employment in Mexico's in-bond textile and clothing industry (*maquiladora* industry) also fell for the fifth consecutive year in 2005—by 4.5% to 194,298 workers—while the number of active textile and apparel *maquiladora* establishments declined from an average of 578 in 2004 to 551 in 2005.

Yet the total added value generated by the *maquiladora* grew by 0.5%

Despite these troubles, the total added value generated by the textile and clothing *maquiladora* sector increased by 0.5% to Ps29,225 mn (US$2,682 mn) in 2005.

FDI has also slowed down considerably

Foreign direct investment (FDI) in Mexico's textile and clothing activities has also slowed down considerably in recent years.

In 2005 FDI flows, down 12.8%, declined for the third consecutive year

In 2005 FDI flows declined for the third consecutive year—by 14.6% from the previous year to US$129.7 mn. Investment by US companies declined by 24.9%, from US$154.2 mn to US$115.8 mn.

Foreign investors have focused on clothing, and nonwoven and auto fabric

Foreign investors have focused their investments primarily on clothing manufacturing facilities since 1999, followed by nonwoven fabric mills and automotive fabric mills.

The Mexican industry is shielded from Chinese competition by a set of comprehensive anti-dumping tariffs

The Mexican industry is shielded from Chinese competition by a set of comprehensive anti-dumping tariffs. For this reason, the Mexican government has not felt the need to implement safeguard quotas or tariffs on imports of textiles and clothing from China—unlike the USA, Brazil, Colombia and Peru.

In March the Ministry of the Economy decided to renew two anti-dumping orders for five more years

On March 3, 2006, Mexico's Ministry of the Economy decided to renew two anti-dumping orders for an additional five years. These cover most of the country's imports of textiles and clothing from China.

The orders impose prohibitive tariffs on merchandise of Chinese origin

The orders impose prohibitive tariffs on merchandise of Chinese origin. These include a 331% tariff on imports of cotton and other vegetable fibre yarns and fabrics, 379% on imports of made-up textiles classified under HS (Harmonised System) Chapter 63, 501% on imports of man-made fibre yarns and fabrics, and 533% on imports of clothing.

Certain products are excluded from the scope of the two orders

Mexico decided to exclude certain products from the scope of the two orders, however, including coir yarn, paper yarn, folded or cabled jute yarn, other non-cotton vegetable fibre yarn (except ramie yarn), non-cotton vegetable fibre woven fabrics (except ramie and paper fabrics), certain synthetic monofilaments and polyester filament tow, and knitted sweaters, pullovers and sweatshirts of non-cotton vegetable fibres.

Mexican authorities can maintain anti-dumping orders on Chinese products for a six-year period

As part of China's Protocol of Accession to the World Trade Organisation (WTO), Mexico and China negotiated a deal which allows Mexican authorities to maintain the existing anti-dumping orders on Chinese products for a period of six years following China's accession. The orders do not have to comply with WTO requirements during this time and thus cannot be legally challenged at the WTO.

After this expires in 2007, Mexico will have to repeal the orders and any more anti-dumping cases will have to follow WTO rules

Once the six-year period expires on December 11, 2007, Mexico will have to repeal the orders and conduct any subsequent anti-dumping investigations in accordance with WTO rules. If Mexico fails to do this, China will have the option to file a dispute settlement complaint before the WTO Dispute Settlement Body.

EUROPEAN UNION

GENERAL ECONOMIC TRENDS

In 2005 GDP growth in the EU25 slowed from 2.3% to 1.5%

Real GDP growth in the European Union (EU25) was an estimated 1.5% in 2005—somewhat slower than the 2.3% rise witnessed in 2004. Nonetheless, growth in 2005 was still faster than the 1.1% increase recorded for both 2002 and 2003, according to the EIU (Economist Intelligence Unit).

Private consumption growth was down by a further 0.4 percentage points to 1.6%

There was also a slowdown in the rate of private consumption growth. At 1.6% in 2005, this was weaker than the 2.0% growth rate registered in 2004, and fell far short of the 3.1% growth rate witnessed in 2000.

The appreciation of the euro against the US dollar came to an end in 2005

One important indicator in 2005 was that the appreciation of the euro against the US dollar came to an end in 2005. Indeed, the average value of the euro against the dollar was almost the same in 2005 as in 2004.

Nonetheless, its value was still up on 2003 and exporting to Europe remained profitable, especially for Asian suppliers

Nonetheless, it was still up by 10% on the average for 2003. Thus exporting to Europe remained relatively profitable compared with recent years—especially for suppliers in Asia whose currencies are tied to, or loosely influenced by, the value of the dollar.

TEXTILE AND CLOTHING PRODUCTION

EU25 textile production fell again by 4.5% in 2005 although it was up in Luxembourg and Latvia

Production by the EU25 textile industry fell by 4.5% for the second year in a row. Output fell especially steeply in Cyprus (down 24.0%), Greece (down 18.2%), Ireland (down 15.3%) and Spain (down 11.1%). Bucking the trend, however, output rose by 5.5% in Luxembourg and by 19.2% in Latvia.

Clothing output was down overall by an even greater 8.3%, the only increases being in the Czech Republic and the Netherlands

In the clothing industry output fell by 8.3%, after declining by 5.7% in 2004. The biggest percentage fall was in Greece (down 14.9%), followed by Finland (down 14.0%), Ireland (down 11.5%), Italy (down 10.6%), Poland (down 9.5%), Spain (down 8.9%), Portugal (down 8.6%), France (down 8.3%), Lithuania (down 7.4%), Germany (also down 7.4%), and Slovakia (down 7.3%). The only increases were the Czech Republic (up 4.2%) and the Netherlands (up 1.8%).

The fall in clothing output was due mainly to low cost import competition—

The overall fall in clothing production may be attributable to a variety of factors. The most important factor is greater competition from low cost imports—especially those originating in China.

—although weak exports and private consumption were also to blame

However, clothing manufacture has also been suffering from weak exports, as well as slow economic and private expenditure growth in the EU domestic market.

IMPORT TRENDS

Textile and clothing imports

EU25 textile and clothing imports fell in 2005

Textile and clothing imports into the 25 member countries of the EU (EU25)—including intra-EU trade—were down in 2005.

The fall came in spite of quota elimination—

This was surprising, given that 2005 was the first full year following the elimination of quotas on a global basis.

—which was expected to result in an increase in imports into all developed countries

Quota elimination was widely expected to lead to an expansion of exports from those developing countries which were previously restricted by quotas—and hence to a significant increase in imports into developed countries, including those in the EU.

The fall was small in value but bigger in volume—

Admittedly the reduction in value terms was small—at only 0.5%. But in volume terms it was more substantial at 8.0% (Table 4).

—signifying an increase in the average price and hence a reduction in price competition

The fact that imports decreased somewhat faster in terms of volume than in terms of value is indicative of a substantial increase in the average price. Thus price competition in the EU market eased in 2005, after intensifying for several years in a row.

Table 4: EU25: trade in textiles and trade in clothing, by value and by volume, 2004 and 2005

	Imports				Exports			
	2004	2005[a]	% change 2005/04	% share 2005	2004	2005[a]	% change 2005/04	% share 2005
Value (Euro mn)								
Textiles								
intra-trade	39,609	36,215	-8.6	65.0	41,059	37,669	-8.3	63.5
extra-trade	19,422	19,469	0.2	35.0	22,007	21,663	-1.6	36.5
total	**59,031**	**55,684**	**-5.7**	**100.0**	**63,066**	**59,332**	**-5.9**	**100.0**
Clothing								
intra-trade	39,115	37,964	-2.9	41.5	44,922	43,614	-2.9	74.6
extra-trade	49,788	53,547	7.5	58.5	14,167	14,814	4.6	25.4
total	**88,903**	**91,511**	**2.9**	**100.0**	**59,090**	**58,428**	**-1.1**	**100.0**
Textiles and clothing								
intra-trade	78,724	74,179	-5.8	50.4	85,981	81,283	-5.5	69.0
extra-trade	69,210	73,016	5.5	49.6	36,174	36,477	0.8	31.0
total	**147,934**	**147,195**	**-0.5**	**100.0**	**122,156**	**117,760**	**-3.6**	**100.0**
Volume ('000 tons)								
Textiles								
intra-trade	9,972	8,083	-18.9	58.3	8,268	7,347	-11.1	63.4
extra-trade	5,749	5,780	0.6	41.7	4,237	4,245	0.2	36.6
total	**15,721**	**13,863**	**-11.8**	**100.0**	**12,505**	**11,592**	**-7.3**	**100.0**
Clothing								
intra-trade	1,607	1,417	-11.8	26.0	1,689	2,269	34.3	81.3
extra-trade	3,665	4,027	9.9	74.0	518	521	0.5	18.7
total	**5,272**	**5,445**	**3.3**	**100.0**	**2,207**	**2,790**	**26.4**	**100.0**
Textiles and clothing								
intra-trade	11,579	9,500	-18.0	49.2	9,957	9,616	-3.4	66.9
extra-trade	9,414	9,808	4.2	50.8	4,755	4,765	0.2	33.1
total	**20,993**	**19,308**	**-8.0**	**100.0**	**14,712**	**14,382**	**-2.2**	**100.0**

NB: numbers may not sum precisely due to rounding and undetermined intra-EU trade; percentage share and percentage change calculations are based on unrounded data; data for intra-EU trade include re-exports of goods imported from outside the EU. [a] Data for extra-EU and total trade exclude Kosovo.
Source: Euratex.

More worryingly for EU firms, extra-EU imports alone grew in value by 5.5%—

When EU intra-trade[6] is excluded from the total, the picture is more worrying for EU firms. In fact **extra-EU imports** of textiles and clothing actually grew in value—by 5.5% to Euro73,016 mn (US$90,905 mn).

—and in volume by 4.2%

There was also an increase in volume terms. At 9.8 mn tons, extra-EU textile and clothing imports were 4.2% more than in 2004.

But the average price grew, thereby bucking the trend

The fact that extra-EU imports grew faster in value than in volume is indicative of an increase in the average import price, thereby bucking

[6] Intra-EU trade is that which takes place between members of the European Union.

the trend of falling prices in recent years. But at Euro0.09 per kg, the increase was very marginal.

Textile imports alone grew in value by only 0.2% but clothing rose by 7.5%

When textile and clothing imports are analysed separately, an interesting pattern emerges. Textile imports increased in value by only 0.2% but clothing imports rose by 7.5%.

Slower growth in textiles is a longer-term trend

This pattern of slower growth in textile imports—or even decline in some years—is in line with a longer-term trend.

Investment in advanced technology has helped to combat import competition in textiles—

One explanation for the trend is that foreign suppliers have found it harder to penetrate the EU textile market than they have to make inroads into the clothing market. This is due in part to the fact that EU firms have invested in advanced technology in order to maintain a competitive edge.

—but maintaining a competitive edge in clothing is harder because of a lack of automation

Maintaining a competitive edge in clothing, on the other hand, is more difficult because there is less scope for using advanced technology to achieve automation and hence save on labour costs. Consequently, the clothing sector remains largely a labour intensive business.

The fall in textile imports reflects reduced activity in the clothing sector

The textile industry may see the reduction in textile imports in 2005 as a positive development. However, the decline is also indicative of lower activity in the European garment industry. Because the latter is not producing as much clothing as in earlier years, its fabric requirements are lower.

Textile imports

Textile imports alone (including intra-trade) fell in value by 5.7% and in volume by 11.8% in 2005

Looking at textiles alone, EU25 imports (including intra-trade) fell in value by 5.7% during 2005. At the same time, the volume of these exports decreased by 11.8%. The fact that imports fell more rapidly in volume than in value is indicative of an increase in the average price. At Euro4.02 per kg, this was 7.0% higher than in 2004.

Imports of textiles continued to be dominated by intra-EU trade

Imports of textiles continued to be dominated by intra-EU trade. These accounted for 65.0% of the total in value terms and for 58.3% in terms of volume.

Extra-EU imports stagnated

Extra-EU textile imports more or less stagnated in both value and volume terms.

Clothing imports

Clothing imports rose by 2.9% in value and by 3.3% in volume

In the case of clothing, EU25 imports (including intra-trade) rose by 2.9% in value terms and by 3.3% in volume terms in 2005, indicating a slight fall in the average price.

Extra-EU imports account for the bulk of the total

Unlike textiles, the bulk of clothing imports consists of **extra-EU imports**. Indeed, extra-EU imports accounted for 58.5% of the total in value terms during 2005.

In 2005 they increased their value share—

Moreover, this share was up by 2.5 percentage points on the 56.0% recorded for 2004.

—following a 7.5% rise

The growth in share resulted from a 7.5% increase in the value of extra-EU clothing imports.

In volume extra-EU clothing imports rose by 9.9%

In volume terms extra-EU clothing imports rose by 9.9%.

EXPORT TRENDS

Textile and clothing exports

Textile and clothing exports fell in value by 3.6% and in volume by 2.2% in 2005

EU textile and clothing exports (including intra-trade) fell in value by 3.6% to Euro117,760 mn (US$146,611 mn) in 2005. In volume they declined by 2.2% to 14.4 mn tons.

The average export price also decreased, implying a fall in profitability for EU exporters

The fact that exports fell faster in value than in volume is indicative of a decrease in the average export price. At Euro8.19 per kg, this was 1.4% lower than in 2004—implying a fall in the profitability of exporting for EU firms.

Extra-EU exports rose, but the rise was only 0.8% and the trade deficit grew

By contrast, **extra-EU textile and clothing exports** were up in value. However, the rise was only 0.8%, and at this level it was insufficient to avoid an increase in the total extra-EU trade deficit.

This was bad news for EU firms as exports in previous years offset import growth

This was bad news for the EU industry, as success in export markets has in recent years been helping to offset the problems of growing imports.

Extra-EU export prices continued to fall in both textiles and clothing, implying falling profitability for both EU sectors

Furthermore, the unit price of extra-EU textile and clothing exports continued to drop—implying falling profitability for EU exporters. Furthermore, there were declines in textile export prices as well as clothing export prices, implying that the losses in margins affected textile firms as well as clothing firms.

Textile exports

Textile exports fell 5.9% in value and 7.3% in volume although the average price strengthened slightly

EU25 textile exports (including intra-trade) fell in value by 5.9% in 2005, while in volume they decreased by 7.3%. The only consolation for EU firms was that the average export price strengthened slightly, by 1.5% to Euro5.12 per kg.

Extra-EU exports rose 0.2% in volume but fell by 1.6% in value and the average price weakened

Within the overall total **extra-EU textile exports** rose by a modest 0.2% in volume but declined by 1.6% in value terms. Thus the average price of extra-EU textile exports fell by 1.7% compared with 2004.

Clothing exports

Clothing exports fell by 1.1% in value but soared by 26.4% in volume and the average price weakened by 21.8%

EU clothing exports (including intra-trade) fell in value by 1.1% in 2005 but soared by 26.4% in volume terms. However, the fact that exports fell in value but increased substantially in volume is indicative of a sizable decrease in the average import price—which must have made a dent in EU exporters' profitability. Indeed, the average export price in 2005, at Euro90.94 per kg, was 21.8% lower than in 2004.

Extra-EU exports rose by 4.6% in value but by just 0.5% in volume, implying better prices

Within the overall total for clothing exports, **extra-EU exports** rose by a welcome 4.6% in value terms in 2005. However, the rise in volume terms was only 0.5%—which shows that, on the whole, EU exporters managed to secure increases in the average prices of their exports, even though the volume of their exports barely grew.

TRADE BALANCE

As a result of these trends the trade deficit widened by 10.6% in 2005

One result of these trends was a continuation of the longer-term pattern of a widening extra-EU trade deficit (imports less exports). In 2005 the trade imbalance reached Euro36,539 mn (US$45,491 mn)—some 10.6% more than the Euro33,036 mn recorded for 2004.

EXTRA-EU IMPORTS BY SUPPLYING COUNTRY

Extra-EU textile and clothing imports by supplying country

Extra-EU imports rose 5.5% in value and 4.2% in volume

Extra-EU textile and clothing imports rose by 5.5% in value and by 4.2% in volume during 2005.

China's dominance increased significantly in 2005 as EU imports from the country rose in value by 41.3%—

China's domination of extra-EU textile and clothing imports increased significantly during 2005. In value terms, imports from the country rose by 41.3% to Euro21,072 mn (US$26,234 mn). As a result, China accounted for 28.9% of the value of extra-EU textile and clothing imports from all sources compared with 21.6% in 2004.

—and in volume by 36.5%

In volume terms EU textile and clothing imports from China rose by 36.5% to 2.7 mn tons. Again, this increase constituted a significant rise in comparison with previous years.

Surprisingly, however, the average price rose by 3.4%

However, these movements were accompanied by a 3.4% increase in the average import price, to Euro7.88 per kg. This increase is surprising, given that the prices of imports from China have been falling dramatically in recent years.

Turkey was the EU's second biggest textile and clothing supplier, in value as well as in volume terms

Turkey was the EU's second biggest textile and clothing supplier in value terms during 2005, with 15.0% (or Euro10,940 mn) of the extra-EU total. The country also ranked second in textiles alone, and second in clothing alone. Furthermore, Turkey ranked second as a textile and clothing supplier in volume terms, with a 12.1% share of the extra-EU total.

Imports were up by 3.7% in value and by 1.2% in volume

Textile and clothing imports from Turkey were up in value by 3.7% in 2005 and in volume by 1.2%. Their average price also rose, by 2.5%.

Among other leading suppliers India ranked third followed by Romania, Bangladesh, Tunisia, Morocco, Pakistan, Hong Kong and Indonesia

Among other leading suppliers of textile and clothing imports, India ranked third, having shipped Euro5,248 mn worth of textiles and clothing to the EU25 in 2005, followed by Romania (Euro4,006 mn), Bangladesh (Euro3,697 mn), Tunisia (Euro2,668 mn), Morocco (Euro2,356 mn), Pakistan (Euro2,039 mn), Hong Kong (Euro1,765 mn) and Indonesia (Euro1,583 mn).

Extra-EU textile imports by supplying country

In textiles China again strengthened its lead as extra-EU imports from the country rose by 24.3% in value and 25.8% in volume

China was easily the leading supplier of extra-EU textile imports in value terms in 2005. Furthermore, at Euro4,272 mn, imports from the country were 24.3% greater than the equivalent figure for 2004. In volume terms EU textile imports from China grew by 25.8% to 1.1 mn tons.

As a result, China's share of extra-EU textile imports grew from 17.7% to 21.9% in value terms

These increases resulted in a strengthening of the country's position at the top of the table. Overall, China accounted for 21.9% of the total value of extra-EU textile imports in 2005, compared with 17.7% in 2004.

Hit by Chinese competition, imports from Turkey grew by only 2.3% in value and an even slower 1.5% in volume

Faced with stronger competition from China, imports from **Turkey** grew by only 2.3% in value terms in 2005. The only consolation for Turkish firms was a marginal increase in the average unit price of imports from the country, given that the volume of imports grew at the slightly slower pace of 1.5%.

Imports from India were similarly affected, having grown by 2.6% in value and just 1.4% in volume

India, in third position, was also hit by Chinese competition. Imports from the country were up by only 2.6% in value and an even slower 1.4% in volume. Again, however, this indicates a small increase in the average unit import price.

Table 5: Extra-EU25 textile imports by leading suppliers, by value and by volume, 2004 and 2005

	2004		2005		% change 2005/04		% share[a] 2005	
	Value (Euro mn)	Volume ('000 tons)	Value (Euro mn)	Volume ('000 tons)	Value	Volume	Value	Volume
China	3,436.1	848.6	4,272.5	1,067.6	24.3	25.8	21.9	18.5
Turkey	2,872.8	724.3	2,940.2	734.9	2.3	1.5	15.1	12.7
India	1,968.6	587.6	2,020.3	595.6	2.6	1.4	10.4	10.3
Pakistan	1,434.8	405.1	1,265.5	399.5	-11.8	-1.4	6.5	6.9
USA	952.8	268.7	953.0	271.4	0.0	1.0	4.9	4.7
Switzerland	1,005.1	142.0	919.1	118.2	-8.6	-16.8	4.7	2.0
South Korea	833.4	289.3	776.4	253.4	-6.8	-12.4	4.0	4.4
Japan	536.5	75.7	504.4	75.7	-6.0	-0.1	2.6	1.3
Taiwan	428.4	178.5	473.0	238.9	10.4	33.8	2.4	4.1
Romania	387.3	75.2	411.8	77.5	6.3	3.2	2.1	1.3
Indonesia	418.0	178.5	383.2	166.7	-8.3	-6.6	2.0	2.9
Australia	497.0	147.8	348.4	101.4	-29.9	-31.4	1.8	1.8
Egypt	310.8	98.2	315.3	106.6	1.4	8.6	1.6	1.8
Thailand	281.3	83.7	297.5	98.6	5.7	17.9	1.5	1.7
Israel	218.4	57.4	226.8	60.2	3.8	5.0	1.2	1.0
Tunisia	234.4	54.3	217.6	52.6	-7.2	-3.2	1.1	0.9
South Africa	234.5	63.7	201.3	53.1	-14.1	-16.7	1.0	0.9
Bulgaria	187.4	38.7	196.7	44.6	5.0	15.2	1.0	0.8
Iran	211.0	21.9	187.0	21.7	-11.4	-0.9	1.0	0.4
Bangladesh	176.5	109.9	178.2	105.8	1.0	-3.8	0.9	1.8
Other	2,797.0	1,299.4	2,381.4[b]	1,136.1[b]	-14.9	-12.6	12.2	19.7
Extra-EU25	**19,422.1**	**5,748.7**	**19,469.4**[b]	**5,780.4**[b]	**0.2**	**0.6**	**35.0**[c]	**41.7**[c]
Intra-EU25	**39,609.3**	**9,972.1**	**36,214.5**	**8,082.7**	**-8.6**	**-18.9**	**65.0**[c]	**58.3**[c]
Total EU25	**59,031.4**	**15,720.8**	**55,684.0**[b]	**13,863.1**[b]	**-5.7**	**-11.8**	**100.0**	**100.0**

NB: numbers may not sum precisely due to rounding; percentage share and percentage change calculations are based on unrounded data. [a] Share of total extra-EU25 imports. [b] Data exclude Kosovo. [c] Share of total EU25 imports (extra-EU25 plus intra-EU25).
Source: Euratex.

Pakistan was even harder hit with an 11.8% fall in value

Pakistan, in fourth place, was even harder hit by Chinese competition. EU imports from the country actually fell in 2005—by 11.8% in value and by 1.4% in volume, indicating a significant 10.6% fall in the unit price.

The USA moved up to fifth place even though shipments were almost static

The **USA**, on the other hand, moved up one place to number five—even though it shipped almost the same value of imports. In volume terms its shipments rose by 1.0%.

Switzerland dropped to sixth place in 2005 as the EU took 8.6% less from the country in value terms

Switzerland dropped from fifth to sixth place in 2005, as a result of an 8.6% fall in the value of EU imports from the country. In volume terms the fall in EU imports from Switzerland was almost double, at 16.8%.

The unit price of imports from the country rose significantly, reinforcing Switzerland's role as one of the EU's higher price suppliers

The faster drop in volume indicates a significant increase in the unit price, reinforcing Switzerland's role as one of the EU's higher price suppliers. Although the country ranks only ninth in volume terms, it ranks as high as sixth in value. Also, the country's share of extra-EU import value (4.7%) was over twice its share of import volume (2.0%).

South Korea held on to seventh place despite a 6.8% drop in EU imports from the country

South Korea was also affected by Chinese competition as imports from the country dropped in value by 6.8%. Nonetheless, it remained in seventh place. Imports in volume terms fell by an even faster 12.4%, indicating an increase in the average import price.

Japan remained in eighth place despite a 6.0% fall in the value of its supplies

Japan held on to eighth place even though EU imports from the country dropped by 6.0% in value terms. However, the volume of imports from Japan remained almost unchanged, reflecting a significant decrease in the unit price of Japanese supplies to the EU—from Euro7.09 per kg in 2004 to Euro6.67 per kg in 2005.

Taiwan seems to have weathered the competition from China, having shipped 33.8% more to the EU in volume terms

Taiwan, by contrast, seems to have weathered the increase in competition from China better than its competitors. The value of EU imports from the territory increased by 10.4%, thus partly reversing a drop in value between 2003 and 2004.

As a result of the value increase, Taiwan moved up from tenth place in 2004 to ninth in 2005. In volume terms EU imports from Taiwan soared by an impressive 33.8%.

Romania sold 6.3% more to the EU in value although it shipped only 3.2% more in volume

In 2005 **Romania** managed to move from 12th to tenth place by raising the value of its sales to the EU by 6.3%. In volume terms, however, EU imports from the country rose at little more than half this rate (3.2%), reflecting a significant increase in unit prices.

But Australia dropped out of the top ten—

By contrast, **Australia** dropped out of the top ten extra-EU textile suppliers in 2005, having fallen from ninth to 12th position. This continued a pattern of declining sales to the EU over the last few years.

—as quota elimination took away one of its key competitive weapons

Australia achieved its strong position largely because it benefited from quota-free access to the EU market. But this ceased to be an advantage following the removal of restrictions on a global basis at the end of 2004. Australia has therefore lost one of its key competitive weapons and suffers from the disadvantage of being distant from the EU market.

With few advantages, Australia lost out to Asian expansion, in common with the USA and Switzerland

With no strong competitive advantages, Australia—in common with the USA and Switzerland—suffered from an expansion of market share by Asian countries. China in particular increased its share of extra-EU imports by 4.3 percentage points in 2005.

Extra-EU clothing imports by supplying country

Extra-EU clothing imports rose by 7.5% in value and 9.9% in volume in 2005

Extra-EU clothing imports were up in value by 7.5% in 2005 compared with 2004. As a result they accounted for 58.5% of total EU clothing imports. In volume terms, extra-EU clothing imports rose by 9.9%.

Table 6: Extra-EU25 clothing imports by leading suppliers, by value and by volume, 2004 and 2005

	2004		2005		% change 2005/04		% share[a] 2005	
	Value (Euro mn)	Volume ('000 tons)	Value (Euro mn)	Volume ('000 tons)	Value	Volume	Value	Volume
China	11,482.1	1,109.7	16,800.0	1,605.6	46.3	44.7	31.4	39.9
Turkey	7,674.5	443.7	8,000.3	447.3	4.2	0.8	14.9	11.1
Romania	3,839.7	182.6	3,594.5	159.9	-6.4	-12.4	6.7	4.0
Bangladesh	3,719.2	456.1	3,519.1	453.1	-5.4	-0.6	6.6	11.3
India	2,478.4	178.1	3,227.4	211.8	30.2	19.0	6.0	5.3
Tunisia	2,601.7	113.5	2,450.5	101.6	-5.8	-10.5	4.6	2.5
Morocco	2,426.9	134.7	2,244.7	122.9	-7.5	-8.8	4.2	3.1
Hong Kong	1,960.9	117.8	1,708.6	102.1	-12.9	-13.4	3.2	2.5
Indonesia	1,335.7	95.7	1,199.8	87.2	-10.2	-8.8	2.2	2.2
Bulgaria	1,074.2	53.2	1,089.0	51.3	1.4	-3.6	2.0	1.3
Sri Lanka	813.8	58.9	791.5	51.3	-2.7	-12.8	1.5	1.3
Thailand	893.0	59.0	783.1	53.2	-12.3	-10.0	1.5	1.3
Pakistan	916.7	116.3	773.5	105.1	-15.6	-9.6	1.4	2.6
Vietnam	630.0	52.9	678.9	60.0	7.8	13.3	1.3	1.5
Switzerland	550.3	5.9	508.9	5.1	-7.5	-13.6	1.0	0.1
Cambodia	519.0	38.8	474.5	35.6	-8.6	-8.2	0.9	0.9
Mauritius	514.2	27.5	440.1	23.8	-14.4	-13.3	0.8	0.6
Ukraine	442.2	29.5	405.2	28.0	-8.4	-5.2	0.8	0.7
Croatia	451.7	14.2	404.6	12.9	-10.4	-9.5	0.8	0.3
USA	280.0	8.7	333.5	9.9	19.1	13.8	0.6	0.2
Other	5,183.8	368.4	4,119.3[b]	299.5[b]	-20.5	-18.7	7.7	7.4
Extra-EU25	**49,787.9**	**3,665.1**	**53,546.8[b]**	**4,027.2[b]**	**7.5**	**9.9**	**58.5[c]**	**74.0[c]**
Intra-EU25	**39,114.8**	**1,607**	**37,964.1**	**1,417.5**	**-2.9**	**-11.8**	**41.5[c]**	**26.0[c]**
Total EU25	**88,902.8**	**5,272.0**	**91,510.8[b]**	**5,444.7[b]**	**2.9**	**3.3**	**100.0**	**100.0**

NB: numbers may not sum precisely due to rounding; percentage share and percentage change calculations are based on unrounded data. [a] Share of total extra-EU25 imports. [b] Data exclude Kosovo. [c] Share of total EU25 imports (extra-EU25 plus intra-EU25).
Source: Euratex.

China strengthened its leadership as shipments to the EU rose by 46.3% in value and 44.7% in volume

China, in first place, strengthened its position in 2005. In value terms EU clothing imports from the country increased by 46.3% to reach Euro16,800 mn. In volume terms, they rose by 44.7% to 1.6 mn tons.

As a result, it supplied 31.4% of imports in value terms and 39.9% in volume, three times as much as the number two supplier

As a result, China accounted for 31.4% of all extra-EU clothing imports in value terms—8.3% percentage points more than in 2004—or 39.9% in volume terms. Indeed, the country ships well over three times as much tonnage as the number two supplier in volume terms, Turkey. Interestingly, more clothing is sold to the EU from China in terms of volume than is sold within the intra-EU region.

Only China and India increased their market shares in value terms

China was only one of two clothing suppliers to the EU among the top 20 which managed to raise its market share in value terms—the other being India.

But China's hike was over eight times the size of India's in value—

However, China's expansion was over eight times the size of India's. Whereas India increased its market share by only one percentage point in value terms, China raised its market share by 8.3 percentage points.

—and 24 times in terms of volume

In volume terms China increased its market share by 9.6 percentage points. Again, the only other EU clothing supplier among the top 20 to enjoy a significant gain in market share was India. Notwithstanding this, China's growth in market share in volume terms was 24 times that of India's.

Turkey held on at number two with a slightly lower value share of 14.9%

In value terms, **Turkey** held the number two spot in clothing, as in textiles, with a 14.9% share of extra-EU imports. However, slower than average growth (4.2%) meant that this share was down on the 2004 figure by 0.5 percentage points.

In volume terms imports from Turkey fell by 0.8% but at least Turkish firms secured a price rise

In volume terms, imports from the country increased by only 0.8%. Given that supplies grew faster in value than in volume, it would appear that Turkish exporters managed to secure an increase in unit prices, from Euro17.30 per kg in 2004 to Euro17.89 per kg in 2005.

Romania, in third place, benefits from low labour costs and proximity to the EU, enabling it offer fast response

Romania, in third place, is an important location for the assembly of garments using fabrics supplied by the EU. The country benefits from low labour costs and proximity to the EU market, which enables it to meet the fast response times being increasingly demanded by EU clothing importers.

That said EU imports from the country fell by 6.4% in value and by a much faster 12.4% in volume

Having said this, despite Romania's strong competitive advantages, EU clothing imports from the country fell by 6.4% in value terms during 2005, and by a much faster 12.4% in volume terms. The only consolation was that Romanian exporters managed to secure an increase in unit prices—from Euro21.02 per kg to Euro22.48 per kg.

Bangladesh also suffered from falling sales in 2005, despite its low labour costs—

Bangladesh also suffered from falling sales in 2005, despite its strong competitive advantage of low labour costs. In value terms EU imports from the country fell by 5.4% in 2005, thereby partially reversing a significant increase in 2004.

—although it still stayed in fourth place

Despite this reduction the country still managed to retained its place as the fourth largest clothing supplier in value terms.

Success stems largely from its low prices, which is reflected in the fact that it is the fourth biggest supplier in value but the number two in volume

Its success stems largely from its low import prices. In 2005 its average unit prices were the lowest among all suppliers in the top ten and the second lowest among suppliers in the top 20.

It is significant in this context that, while Bangladesh was the fourth largest supplier in value terms, it ranked as high as second largest in terms of volume with total shipments of 453,102 tons in 2005.

But Bangladesh also achieved its strong position because of its quota-free access, which ceased to be a benefit after 2004

However, Bangladesh achieved its high ranking in the EU market not only on the basis of its low labour costs but also its quota-free access to the EU market. Once quotas on international textile and clothing trade were removed, at the end 2004, Bangladesh lost one of its key competitive weapons.

Safeguard quotas against China have given Bangladesh some relief but these can not be maintained beyond 2008

To some extent Bangladesh has enjoyed a new lease of life following the imposition of safeguard quotas against China. But these can not be maintained beyond 2008 and Bangladesh will then have to compete in a more open market on the basis of its natural competitive strengths.

Imports from India soared by 30.2% in value and by 19.0% in volume

India gained one place among the top ten clothing suppliers to the EU in 2005 to reach fifth position. In value terms EU imports from India soared by 30.2%. Volume growth was less spectacular. Nonetheless, at 19.0% it was still substantial.

India was the only big supplier apart from China to make large share gains

Additionally, India was the only other country among the top twenty suppliers, apart from China, to enjoy a significant increase in market share.

EU imports from Tunisia fell by 5.8% in 2005

EU imports from **Tunisia** fell by 5.8% to Euro2,450 mn in 2005. As a result, Tunisia fell one place to sixth position among the EU's leading ten clothing suppliers.

Tunisia lost its competitive advantage of quota-free access at the end of 2004

As was the case with many other leading suppliers, Tunisia's quota-free access to the EU ceased to be a benefit when the global quota system was eliminated at the end of 2004.

Tunisian exporters did manage to raise their prices although these are already among the highest

One consolation for Tunisian exporters was that they managed to raise the average unit price of their shipments to the EU. However, this has implications for their competitiveness, given that Tunisia already ranks among the EU's highest price suppliers.

Morocco followed the same pattern with EU imports down 7.5% in value and 8.8% in volume

The pattern of imports from **Morocco** was similar to that of its North African neighbour, Tunisia. In value terms EU imports from Morocco dropped by 7.5%, and in volume they declined by 8.8%. As with Tunisia, the unit import price rose, albeit only slightly.

It too suffered from quota elimination in 2004

As in the case of Tunisia, Morocco lost one of its main competitive weapons with the global abolition of quotas at the end of 2004.

Hong Kong exporters endured the steepest fall in value among the top ten

Imports from **Hong Kong** fell in value by 12.9%. This was the steepest rate of decline among the leading ten suppliers, as was the case in 2004.

Indonesia held ninth place despite minimal growth—

Indonesia remained in ninth place as EU imports from the country grew at a minimal pace.

—but Bulgaria narrowed the gap despite growth of only 1.4%

Bulgaria, in tenth place, managed to make gains in spite of the intensification of Asian competition in 2005. In value terms EU imports from the country grew by 1.4%, which narrowed Indonesia's lead over Bulgaria in the top ten.

EXTRA-EU EXPORTS BY DESTINATION COUNTRY

Textile and clothing exports by destination country

Textile and clothing exports rose only 0.8% in value and 0.2% in volume

Extra-EU exports of textiles and clothing were up by only 0.8% in value terms in 2005 and by an even more marginal 0.2% in volume, indicating a 0.6% rise in the unit export price.

The effect on EU exporters' margins will be negligible

This almost flat export price is unlikely to have made much improvement to EU exporters' margins.

17 of the 20 leading textile export markets also rank among the 20 leading clothing markets

17 of the 20 leading destinations for EU textile exports also rank among the 20 leading destinations for clothing exports. The three exceptions are China, Australia and a market which is unnamed for reasons of confidentiality.

But only 12 countries are common in the case of import supplies

Only 12 countries, by contrast, figured among the top 20 suppliers of textile imports as well as the top 20 suppliers of clothing imports.

11 of the 17 markets received over Euro1 bn worth of textile and clothing exports from the EU in 2005

Of the 17 leading destinations for both textiles and clothing, 11 received over Euro1 bn worth of EU textile and clothing exports in 2005. These were the USA (Euro4.70 bn), Switzerland (Euro3.64 bn), Romania (Euro2.83 bn), Russia (Euro2.48 bn), Turkey (Euro1.90 bn), Japan (Euro1.88 bn), Tunisia (Euro1.70 bn), Morocco (Euro1.51 bn), Hong Kong (Euro1.50 bn), Norway (Euro1.07 bn) and Bulgaria (Euro1.04 bn).

Export markets continue to be more concentrated than import suppliers

The 17 countries took as much as 66.5% of all extra-EU textile and clothing exports. As in the past, export markets continue to be more concentrated than import suppliers.

EU export markets are being adversely affected by competition from Asian suppliers, especially China

EU export markets are being adversely affected by competition from Asian suppliers—especially China. Intensified international competition is making it harder for EU exporters to maintain market shares, and many of them are having to sacrifice margins in order to maintain sales.

The USA was the largest export market in 2005 with 12.9% of the total

The largest export market for EU textile and clothing exports in 2005 was the **USA**. Shipments to the country were worth Euro4,705 mn (US$5,858 mn)—representing 12.9% of extra-EU textile and clothing exports to all destinations.

But sales to the USA fell in value and volume

However, exports to the USA fell by 2.1% in value terms and by 1.8% in volume between 2004 and 2005.

Textile exports by destination country

Extra-EU textile prices were cut as exports fell by 1.6% in value but rose by 0.2% in volume

Extra-EU textile exports fell in value by 1.6% in 2005, to Euro21.7 bn. In volume terms, exports were up by a marginal 0.2%, implying that EU exporters were forced to lower their average unit prices in order to fight off a reduction in sales.

But the unit price of intra-EU exports remained virtually the same as that of extra-EU exports

In a pattern which is different from that of 2004, the unit price of intra-EU exports in 2005 was virtually the same as the unit price of extra-EU exports. In 2004 extra-EU exports were worth 4.6% more on average than intra-EU exports.

Extra-EU exports used to comprise higher value items

This suggests that, previously, extra-EU exports consisted of higher value goods than intra-EU trade.

The USA was again the largest export market but only in terms of value

The **USA** took 12.4%, or Euro2.68 bn worth, of extra-EU textile exports in 2005, making it the biggest market for these products in value terms.

In volume terms it ranked second behind Turkey

In volume terms, however, the USA continued to rank second, behind Turkey.

Exports to the USA were down slightly in value and volume, but in terms of unit prices the country remained in eighth position

Exports to the USA were down in value terms (by 1.9%) compared with 2004 while the volume of exports fell by a lesser 1.0%—indicating a marginal fall in unit prices (by Euro0.07, or 0.9%). Nonetheless, in terms of unit export prices the USA remained in eighth position among the top 20 markets for extra-EU textile exports.

Textile sales to Romania were down 3.8% in value

Exports of textiles to **Romania**, the EU's second largest market, were worth Euro2.16 bn in 2005, having fallen by 3.8% in value. As a result, Romania took 10.0% of extra-EU textile exports during the period.

A large proportion of the textiles exported to Romania come back as clothing

Romania is a major centre for CMT (cut, make and trim) garment manufacturing using textiles supplied by EU firms. Consequently, a large proportion of the textiles exported to Romania are shipped back to the EU as clothing.

Sales to Turkey fell by 11.0% in value and 14.6% in volume

Turkey remained the third biggest market for EU textile exporters in 2005. This is despite an 11.0% decrease in exports in value terms. In volume terms exports fell by an even faster 14.6%.

There was some improvement in the average price but this was still low compared with other markets

One consolation for EU textile exporters is that they managed to improve their average selling price by 4.2% to Euro3.72 per kg. However, this price remains low relative to those in other export markets. Indeed, out of the top 20 markets, the average price of textile shipments to Turkey ranks as low as 18th.

Turkey is an important market for EU textile exporters

Turkey is an important market for EU textile exporters. In 2005 it took as much as 7.4% of extra-EU textile sales in terms of value, but as much as 10.2% in terms of volume.

The markets in Tunisia and Morocco declined in value yet again

Markets for EU textiles in **Tunisia** and **Morocco**—in fourth and fifth positions—continued to decline in value terms during 2005, by 8.7% and 5.9% respectively.

Table 7: Extra-EU25 textile exports by leading destination market, by value and by volume, 2004 and 2005

	2004		2005		% change 2005/04		% share[a] 2005	
	Value (Euro mn)	Volume ('000 tons)	Value (Euro mn)	Volume ('000 tons)	Value	Volume	Value	Volume
USA	2,733.7	387.4	2,680.4	383.4	-1.9	-1.0	12.4	9.0
Romania	2,247.2	248.0	2,162.0	250.5	-3.8	1.0	10.0	5.9
Turkey	1,800.3	504.4	1,602.9	430.9	-11.0	-14.6	7.4	10.2
Tunisia	1,455.9	229.6	1,329.3	224.4	-8.7	-2.3	6.1	5.3
Morocco	1,302.0	170.3	1,225.6	171.1	-5.9	0.5	5.7	4.0
Switzerland	1,120.4	146.0	1,108.0	141.6	-1.1	-3.0	5.1	3.3
Hong Kong	959.4	71.8	945.7	65.5	-1.4	-8.7	4.4	1.5
China	739.0	229.2	823.0	252.1	11.4	10.0	3.8	5.9
Russia	717.6	153.3	803.2	161.7	11.9	5.5	3.7	3.8
Bulgaria	739.1	97.6	726.2	93.5	-1.7	-4.3	3.4	2.2
Japan	657.7	70.8	628.8	64.7	-4.4	-8.6	2.9	1.5
Ukraine	577.8	136.8	605.3	147.6	4.7	7.9	2.8	3.5
EU suppression[b]	413.1	169.5	479.6	178.9	16.1	5.5	2.2	4.2
Norway	387.5	60.4	390.8	58.6	0.9	-2.9	1.8	1.4
South Korea	370.1	53.6	357.7	63.3	-3.4	18.2	1.7	1.5
Croatia	351.9	49.5	330.6	46.6	-6.1	-6.0	1.5	1.1
Canada	322.7	56.9	295.7	50.7	-8.4	-10.9	1.4	1.2
Mexico	258.8	43.2	278.4	49.2	7.6	13.9	1.3	1.2
United Arab Emirates	217.3	46.6	267.3	52.6	23.0	12.8	1.2	1.2
Australia	257.5	43.8	251.8	41.5	-2.2	-5.2	1.2	1.0
Other	4,378.0	1,268.2	4,371.1[c]	1,316.1[c]	-0.2	3.8	20.2	31.0
Extra-EU25	**22,007.0**	**4,236.9**	**21,663.4**[c]	**4,244.5**[c]	**-1.6**	**0.2**	**36.5**[d]	**36.6**[d]
Intra-EU25	**41,058.9**	**8,268.2**	**37,668.9**	**7,347.4**	**-8.3**	**-11.1**	**63.5**[d]	**63.4**[d]
Total EU25	**63,065.9**	**12,505.1**	**59,334.3**[c]	**11,592.8**[c]	**-5.9**	**-7.3**	**100.0**	**100.0**

NB: numbers may not sum precisely due to rounding and undetermined intra-EU trade; percentage share and percentage change calculations are based on unrounded data. [a] Share of total extra-EU25 exports. [b] Data have been suppressed for reasons of confidentiality. [c] Data exclude Kosovo. [d] Share of total EU25 exports (extra-EU25 plus intra-EU25).
Source: Euratex.

Textiles are shipped to Tunisia and Morocco for making into clothing for the EU market—

As in the case of Romania, a large quantity of textiles is shipped to Tunisia and Morocco for making up into clothing under CMT arrangements for the EU market.

—so it is significant that falls in textile exports were accompanied by declines in clothing imports

It is significant therefore that the falls in textile exports to the two countries were accompanied by corresponding declines in clothing shipments in the reverse direction—from Tunisia and Morocco to the EU.

Exports to Switzerland fell by 1.1% in value and 3.0% in volume indicating a rise in price

Switzerland remained in sixth place among the EU's textile markets as exports to the country fell in value by 1.1%. In volume terms, exports fell by 3.0% indicating a rise in the average export price.

The unit price of EU textile sales to Switzerland is already in the top quartile

The unit price of EU textile exports to Switzerland is already in the top quartile, and the share of Switzerland in the total value of EU exports, at 5.1%, is still above its 3.3% share of export volume.

Exports to Hong Kong fell by 1.4% in value and 8.7% in volume but prices rose

Exports to **Hong Kong** fell by 1.4% in value but by as much as 8.7% in volume in 2005—indicating a relatively large price hike over the 12 month period.

Paradoxically, sales to China rose strongly in value and volume—

Paradoxically, one of the most successful markets for EU exporters is **China**. In 2005 sales to the country increased by a substantial 11.4% in value and 10.0% in volume.

—and China rose one place to number eight

As a result, China rose one place in the rankings to number eight in 2005.

But success in the Chinese market came at a price

However, the success of EU exporters in the Chinese market came at a price. At Euro3.26 per kg, the average unit value of EU shipments to China was the lowest of any to the top ten destination markets.

Exports to Russia rose strongly—

The ninth and tenth spots were held by **Russia and Bulgaria** respectively. EU exporters enjoyed considerable success in the Russian market in 2005, having increased their sales by 11.9% in value terms.

—but Bulgaria was less successful

Exports to Bulgaria, by contrast, were less successful, having declined by 1.7%.

Clothing exports by destination country

Extra-EU clothing sales rose 4.6% in value but only 0.5% in volume as prices increased

Extra-EU clothing exports rose in value by 4.6% in 2005. At the same time, they rose in volume by a lesser 0.5%, indicating a significant increase in prices.

Switzerland continued to strengthen its role as the leading destination in value although Russia was the leading market in volume

Switzerland was the leading destination for EU clothing exporters during 2005, having taken 17.1%, or Euro2.53 bn worth, of the extra-EU total. Exports to the country were up by 2.9% on 2004. In volume terms, however, Switzerland remained in second place after Russia—despite a 6.1% rise in tonnage to 63,986 tons.

Exports to the USA fell in value and volume but gained in price by 12.6%

EU clothing exports to the **USA** suffered a decline in both value (down 2.3%) and in volume (by 13.3%). On the positive side, however, the unit export price increased by 12.6%.

Sales to Russia continued their strong growth with value gains of almost 30% and a price hike

There was strong growth in EU clothing exports to **Russia** in both value and volume terms. In value terms exports to Russia rose by 29.5% and in volume by 16.6%. EU clothing exporters also enjoyed an 11.0% hike in the price of their sales to Russia.

But the Japanese market grew only 0.2% in value and lost ground in volume

The market for EU clothing in **Japan**, made little ground in value and in volume it fell. In value terms exports to the country grew by a mere 0.2%, and in volume terms they were down by 5.1%.

There was an increase in exports to Norway but at the cost of a drop in the unit price

There was an increase in clothing exports to **Norway** but in this case it coincided with a drop in unit price. EU shipments to this market grew in terms of tonnage by 9.5%—over twice as fast as the 3.7% rise witnessed in terms of value.

Table 8: Extra-EU25 clothing exports by leading destination market, by value and by volume, 2004 and 2005

	2004		2005		% change 2005/04		% share[a] 2005	
	Value (Euro mn)	Volume ('000 tons)	Value (Euro mn)	Volume ('000 tons)	Value	Volume	Value	Volume
Switzerland	2,462.1	60.3	2,532.6	64.0	2.9	6.1	17.1	12.3
USA	2,072.8	27.1	2,024.4	23.5	-2.3	-13.3	13.7	4.5
Russia	1,291.2	61.9	1,671.9	72.2	29.5	16.6	11.3	13.9
Japan	1,247.8	9.4	1,249.7	8.9	0.2	-5.1	8.4	1.7
Norway	652.1	48.1	676.1	52.6	3.7	9.5	4.6	10.1
Romania	742.1	49.2	671.6	41.9	-9.5	-14.8	4.5	8.0
Hong Kong	500.1	10.1	558.6	8.9	11.7	-12.0	3.8	1.7
Tunisia	404.8	23.5	367.5	20.2	-9.2	-14.3	2.5	3.9
Bulgaria	343.4	35.0	309.1	30.8	-10.0	-12.0	2.1	5.9
Ukraine	251.1	9.5	301.4	12.1	20.0	26.8	2.0	2.3
South Korea	267.3	1.8	299.2	2.1	11.9	19.8	2.0	0.4
Turkey	290.1	12.5	295.5	9.8	1.9	-21.7	2.0	1.9
Croatia	290.3	11.3	291.4	11.4	0.4	0.9	2.0	2.2
Saudi Arabia	262.7	17.4	289.1	16.7	10.0	-4.3	2.0	3.2
Morocco	298.0	28.1	281.7	30.6	-5.5	9.0	1.9	5.9
United Arab Emirates	294.1	14.3	272.0	15.3	-7.5	7.5	1.8	2.9
Canada	250.8	3.9	267.6	4.4	6.7	14.8	1.8	0.8
Mexico	194.8	4.2	217.5	4.6	11.7	10.6	1.5	0.9
Taiwan	157.8	1.3	169.7	1.3	7.6	-3.7	1.1	0.2
Lebanon	124.6	4.0	125.6	3.9	0.8	-3.5	0.8	0.7
Other	1,769.4	85.0	1,941.4[b]	85.4[b]	9.7	0.5	13.1	16.4
Extra-EU25	**14,167.3**	**517.9**	**14,813.7[b]**	**520.7[b]**	**4.6**	**0.5**	**25.4[c]**	**18.7[c]**
Intra-EU25	**44,922.3**	**1,689.3**	**43,614.1**	**2,269.0**	**-2.9**	**34.3**	**74.6[c]**	**81.3[c]**
Total EU25	**59,089.7**	**2,207.2**	**58,427.9[b]**	**2,789.6[b]**	**-1.1**	**26.4**	**100.0**	**100.0**

NB: numbers may not sum precisely due to rounding and undetermined intra-EU trade; percentage share and percentage change calculations are based on unrounded data. [a] Share of total extra-EU25 exports. [b] Data exclude Kosovo. [c] Share of total EU25 exports (extra-EU25 plus intra-EU25).
Source: Euratex.

Sales to Romania did badly with a 14.8% drop in volume and 9.5% in value although the price rose

By contrast, clothing exports to **Romania,** in sixth place, did badly in 2005. Sales fell by 9.5% in value terms and by 14.8% in volume terms. Despite the fall, however, EU exporters to the country managed to secure an increase in the average price.

Exports to Hong Kong grew in value by 11.7% while the volume fell 12.0%—

Hong Kong—the only other Asian country among the top ten markets apart from Japan—received 11.7% more clothing from the EU by value than in 2004 but the volume of shipments fell by 12.0%.

—but exporters did manage to secure a 27% price rise

However, this indicates that there was a significant increase in the average unit price. Indeed, EU exporters managed to secure a unit price increase of almost 27%.

Exports to Tunisia were well down, especially in volume terms, as were sales to Bulgaria

Exports to **Tunisia**, at number eight, were down 9.2% by value and 14.3% by volume.

Sales to **Bulgaria** were also down significantly, by 10.0% in value and 12.0% in volume terms. Nonetheless, the country continued to be the ninth biggest market for EU clothing exports in 2005.

Sales to newcomer Ukraine grew the fastest in volume and also did relatively well in value

In tenth position was a newcomer to the top ten destinations for EU clothing exports, **Ukraine**. Sales to Ukraine soared in volume by 26.8% albeit from a relatively low base, making this country the fastest growing market for EU clothing exports in 2005. Exports to the country also increased in value, by a not insignificant 20.0%.

But it seems that EU clothing exporters had to drop prices to achieve this growth

The slower increase in value implies, however, that EU clothing exporters had to suffer a reduction in their unit price in order to achieve this growth. In fact, the unit price was down by Euro1.41 per kg to Euro24.90 per kg.

OUTLOOK

The economic outlook is tempered by the weak dollar and the impact of the high US deficits

For the future, the prospects for the textile and clothing industries in the EU inevitably remain uncertain. Optimism concerning the world economy is tempered by uncertainties over the value of the US dollar, and the impact of the high US budget and trade deficits.

In EU textile production, no upturn is likely in 2006 after a 4.5% fall in 2005

As far as the **EU textile industry** is concerned, it is unlikely that there will be a significant upturn in production in 2006, following the 4.5% decline which was registered for 2005.

In clothing, likewise, an improvement seems unlikely after the 8.3% drop

Likewise, it is also doubtful whether the **EU clothing industry** can turn its fortunes around. Production fell by 8.3% in 2005, and there seems little prospect of any improvement in 2006.

Sales to the domestic market will depend on a recovery in GDP and private consumption growth, but any recovery is forecast to be modest

Growth in sales to the domestic market will depend on a strong recovery in domestic demand. However, the EIU does not expect much improvement this year. Forecasts produced in March 2006 show that real GDP growth in the 25 countries of the European Union (EU25) will pick up in 2006 but the increase will be confined to only 2.1%. Thereafter a small recovery is expected, with GDP growth likely to reach 2.2% in 2007. But this is still a long way short of the 3.7% increase witnessed in 2000. EU25 private consumption growth is expected to remain at only 1.8% in 2006 and 2007.

Much will depend on progress in export markets

To maintain overall growth, EU firms will have to make more progress in export markets.

But since quota elimination at the end of 2004, buyers are turning to more cost-effective suppliers to combat greater competition

But since the global elimination of quotas on textile and clothing trade on December 31, 2004, buyers have been turning to more cost-effective suppliers in anticipation of intensified competition and further price falls in the more liberal trading environment of 2005 and beyond.

EAST ASIA

CHINA

Chinese exporters increased their dominance after quota elimination

As was widely expected, China's exporters increased their dominance of the global textile and clothing market following the elimination of quotas on December 31, 2004.

China's industry is vertically integrated, has low costs, is highly skilled, and has ample raw materials

China has an extremely competitive textile and clothing industry which is characterised by a high degree of vertical integration, low costs of production, a skilled workforce and ample access to raw materials.

It makes a wide range of quality products

In addition, the industry is able to produce a broad assortment of quality products in virtually all price ranges.

But its growth will be limited by safeguard quotas in the US, EU and other markets

Despite these advantages, China's growth will be limited in the years ahead by the significant quota restrictions which have been imposed under the WTO special textile safeguard provision by the USA, the EU, Turkey, and, to a lesser extent, Brazil.

In 2005 textile and clothing exports grew by 23.2% to US$117,535 mn, 15.4% of China's total exports

China's textile and clothing exports grew in 2005 by 23.2% to US$117,535 mn. At this level, textiles and clothing represented 15.4% of the country's total export sales during the year, although this was down from 16.4% in 2004.

But imports increased by a more modest 1.8%

Textile and clothing imports into China, on the other hand, increased by a much more modest 1.8% to US$17,099 mn.

Clothing imports rose faster than textiles

Within this total, textile imports rose by 1.4% to US$15,490 mn while clothing imports increased by 5.1% to US$1,609 mn.

Clothing exports went up by 19.4% while textile sales rose by 22.9%

Within the total export figure, apparel shipments went up by 19.4% to US$73,566 mn while textile sales increased by 22.9% to US$43,969 mn.

The USA took 16.7% of China's exports in 2005, up from 10.3% in 2004

The largest market for Chinese textile and clothing exports in 2005 was the USA with a 16.7% share of total shipments—up from a 10.3% share in 2004.

The increase in share stemmed from a 66.1% hike in exports to the USA

The increased importance of the USA resulted from a 66.1% increase in Chinese textile and clothing exports to the country, to US$19,576 mn.

As a result, the USA overtook Hong Kong

As a result of this export surge, the USA overtook Hong Kong as the leading market for Chinese textile and clothing exports.

The export hike was driven by a surge in demand for a broad variety of products

The export hike was driven by a surge in demand for a broad variety of products, including cotton trousers, women's and girls' cotton and man-made fibre coats and jackets, women's and girls' wool and man-made fibre sweaters, men's and boys' man-made fibre non-suit coats and jackets, cotton nightwear, cotton skirts, women's and girls' cotton woven shirts and blouses, man-made fibre swimwear, and a range of textile made-ups.

China's share of US clothing imports more than doubled, and its share of textile imports rose from 30.4% to 35.4%

As a result of this excellent performance, China's share of the US clothing import market increased by more than half—from 13.8% in 2004 to 22.0% in 2005. China also increased its share of the US import market for textile products—from 30.4% in 2004 to 35.4% in 2005.

Its 2005 performance would have been even more impressive if the US government had not imposed safeguard quotas

China's 2005 performance would have been even more impressive if the US government had not imposed safeguard quotas over the course of the summer. The quotas were imposed on imports of the following Chinese products: combed cotton yarn (Category 301); cotton knitted shirts and blouses (Category 338/339); men's and boys' cotton and man-made fibre woven shirts (Category 340/640), cotton trousers (Category 347/348), cotton and man-made fibre brassières (Category 349/649), cotton and man-made fibre underwear (Category 352/652), synthetic filament fibre other than polyester (Category 620), man-made fibre knitted shirts and blouses (Category 638/639), and man-made fibre trousers (Category 647/648).

A one-year quota on cotton, wool and man-made fibre socks was extended

In addition, a one-year safeguard quota on cotton, wool and man-made fibre socks which expired on October 29, 2005, was extended until the end of 2005.

Chinese firms shifted production towards products which were not subject to quota restrictions

To their credit, Chinese manufacturers were able to shift a substantial share of their production during the second half of 2005 towards products which were not subject to quota restrictions. China appears to have had the resources and flexibility needed to perform this shift without any significant difficulties.

In November 2005 the USA and China reached a comprehensive bilateral restraint agreement which will run until the end of 2008

After several rounds of negotiations, the USA and China reached a comprehensive bilateral restraint agreement on November 8, 2005. Under the agreement import quotas were established on a range of Chinese textile and clothing products which will last from January 1, 2006, until December 31, 2008.

22 quotas were established with various growth rates

Under the agreement a total of 22 quotas were established with annual growth rates in the range 10%-15% in 2006, 12.5-16.0% in 2007 and 15-17% in 2008.

A clause requires the USA to allow "prompt entry" to merchandise in certain categories which had previously been denied entry

The deal also contained a clause which required the USA to allow "prompt entry" to merchandise in certain categories which had been denied entry prior to November 8, 2005, as a result of the application of safeguard quotas. These goods were released during November 28-December 2, 2005. The categories were 338/339 (men's and boys' and women's and girls' cotton knit shirts), 347/348 (men's and boys' and women's and girls' cotton trousers), 352/652 (cotton and man-made fibre underwear), 638/639 (men's and boys' and women's and girls' man-made fibre knit shirts) and 647/648 (men's and boys' and women's and girls' man-made fibre trousers and shorts).

China will also be able to increase a quota limit by using carryover and/or carryforward

China will also be able to increase a quota limit during a particular quota year by borrowing from the previous year's quota (carryover) and/or the following year's quota (carryforward). An amount equal to 3% of the base level can be carried forward for use in 2006 and 2007, while 2% of the base level can be carried over and used in 2007 and 2008. However, there is an upper limit on the combined use of carryover and carryforward. In any given year, such use may not increase an agreed quota for a category by more than 3%.

Both sides are committed to preventing illegal transshipment

In addition, both sides have made a commitment to prevent the illegal transshipment of textile and clothing goods. Within this context, an electronic visa system has been established under the deal for products which fall within the scope of the agreement.

After the new quotas were implemented, US imports of clothing from China were down by 9.4% although textiles were up by 18.6%

Obviously, the establishment of this comprehensive quota system has had a negative effect on China's exports to the USA during the first two months of 2006—particularly on the clothing side. During this period, US imports of clothing from China were down by 9.4% compared with the corresponding period of 2005. Imports of textiles from China, by contrast, were up by 18.6% to US$1,252.3 mn.

Sluggish sales have been the result of China's conservative quota allocation

One of the reasons for the sluggish performance of apparel sales so far this year is the seemingly conservative quota allocation strategy pursued by the Chinese government.

Textile and clothing quotas were underutilised in the first four months

This is borne out by statistics from US Customs which show that textile and clothing quotas were relatively underutilised between January and the end of April 2006.

The Chinese government will probably relax its quota allocation procedures later in 2006

The Chinese government will probably relax its quota allocation procedures later in 2006. If this proves to be the case, exports of items subject to quota will grow more quickly during the second half of 2006.

China's second largest market in 2005 was the EU with a 16.0% share

The second largest market for China's textiles and clothing exports in 2005 was the EU with a 16.0% share of total shipments—up from 12.5% in 2004.

Next was Japan with a 15.4% share and Hong Kong with 12.6%

Next in importance was Japan with a 15.4% share (down from 17.6% in 2004) and Hong Kong with a 12.6% share (down from 17.8% in 2004).

Textile and clothing exports to the EU rose by 55.3% to US$18.9 mn

Textile and clothing exports to the EU rose by 55.3% to US$18.9 mn in 2005. Sales were boosted by vigorous demand for a range of products which were removed from quota on December 31, 2004—including shirts, T-shirts, blouses, jerseys, pullovers, trousers, jackets, and woven fabrics made from synthetic fibres.

The EU too has established quotas on certain imports of textile and clothing products from China

Like the USA, the EU has also established quotas on certain imports of textile and clothing products from China. The products subject to quota in 2006 and 2007 are: certain woven fabrics made of cotton (Category 2); knitted shirts, T-shirts and lightweight fine knitted jumpers and pullovers (Category 4); jerseys and pullovers (Category 5); woven trousers (Category 6); blouses (Category 7); woven bed linen (Category 20); dresses (Category 26); brassières (Category 31); woven table and kitchen linen (Category 39); and flax and ramie yarn (Category 115).

The new EU restraints will expire at the end of 2007, unlike their US counterparts

The new EU restraints started in 2005 and will expire on December 31, 2007. These dates differ from those applicable to the US agreement, which covers the period from January 1, 2006, to December 31, 2008.

Additionally the EU has vowed to "undertake to exercise restraint"

Additionally, the EU has vowed to "undertake to exercise restraint" in the application of safeguard quotas to any categories not subject to these quotas during 2006-07 and to all products during 2008.

As in the case of the USA, China is cautious in allocating quota for the EU

The Chinese government has also been very cautious during the first four months of the year in the distribution of quota allotments for export to the EU market.

Quota utilisation rates were relatively low in the EU in early 2006

Quota utilisation rates were relatively low in the EU market up until the end of April 2006, although the utilisation rate for Category 115 (flax and ramie yarn) has been growing at a faster pace than the rates for other products.

Exports to Hong Kong fell by 14.6% because of the declining importance of co-production arrangements

China's textile and clothing exports to Hong Kong declined by 14.6% to US$14,843 mn. One significant cause is the declining importance, particularly during the first half of the year, of the co-production arrangements which have long been in place between these two major producers.

These arrangements had flourished under the MFA and ATC because they enabled goods made partly in China to be exported under Hong Kong's quotas

These arrangements had flourished during the years in which the Multi-Fibre Arrangement (MFA) and the Agreement on Textiles and Clothing (ATC) were in force because they enabled goods which were made partly in China to be exported under Hong Kong's quotas. The latter tended to be less highly utilised than China's—even though a substantial amount of the processing work involved in making a garment was undertaken in China itself.

Macau was in a similar situation

A similar situation applied to Macau, where rising costs forced clothing producers to transfer some of the more labour intensive garment making operations to Mainland China.

But new US and EU quotas against China have boosted China-Hong Kong and China-Macau co-production

However, the re-application of quota restrictions in the US and EU markets has once again boosted the significance of China-Hong Kong and China-Macau co-production arrangements. Since the elimination of quotas at the end of 2004, textiles and clothing deemed to be of Hong Kong and Macau origin are permitted to enter the USA quota-free.

Despite quotas, the Chinese government is sanguine about the outlook for 2006

The Chinese government is generally sanguine about the outlook for 2006, despite the fact that Chinese manufacturers face quota restrictions in such markets as the USA, the EU, Brazil and Colombia.

Total exports are projected to grow by 15%, following 20.7% growth in 2005

In fact, according to China's State Development and Reform Commission, total exports of textiles and clothing are projected to grow by 15% in 2006, following a 20.7% growth rate in 2005.

China's outstanding export performance has had a positive effect on output

As might be expected, the outstanding export performance of China's textile and clothing manufacturers has had a decidedly positive effect on domestic production and investment.

In the first 11 months of 2005 man-mades were up 12.8%, synthetics 12.2% and viscose fibre 20.2%

Production of man-made fibres in the first 11 months of 2005 was up by 12.8% to 14.6 mn tons compared with the equivalent period of 2004. Output of synthetic fibres was up by 12.2% to 13.4 mn tons while of viscose fibre production climbed by 20.2% to 1.0 mn.

Domestic demand will help to boost man-made fibre output by 8% in 2006

China's State Information Center has recently reported that China's man-made fibre output is expected to grow by 8% to about 17.5 mn tons in 2006, thanks to expanding domestic demand.

Yarn and fabric production was also brisk in the first 11 months of 2005

Yarn and fabric production was also brisk during January-November 2005, having risen by 24.4% to 12.7 mn tons and by 17.3% to 33,369 mn metres, respectively.

Production of 100% cotton fabric rose by 24.2% while man-made was up 11.7%

Within the total for fabric, production of 100% cotton fabric rose by 24.2% to 17,599 mn metres while 100% man-made fibre fabric advanced by a more moderate 11.7% to 9,204 mn metres.

Silk production rose by 19.6% while clothing increased by 17.8%

Silk production also fared well, having grown by 19.6% to 118,744 tons, while clothing production increased by 17.8% to 13,124 mn pieces.

Investment in textiles, clothing and footwear was up a significant 40.4%

Investment also grew markedly in 2005. In January-November 2005 investment in the textile, clothing and footwear industry was up by 40.4% compared with the equivalent period in 2004—from Rmb87,412 mn (US$10,561 mn) to Rmb122,683 mn.

But in spite of its size and efficiency, China's industry needs to address a number of problems—

However, while China is the world's largest and one of the most efficient producers and exporters of textiles and clothing, the industry needs to address a number of problems in the years ahead in order to maintain and enhance its competitive position.

—including misdirected investment and a lack of self-discipline

According to the vice-director of the National Development and Reform Commission, Ou Xinqian, the problems identified by Ou include misdirected investment and a lack of self-discipline in the industry.

For example, while polyester and spinning capacities grew sharply between 2000 and 2005—

Regarding the first problem, Mr Ou points out that China's polyester production capacity increased from 4.9 mn tons in 2000 to 18 mn tons in 2005 while its spinning capacity grew from 34 mn spindles to 75 mn spindles.

—the increase in physical assets may create a problem of overcapacity

It has been argued that this considerable increase in physical assets may create a problem of overcapacity in the sector—especially now that quotas are restraining growth in Chinese exports to the USA and the EU at a time when the country's planners expected textile and clothing trade to be quota-free.

The industry needs to improve its compliance with international standards in areas of growing concern

Mr Ou also says that the industry needs to improve its compliance with international standards in such areas of growing concern as intellectually property protection, environmental protection and labour regulations.

The USA has threatened to take China to the WTO over intellectual property rights

In fact, the USA has long complained that China does not effectively enforce intellectual property rights and has threatened to take China to the WTO over this matter.

48.4% of counterfeit clothing seized at the US border in fiscal 2005 originated in China

According to statistics released by US Customs and Border Protection, clothing accounted for 12.2% of all counterfeit Chinese goods seized at the border during the 2005 fiscal year. Furthermore, 48.4% of all counterfeit clothing seized at the border originated in China.

China's industry needs to improve its focus on innovation and research and development

It has also been suggested that the Chinese textile and clothing industry needs to improve its focus on innovation and research and development, as manufacturers in Hong Kong, South Korea, Taiwan and various other countries have done over the past several years.

Chinese Youngur has reached an agreement with Japanese Itochu and Italian Marzotto aimed at enhancing cooperation between the three

In an effort to concentrate on higher value products, the Chinese clothing manufacturer Youngur signed an agreement with the Japanese conglomerate Itochu and the Italian textile and clothing producer Marzotto. The agreement is aimed at enhancing cooperation between the three companies in the areas of technology, marketing and financing.

Youngur will benefit from Marzotto's advanced technology and craftsmanship

Among other things, the deal will enable Youngur to benefit from Marzotto's advanced technology and unique craftsmanship in apparel production.

HONG KONG

Hong Kong has become a high end producer and a design, sourcing and logistics centre—

Over the last two decades, Hong Kong has been transformed from a supplier of low cost garments to a producer of high-end textile and clothing products and a global design, sourcing and logistics centre.

—while China has emerged as the world's largest producer and exporter

This transformation has come hand-in-hand with the emergence of China as the world's largest producer and exporter of textiles and clothing.

Rising costs have forced Hong Kong firms to move operations to China and develop co-production links

As rising labour costs eroded the competitiveness of Hong Kong suppliers, the latter were forced to move an increasingly larger share of their operations to China and to develop extensive co-production links with Chinese sewers.

The transformation intensified when the quota system was dismantled

This transformation intensified when the quota system[7], which had helped to preserve Hong Kong's market share in the US and EU markets for many years, was dismantled on December 31, 2004.

But recent US and EU safeguard quotas have led to a small resurgence in Hong Kong shipments

That said, the imposition of safeguard quotas[7] on Chinese textile and clothing products by the USA and the EU has led to a small but significant resurgence in Hong Kong shipments to those two markets, especially during the last quarter of 2005.

In 2005 total clothing exports rose by 8.6% while textiles fell by 3.4%

For 2005 as a whole, Hong Kong's total clothing exports rose by 8.6% to HK$212,268 mn (US$27,292 mn) while textile exports declined by 3.4% to HK$107,562 mn.

---

[7] Until the end of 2004, a large proportion of textile and clothing imports into developed countries were regulated by quotas or quantitative restrictions negotiated under the terms of the MFA (Multi-Fibre Arrangement) and its successor, the ATC (Agreement on Textiles and Clothing). Quotas were normally agreed bilaterally during negotiations between a supplying country and the USA. Each quota regulated the quantity of exports of a particular product (or group of products) which the specific supplying country was permitted to ship to the importing country in a given year. The ATC came into force on January 31, 1995, and provided for the complete phasing out of quotas on textile and clothing trade between World Trade Organisation (WTO) members by December 31, 2004. However, quotas continue to restrict US imports from countries which are not members of the WTO (see page 22). They also continued to restrict imports of certain products from China under a special textile safeguard provision which forms part of China's WTO accession agreement (see page 19 and also "Impact of New US Textile and Apparel Quotas Against China", *Textile Outlook International*, No 108, November-December 2003).

But these figures do not tell the whole story

These figures are, however, somewhat deceptive in that they do not provide an accurate picture of the performance of the Hong Kong clothing industry.

73.5% of Hong Kong's clothing exports were re-exports, which performed better than domestic exports

This is because 73.5% of Hong Kong's clothing exports were in the form of re-exports (ie exports of goods imported from elsewhere, mostly China)—as opposed to domestic exports (ie exports of goods manufactured in Hong Kong)—and re-exports performed much better than domestic exports.

Clothing re-exports grew by 18.1% but domestic exports fell by 11.3%

Re-exports of clothing increased by 18.1% to HK$156,028 mn in 2005 while domestic exports suffered a 11.3% decline to HK$56,240 mn.

Textile re-exports fell by 3.0% while domestic exports declined by 11.8%

In the case of textiles, re-exports went down by 3.0% to HK$102,867mn while domestic exports declined by 11.8% to HK$4,695 mn.

China was Hong Kong's largest market for exports with a 28.9% share

The largest market for Hong Kong's textile and clothing exports in 2005 was China with a share of 28.9% of the total (domestic exports and re-exports).

But in value, shipments to China fell by 3.8%

However, shipments to China performed sluggishly in 2005, having fallen by 3.8% to HK$92,362 mn.

The second and third largest were the USA and the EU with 25.5% and 21.3%

Hong Kong's second and third largest textile and clothing export markets in 2005 were, respectively, the USA and the EU with shares of 25.5% and 21.3%.

Exports to the USA rose by 10.1% but most shipments were re-exports

Textile and clothing exports to the USA rose by 10.1% to HK$81,494 mn in 2005 but the majority of these shipments were re-exports, mostly of Chinese origin.

In fact re-exports to the USA rose while domestic exports fell

Furthermore, this overall increase of 10.1% conceals an even sharper rise in re-exports to the USA, offset by a fall in domestic exports, ie those of Hong Kong origin.

US import data suggest that Hong Kong domestic shipments to the USA fell by 8.8% in 2005

The decline in domestic exports to the USA is confirmed by US import statistics. These suggest that textile and clothing shipments from Hong Kong which were of Hong Kong origin declined by 8.8% to US$3,607 mn in 2005.

But in the fourth quarter of 2005 shipments of Hong Kong domestic exports to the USA rose by 8.6%

However, there was a noticeable reversal in the fourth quarter of 2005, when US textile and clothing imports from Hong Kong which were of Hong Kong origin were actually up by 8.6% compared with the equivalent quarter a year earlier, to US$1,173 mn.

The rise is attributable to the introduction of safeguard quotas—

This increase is attributable to the safeguard quotas which were established on several Chinese apparel products during the spring of 2005.

—which led buyers to switch from China to Hong Kong

Because certain Chinese apparel items were restricted by the safeguards, some buyers turned to Hong Kong, now quota-free, for some of their supplies.

In the EU, exports from Hong Kong jumped by 15.6% but, like the USA, most were re-exports

In the case of the EU market, exports from Hong Kong jumped by 15.6% to HK$68,004 mn in 2005. As in the USA, however, the majority of these shipments were in the form of re-exports, mostly of Chinese origin.

In fact EU imports of Hong Kong origin actually declined by 13.1%

In fact, official EU statistics show that textile and clothing imports of Hong Kong origin actually declined by 13.1% to Euro3,526 mn (US$4,381 mn) in 2005.

In the US market some products were particularly lethargic—

Products with particularly lethargic performances in the US market during 2005 included cotton and man-made fibre underwear, cotton nightwear, women's and girls' woven shirts and blouses, women's and girls' man-made fibre coats and jackets, and blue denim fabric.

—but others showed brisk increases

Conversely, brisk increases were observed in the case of US imports of cotton sweaters, women's and girls' cotton shirts and blouses, women's and girls' cotton trousers, nonwoven fabric, and poplin and broadcloth staple fibre fabric.

In the EU, demand for Hong Kong textile and clothing products was weak across the board

In the EU, demand for Hong Kong textile and clothing products was weak across the board. The largest declines in absolute terms were observed in the case of shirts and blouses, jerseys and pullovers, woven trousers, women's and girls' coats and jackets, dresses, and brassières.

Japan took only 4.6% of Hong Kong's textile and clothing exports in 2005

In other foreign markets, Hong Kong has only a limited presence. Japan, the fourth largest market, took only a 4.6% share of Hong Kong's total textile and clothing exports in 2005.

Furthermore, shipments to Japan were down by 3.2%

Furthermore, shipments from Hong Kong to Japan were down by 3.2% to HK$14,388 mn in 2005.

Exports to Canada rose by a strong 17.8% but sales to Australia fell by 0.4%

Exports to Canada, on the other hand, did especially well in 2005, having risen by 17.8% to HK$6,861 mn. Sales to Australia, though, inched down by 0.4% to HK$5,382 mn.

The poor performance of domestic exports had a bad effect on clothing output, although textile output rose

The poor performance of domestic exports had a negative effect on clothing production in Hong Kong, but not on textile output. Apparel production was down by 11.1% in 2005 but textile production rose by an encouraging 4.3%.

Producer prices rose moderately

Producer prices rose moderately in 2005. Prices for apparel were up by 2.1% while those for textile products increased by 1.3%.

US Customs and Border Protection has been targeting Hong Kong factories

Hong Kong factories have recently been targeted by US Customs and Border Protection (CBP) as part of a concerted attack since December 2005 on the circumvention of quota restrictions on Chinese garments.

Some garments purportedly made in Hong Kong actually come from China

Most of the merchandise affected involves garments which have purportedly been produced in Hong Kong but in reality originate from mainland China under US country of origin rules.

In November 2005 CBP attempted to inspect 167 factories in Hong Kong—

In November 2005 CBP attempted to inspect 167 factories in Hong Kong in an effort to:

- assess whether these factories were actually producing merchandise destined for the US market; and
- ensure that there was no evidence of illegal transshipment of textile and apparel goods from mainland China.

—but it found that—

The inspections produced the following findings:

—65 factories were already closed—

- 65 factories were already closed when CBP officials arrived to carry out the inspection;

—24 refused to admit CBP officials—

- 24 factories refused to admit the CBP officials and refused to provide them with access to production documents;

—46 could not provide production records and were therefore judged to be "high risk", and three were found to be transshipping illegally

- 46 factories were unable to provide production records which would convince CBP of the origin of the merchandise and were therefore deemed to be at "high risk"; and
- three of the factories showed some evidence of illegal transshipment.

CBP announced that it would seize goods made in closed factories

As expected, CBP announced that it would seize any goods claiming to have been manufactured in factories in Hong Kong which had already been closed when they carried out the inspection.

US Customs officials are also demanding to see comprehensive records where imported goods have been made in an uncooperative factory

In addition, US Customs officials are demanding to see comprehensive production records in cases where the imported merchandise has been manufactured in a factory which did not fully cooperate with CBP during its inspection visits. If that documentation is not provided in a timely fashion, CBP has the authority to permanently deny entry to the affected shipment.

It can be hard to determine whether a garment is of Hong Kong or Chinese origin, and outward processing makes the task harder

It is often difficult to determine with absolute certainty whether a garment is of Hong Kong or Chinese origin. This problem is made worse by the intricate production ties developed over the years between manufacturers in Hong Kong and those in mainland China—commonly known as outward processing arrangements (OPAs).

90% of Hong Kong's clothing production is conducted through OPAs

The OPA regime is so prevalent that, according to a recent study by the US International Trade Commission, an estimated 90% of Hong Kong's clothing production is conducted through OPAs, whereby production of a garment occurs in both Hong Kong and China.

Outward processing production used to be conducted as a form of quota management

Historically, outward processing production was conducted as a form of quota management scheme whereby the country of origin of a particular garment would be determined in accordance with the availability of quota.

OPAs have been driven by the need to relieve pressures on highly-utilised Chinese apparel quotas

In general, OPAs have been driven by the need to relieve mounting pressures on highly-utilised Chinese apparel quotas by "funnelling" some goods so that they are shipped under the lesser-utilised Hong Kong quotas.

Often, only the sewing operations needed to confer origin are performed in Hong Kong

In many cases, only the sewing operations needed to confer origin are performed in Hong Kong. Typically, these involve sewing the shoulder seams, the arm hole and sleeve seams, and the side seams. All the remaining sewing and finishing operations are carried out in China, where labour costs are only a fraction of those in Hong Kong.

The re-establishment of quota restrictions on Chinese merchandise has reinvigorated OPA trade

The re-establishment of quota restrictions on Chinese merchandise—in both the USA and the EU—has reinvigorated the OPA regime, which would have otherwise withered away in an unrestricted trading environment. Garments being produced under the OPA regime include mainly trousers and shirts and blouses.

In June 2005 the Hong Kong government launched DesignSmart—

In June 2005 the Hong Kong government launched the DesignSmart initiative as part of its efforts to position Hong Kong as a world class design and fashion centre.

—which funds educational projects

Under DesignSmart, there are several mechanisms which provide funding support to design and design-related educational projects.

Also an Innovation and Technology Commission (InnoCentre) was created with three main responsibilities

In addition, an Innovation and Technology Commission (InnoCentre) was created, with responsibility for:

- providing one-stop services to help promote different forms of design;
- strengthening human resources development; and
- boosting Hong Kong's profile as an innovative and creative hub.

InnoCentre will set up centres to support technology focus areas where Hong Kong has competitive strengths

Among other things, InnoCentre has been given the task of setting up research and development centres to support the development of a number of identified technology focus areas where Hong Kong has competitive strengths and has the potential for meeting market needs.

The RDCTC will conduct an ambitious research programme aimed at enhancing the competitiveness of the domestic textile and clothing sector

One of these centres is the Research and Development Centre for Textile and Clothing (RDCTC), hosted by the Hong Kong Polytechnic University.

The RDCTC is expected to conduct an ambitious research programme which is aimed at enhancing the competitiveness of the domestic textile and clothing sector.

Short-term projects may include thermal and moisture management fabrics, shape memory polymers and garments, multiple functional treatments for fabrics, and plasma and gas-phase production operations

Some of the short-term projects which RDCTC is considering include the development of:

- thermal and moisture management fabrics;
- nano wool, cotton and silk materials;
- shape memory polymers and garments;
- multiple functional treatments for fabrics; and
- plasma and gas-phase production operations.

Medium-term projects include electrically conducting fabrics, smart healthcare garments, seamless fine-gauge knitting technologies and fast digital printing

Medium-term projects include the development of:

- electrically conducting fabrics;
- smart garments for healthcare applications;
- seamless fine-gauge knitting technologies;
- new garment washing and coloration technologies; and
- fast digital printing and pattern technologies.

Long-term projects include wearable electronics, super functional finishing technology, integrated apparel design and bio-engineering

Long-term projects include the development of:

- wearable electronics for textiles and clothing;
- super functional finishing technology such as wrinkle-free treatment without loss of strength;
- integrated apparel design capabilities; and
- bio-engineering of intimate apparel and workwear.

JAPAN

Japanese exports fell markedly in 2005

The textile and clothing industry in Japan suffered a marked fall in exports in 2005.

Textile sales grew, but the rise was minimal and not enough to overcome a 23.3% drop in clothing

Textile sales actually increased—albeit by a minimal 0.2% to ¥849,391 mn (US$7,711 mn). But the increase was insufficient to overcome a fairly severe 23.3% drop in clothing shipments, to ¥40,709 mn.

As a result, total exports fell by 1.2%

As a result, total textile and clothing exports fell by 1.2% to ¥890,100 mn.

Sales of knitted apparel plunged by 36.9% while woven apparel fell by 7.5%

Within the total for clothing exports, sales of knitted apparel plunged by 36.9% to ¥17,961 mn while shipments of woven apparel went down by 7.5% to ¥22,748 mn.

But demand grew significantly for a few select textile products

Japanese textile manufacturers, meanwhile, benefited from a significant increase in demand for a few select textile products in 2005.

Unprocessed acrylic and modacrylic staple fibres grew by 522.0%

The single largest textile export product in 2005 was unprocessed acrylic and modacrylic staple fibres, thanks to a 522.0% increase in shipments to ¥29,053 mn.

A number of other products also performed well

Other products with notable performances in 2005 included acrylic and modacrylic filament tow (up 36.5% to ¥6,935 mn), textile fabrics which are coated, impregnated or covered with polyurethane (up 355.8% to ¥6,496 mn), denim fabric containing 85% or more by weight of cotton and weighing more than 200 g/m^2 (up 523.1% to ¥5,539 mn), and sales of other textile fabrics coated, impregnated or covered with plastics (up 53.7% to ¥5,228 mn).

Man-made filament yarns and fabrics rose by 3.7%, nonwoven fabrics by 7.9%, and cotton fibres, yarns and fabrics by 9.1%

Overall, exports of man-made filament yarns and fabrics increased by 3.7% to ¥238,063 mn in 2005.

Sales of nonwoven fabrics rose by 7.9% to ¥55,758 mn and sales of cotton fibres, yarns and fabrics advanced by 9.1% to ¥128,065 mn.

But man-made staple yarns and fabrics declined by 4.1%, knitted by 6.7% and coated by 6.1%

On the other hand, shipments of man-made staple fibre yarns and fabrics declined by 4.1% to ¥148,829 mn, sales of knitted fabrics fell by 6.7% to ¥61,998 mn and sales of fabrics coated, impregnated or covered with plastics declined by 6.1% to ¥74,266 mn.

China was Japan's largest textile and clothing export market with a 42.9% share, followed by Hong Kong

China continued to be Japan's largest textile and clothing export market in 2005 with a 42.9% share of total export sales, followed by Hong Kong with a 10.5% share, the EU with a 7.9% share and the USA with a 7.3% share.

But exports to China fell by 0.1% and those to Hong Kong by 12.2%

Exports to China fell slightly in 2005, however—by 0.1% to ¥382,026 mn—while shipments to Hong Kong decreased by a more worrisome 12.2% to ¥93,770 mn.

Japanese producers have continued to lose market share in the USA and EU

Japanese producers have continued to lose market share in the world's two largest markets for textile and clothing products—the USA and the EU.

Clothing manufacturers have fared particularly poorly following quota elimination

Clothing manufacturers, especially producers of sweaters and cotton knitted shirts and blouses, have fared particularly poorly as a result of the elimination of quotas under the Agreement on Textiles and Clothing (ATC) at the end of 2004.

Nevertheless, textile and clothing shipments to the USA expanded by a moderate 0.5%—

Despite these difficulties, however, shipments of textiles and clothing to the USA expanded moderately in 2005, having risen by 0.5% to ¥64,675 mn. The expansion was due largely to increased demand for nonwoven fabric and special fabric.

—although those to the EU fell by 0.3%

In the EU, sales of Japanese textile and clothing products dropped by a modest 0.3% to ¥70,717 mn during the same period.

Domestic wholesale textile sales dropped by 5.9% and clothing by 3.0%

In the domestic market, wholesale sales of textile products dropped by 5.9% to ¥4,781 bn in 2005 while wholesale sales of clothing and clothing accessories fell by 3.0% to ¥13,820 bn.

But retail sales edged up 0.3%

Retail sales of textiles and clothing, on the other hand, edged up 0.3% to ¥9,609 bn.

Total net revenues rose by 3.8% in 2005 but operating profits slumped

In all, total net revenues generated by the textile and clothing industry rose by 3.8% to ¥4,843 bn in 2005 but operating profits slumped from ¥119 bn in 2004 to ¥78 bn—their lowest level in three years.

The ratio of operating profits to sales also declined noticeably

The ratio of operating profits to sales also declined noticeably in 2005, from 2.5% to 1.6%. Consequently, it remains well below the 4.5% average ratio for all manufacturing industries.

A lethargic export performance has resulted in production cuts

The lethargic performance of the Japanese textile and clothing sector in foreign markets has resulted in additional cuts in production across virtually all segments.

Output of synthetic spun yarn declined by 15.4%

Output of synthetic spun yarn declined by 15.4% to 65,841 tons in 2005 and is a massive 58.5% lower than in 1999.

Fabrics fared little better, with production falls ranging from 2.6% to 11.2%

Fabric production did not fare much better. Output of cotton woven fabric was down by 11.2% to 425.5 mn m^2, output of woollen fabric was down by 4.3% to 72.5 mn m^2, output of synthetic woven fabric declined by 5.2% to 1,146.9 mn m^2 and output of knitted fabric fell by 2.6% to 84,849 tons.

In clothing the downturn was even more severe with declines ranging from 10.1% to 16.0%

The downturn in Japanese clothing production has been even more severe. Output of outerwear garments fell by 10.1% to 150.6 mn pieces in 2005 while hosiery production dropped by 10.4% to 424.7 mn pieces. Underwear and foundation garments fared even worse, as total output fell by 16.0% to 111.9 mn pieces in 2005.

But Japanese producers did succeed in a few niche products, such as infants' apparel

To their credit, however, Japanese clothing producers did find some success in a few niche products, including, most notably, infants' apparel. Production of these items surged by 44.4% to 2.7 mn pieces in 2005.

Textile capacity utilisation fell from 95.2% to 94.9% in 2005, but has remained relatively stable since 2002 as producers have cut capacity

Capacity utilisation in the textile manufacturing industry fell from 95.2% to 94.9% in 2005 but has remained relatively stable since 2002. The explanation lies in the fact that, although production has declined sharply in recent years, Japanese textile manufacturers have reduced slack capacity to a minimum. In this respect they have been far more successful than their US counterparts.

Efforts to reduce unused or underutilised textile assets continued in 2005

Efforts to reduce unused or underutilised textile assets continued in 2005 as industrial textile capacity declined by 4.3% from the previous year.

The persistent fall in output is due to the growing inflow of Chinese products

A major cause of the persistent decline in textile and clothing production is the growing inflow of cheaper Chinese products into the Japanese market.

Japan decided to scrap its quota protection system years ago

This is largely because Japan decided to scrap its quota protection system many years ago, while the USA and the EU continued to maintain quotas in order to shield their manufacturers from competition.

This enabled China to achieve a dominant position with little effort—

The early scrapping of quotas in Japan enabled China to achieve a dominant position in the country's textile and clothing market with relatively little effort.

—and by 2005 China supplied 82.4% of Japan's total clothing imports

In 2005 China supplied an overwhelming 82.4% of Japan's total clothing imports whereas textile imports represented a more modest 49.3% of the textile import total.

Despite this high market share, imports from China grew by a further 6.5% in 2005, thanks to a 9.1% rise in knitted garments

Notwithstanding this already high market share, imports from China grew by a further 6.5% in 2005, to ¥2,270,853 mn.

The rise was helped in part by the good showing of knitted garments (up 9.1% to ¥919,039 mn).

Many products are made in China by Japanese financed joint ventures

Not surprisingly, many of the products made in China and exported to Japan are manufactured by joint venture enterprises established with the financial backing of large Japanese producers.

Large Japanese firms have moved operations to China to benefit from low wages

In fact, a number of large Japanese textile companies have moved their operations to China in order to take advantage of the highly efficient and much less costly Chinese labour.

Teijin Fibres and Toyota Tsusho are investing in facilities for making automotive seat fabrics

Japanese textile producers have continued to invest in China over the past year. In October 2005 Teijin Fibres and Toyota Tsusho announced their intention to set up a manufacturing facility in Nantong, China, to produce fabric for use in automobile seats. The joint venture, known as Nantong Teijin Automotive Fabrics Finishing, is expected to begin commercial operations in October 2006 with a production capacity of 180,000 metres of fabric per month. The factory intends to use raw yarn from Teijin facilities in Japan, Thailand and Indonesia.

Marubeni, Toray Industries (China) and Qingdao Jifa will make dress shirts in Jimo City

In December 2005 Marubeni signed a joint venture agreement with Toray Industries (China) and Qingdao Jifa Group to establish a clothing factory for making men's dress shirts in Jimo City. The factory is also expected to start production in October 2006 with a production capacity of 2.4 mn pieces per year.

Other major suppliers to Japan include the EU, Vietnam, South Korea, the USA and Indonesia

After China and Hong Kong, other major textile and clothing suppliers to the Japanese market in value terms include—in descending order of importance—the EU, Vietnam, South Korea, the USA, and Indonesia.

Japanese demand for EU and Indonesian textile and clothing products was sluggish in 2005

Japanese demand for EU and Indonesian textile and clothing products was sluggish in 2005. Total imports from the EU declined by 4.1% to ¥240,004 mn while shipments from Indonesia increased by a paltry 0.1% to ¥53,596. Imports from the USA were also fairly restrained in 2005, having increased by 2.6% to ¥73,918 mn.

But there was a 10.3% rise in imports from Vietnam and a 23.4% increase from South Korea

On the other hand, there was a sizeable increase in imports of textile and clothing products from Vietnam (up 10.3% to ¥78,913 mn) and particularly from South Korea (up 23.4% to ¥76,802 mn).

SOUTH KOREA

South Korean firms have found it hard to compete with China and other low cost Asian suppliers

As expected, South Korean textile and clothing manufacturers have found it hard to compete with China and other low cost Asian suppliers in the quota-free global trading environment which has prevailed since the end of 2004.

Clothing firms in particular have faced difficulties because of rising costs

The clothing industry, in particular, has faced considerable difficulties as a result of the rising production costs faced by domestic producers.

Textile and clothing exports fell 8.1% in 2005

Overall, textile and clothing export sales declined by 8.1% to US$13,700.6 mn in 2005.

Textile shipments were down by 3.7% and clothing by 24.8%

Within this total, textile shipments were down by 3.7% to US$11,360.6 mn while clothing shipments fell by 24.8% to US$2,340.0 mn.

Not surprisingly, the decline in exports has had a negative effect on domestic production

Not surprisingly, the decline in textile and clothing exports has had a negative effect on domestic production. During the third quarter of 2005 output declined by 1.6% compared with the third quarter of 2004. And in the fourth quarter of 2005 it went down by 2.7%.

However, sales performed well at the retail end, at least in clothing

Sales performed well at the retail end in 2005, however. In clothing, retail sales were up by 2.3%, although sales of textile products decreased by 7.3%.

Textile manufacturers benefited from strong foreign demand for several speciality products

Textile manufacturers benefited from strong foreign demand for several speciality textile products in 2005, including mechanically made lace (up 46.8% to US$131.3 mn) and nonwoven fabrics (up 16.4% to US$396.0 mn).

But exports of knitted sweaters, pullovers and sweatshirts fell 52.3%, and men's and boys' shirts fell 34.8%

By contrast, exports of knitted sweaters, pullovers and sweatshirts declined by 52.3% to US$224.3 mn. Sales of men's and boys' knitted and woven shirts, meanwhile, went down by 34.8% to US$289.4 mn.

Overall, knitted garments were down by 20.7% and woven apparel by 29.9%

Overall, shipments of knitted garments fell by 20.7% to US$1,366.5 mn while exports of woven apparel dropped by 29.9% to US$973.5 mn.

The most important export item in 2005 was dyed woven fabric made from polyester filaments—

South Korea's most important textile and clothing export product in 2005 was dyed woven fabric made from polyester filaments. This had a 6.4% share of total foreign sales during the year, up from 6.2% in 2004.

—followed by wide knitted fabric containing elastomeric yarn, and polyester staple fibre

Second in importance with a 6.1% share (up from 5.5% in 2004) was knitted fabric of a width exceeding 30 centimetres and containing 5% or more of elastomeric yarn. Third place was occupied by polyester staple fibre not processed for spinning with a 4.9% share (up from 4.4% in 2004).

South Korean firms have capitalised on China's voracity for raw materials

To their credit, manufacturers in South Korea have been able to take advantage of China's increasing voracity for textile raw materials by increasing export sales to the country.

In 2005 textile and clothing exports to China rose 6.2%, helped by knitted fabric and synthetic woven fabrics

Indeed, in 2005 textile and clothing exports to China rose by 6.2% to US$2,920.7 mn. The main contributor to the increase was a significant rise in shipments of knitted fabrics and of woven fabrics made from synthetic filament yarn.

Indonesia is another important source of growth for South Korean firms

Another important source of growth for South Korean textile manufacturers has been Indonesia—which is an up-and-coming supplier of apparel to the US market.

Indeed, South Korean textile and clothing exports to Indonesia rose by 8.2% in 2005—

In fact textile and clothing exports from South Korea to Indonesia rose by as much as 8.2% in 2005, reaching US$617.1 mn, thanks to increasing demand for knitted fabrics, certain cotton woven fabrics, and textile labels and badges.

—while those to Vietnam rose by a modest 0.9%

Textile and clothing exports to Vietnam, South Korea's fifth largest export market, rose by a rather modest 0.9% to US$809.5 mn, as higher sales of sewing thread, knitted fabric, and man-made fibre staple yarns and fabrics were partially offset by lower demand for synthetic filament yarns and fabrics, and fabrics coated, covered, impregnated or laminated with plastics.

But exports to the USA and the EU fell in 2005, following quota elimination

By contrast, the elimination of quotas at the end of 2004 has led to a worrisome decline in demand for South Korean products in its second and third largest export markets—the USA and the EU.

Exports to the EU fared particularly poorly, having dropped by 22.8%—

Textile and clothing exports to the EU fared particularly poorly, having declined by 22.8% to US$1,172.3 mn. Sales were sluggish across the board although the brunt of the decline was borne by shirts and T-shirts, hosiery, woven trousers, knitted jerseys and pullovers, and flax and ramie yarn.

—and to the USA they were down by 17.6%

Textile and clothing exports the USA fell by 17.6% to US$2,235.1 mn. The fall was attributed to substantial declines in shipments of knitted fabric, women's and girls' man-made fibre sweaters, and man-made fibre trousers, coats, jackets, shirts and blouses.

But some sales of products to the USA rose vigorously

On a more positive note, South Korean sales of combed cotton yarn, cotton and man-made fibre hosiery, and women's and girls' cotton shirts and blouses rose vigorously in the US market in 2005.

Domestic manufacturers are hoping for a free trade agreement (FTA) with the USA

Domestic textile and clothing manufacturers hope that the South Korean government can negotiate a free trade agreement (FTA) with the USA, and that such an agreement will be sufficient to shore up their stagnant commercial ties with US importers and retailers.

The first official round of negotiations will be held in June 2006

The first official round of negotiations for a USA-South Korea FTA will be held on June 5-9, 2006, in Washington DC, USA. The second round is scheduled for July 10-14, 2006, in Seoul, South Korea.

The two sides will exchange draft agreements in early May

The two sides will exchange draft agreements in early May 2006. Each side will allow a term of one month to thoroughly review the other side's draft. Follow-up negotiations are set for September, October and December.

One of the biggest hurdles in the way is the expiration the TPA—

One of the biggest hurdles in the way of a US-South Korea FTA is the expiration of the Trade Promotion Authority (TPA) in the USA in July 2007.

—which requires trade deals to be considered exactly as negotiated

TPA requires the US Congress to consider trade deals exactly as they are negotiated, thereby eliminating the possibility that onerous amendments may be added to the final language of the agreement.

Congress may renew TPA but is unlikely to do so before late 2006 as it wants to avoid major issues in an election year

Congress may renew TPA but it is unlikely to do so before late 2006. This is because Congress is expected to avoid controversial trade issues—including TPA—as preparations are made for critical congressional mid-term elections. The latter are scheduled to be held in autumn 2006.

If TPA were not renewed, a US-South Korean deal would have to be finalised before the end of 2006

If TPA were not renewed, the USA and South Korea would have to finalise a deal before the end of 2006 in order to give Congress sufficient time to consider it. This quick turnaround appears unlikely, given the scope and complexity of the negotiations.

The USA usually insists on making preferential tariffs conditional upon using materials produced by one or more FTA signatories

When negotiating free trade agreements, the USA has a policy—with a few exemptions—of insisting that clothing has to be made from yarns and fabrics produced by one or more of the agreement's signatories in order for that clothing to qualify for preferential tariff treatment when it enters the USA.

This so called "yarn-forward" rule has lessened the benefits of preferential tariffs for many countries

This requirement, known as a "yarn-forward" rule of origin, has seriously weakened the benefits of preferential tariffs enjoyed by exporters in other countries with which the USA has negotiated FTAs.

But this should not be a problem for South Koreans, who have large yarn and fabric capacities

In the case of a USA-South Korea FTA, however, a requirement to use US or South Korean materials should not be a serious problem because South Korea has extensive yarn and fabric production capabilities.

South Korea is also looking to strengthen its bilateral trade relationship with India, by establishing CEPA

South Korea is also looking to strengthen its bilateral trade relationships with other key partners, including India. On March 23-24, 2006, officials from the two countries held a first round of negotiations for the establishment of a South Korea-India Comprehensive Economic Partnership Agreement (CEPA). The two countries have agreed to conclude CEPA negotiations by the end of 2007.

CEPA is expected to encompass all aspects of bilateral economic relations

CEPA is expected to encompass all aspects of bilateral economic relations—including trade in goods and services, investment, and economic cooperation.

South Korea is also talking to Canada and Asean, and has concluded negotiations with Singapore and Efta

South Korea is also negotiating FTAs with Canada and the Association of Southeast Asian Nations (Asean). In addition, it has recently concluded negotiations with Singapore and the European Free Trade Association (Efta).

Kofoti says that, to strengthen its foundations in a competitive environment, the textile sector needs to—

According to Mr Seho Kyong, the chairman of the Korea Federation of Textile Industries (Kofoti), the South Korean textile sector needs to fulfill the following five objectives in order to strengthen its foundations in an increasingly competitive environment.

—upgrade its basic structure—

- One is to upgrade the basic structure of the textile sector in order to its improve international competitiveness. This should be done by reducing cost burdens and enhancing the efficiency of the industry.

—boost trade, focus on the growing domestic market—

- A second is to expand efforts to stimulate textile trade and focus on a growing domestic market.

—invest in facilities, innovation and human resources—

- A third is to make investments which are necessary in production facilities, technology innovation and human resources.

—promote the apparel and fashion sectors—

- A fourth is to pay special attention to the promotion of the apparel and fashion sectors.

—and become a more active player in global affairs

- A fifth is to become a more active player in global affairs by adopting an increasingly proactive role in international cooperation.

South Korea wants to raise its share of world industrial textiles to 17% by 2012—

Among other things, South Korea is seeking to increase its share of world industrial textile production from 7.5% in 2003 to 17% by 2012.

—by focusing on textiles with automatic temperature control, sensitising dyes, aromatics and vitamins—

To achieve this ambitious goal, the industry plans to focus on such products as:

- textiles with automatic temperature control functions;
- textiles with sensitising dyes, thermochromic dyes, aromatics and vitamins;

—biodegradable materials, super-efficient air and water purification filters, radiation, acoustic, dust and deodorising filters, high-tech medical textiles, better tyre cord yarns—

- textiles made from biodegradable materials;
- super-efficient filters for air purification and water purification;
- filters for electromagnetic radiation, acoustic absorption, dust absorption and deodorisation;
- high technology medical textiles;
- improved tyre cord yarns;

—intelligent apparel, and wrinkle-free natural textiles

- intelligent apparel which can monitor the wearer's physical conditions and sense external environmental changes; and
- wrinkle-free natural textiles.

Kofoti hopes the Kaesong Industrial Park will make lower cost garments

Kofoti also hopes that the Kaesong Industrial Park—which has been operational since December 2004—will serve as a successful base for the production of lower cost garments.

It is a North Korean-South Korean collaborative development in North Korea

The park is a collaborative North Korean-South Korean industrial development and is located in a special North Korean administrative zone a mere six miles from the Korean demilitarised zone.

South Korean clothing firms will pay low North Korean wage rates to compete with China and others

Among the participants are South Korean clothing companies looking to take advantage of low North Korean wages in order to be able to compete with China and other Asian producers.

TAIWAN

Taiwan has a vertically integrated sector, a skilled workforce, technological expertise, and an excellent domestic infrastructure

Taiwan possesses a vertically integrated textile and clothing industry with a skilled and experienced workforce, extensive technological expertise and ample access to raw materials and investment capital. The textile and clothing industry in Taiwan also benefits from an excellent domestic infrastructure.

Thanks to a security arrangement, goods sent to the USA benefit from expedited customs processing

Furthermore, as a result of a security arrangement between the Taiwanese and US governments, merchandise shipped from Kaohsiung, Taiwan's largest port, benefits from expedited customs processing when it is exported to the USA.

But rising production costs continue to erode Taiwan's competitiveness

Despite these advantages, rising production costs have continued to erode the competitiveness of the Taiwanese textile and clothing industry.

Its wage rates are much higher than in China and other Asian leaders

In fact Taiwan's wage rates have, for quite some time, been significantly higher than those prevalent in China and other large Asian textile producers.

Also, the competitiveness of man-made fibre yarns and fabrics, Taiwanese specialities, have been hit by higher raw material costs

Additionally, the competitiveness of Taiwanese man-made fibre yarns and fabrics—in which Taiwanese firms tend to specialise—has been adversely affected by higher raw material costs, arising in turn from the relentless upward pressure on oil prices witnessed in recent months.

Quota elimination has exposed Taiwan's glaring inability to compete on price

The elimination of quotas on December 31, 2004, has exposed Taiwan's glaring inability to compete in terms of price as importers in the USA and the EU are now free to source their merchandise from lower cost sources.

But Taiwan has benefited from the re-establishment of restrictions on China in the USA and the EU

Admittedly the re-establishment of quota restrictions on China in the US and EU markets has led to the diversion of some export orders away from China, and, for a number of specific items, there has been a resurgence in demand for Taiwanese exports.

The orders diverted from Chinese producers are likely to go to other Asian countries

But most of the orders diverted from Chinese manufacturers as a result of the new quotas are likely to go to other Asian countries—including Cambodia, Bangladesh, Indonesia, India and Pakistan.

Many Taiwanese firms have invested extensively in facilities in China, Vietnam and other low cost countries—

Taiwanese firms have long been aware that higher comparative costs would eventually limit their ability to compete on a global basis. Consequently, many have invested extensively in production facilities in China, Vietnam and other low cost countries in South East Asia, Africa and Latin America.

—and are also now looking at India

Furthermore, in order to diminish its heavy reliance on China, the industry is also now looking at India—having been relatively inactive in the South Asian region in the past.

The TTF, meanwhile, is pursuing a strategy to enhance the industry's competitiveness in a quota free-world by focusing on three goals

The Taiwan Textile Federation (TTF), meanwhile, is pursuing a clearly-defined strategy to enhance the competitiveness of the Taiwanese textile and clothing sector in a quota-free world.

TTF is focusing on three goals, namely:

- building Taiwan as the design and research and development centre for fabrics in the Asia-Pacific region;
- developing Taiwan into a logistics management centre for global textile products; and
- striving to cultivate talent in design, research and development and marketing.

Taiwanese firms are concentrating increasingly on innovative products of higher added value

Taiwanese manufacturers, meanwhile, are concentrating increasingly on innovative products of higher added value—including those featuring anti-bacterial properties, anti-fungal properties, and protection against electromagnetic radiation and ultraviolet rays.

But foreign demand weakened in 2005 as textile exports declined by 3.4% and clothing by 21.4%

That said, foreign demand for Taiwanese textile and clothing products weakened noticeably in 2005. Textile exports declined by 3.4% to US$10,504.0 mn during this time while clothing shipments dropped by 21.4% to US$1,307.3 mn.

Imports of textiles and clothing fell by 2.9%

Textile and clothing imports, meanwhile, fell by 2.9% to US$2,609.5 mn.

Man-made yarns and fabrics were the biggest export category although sales were 2.6% lower

The biggest export category for the Taiwanese textile industry in 2005 was that of man-made fibre yarns and woven fabrics. These had a total value of US$5,190.5 mn—although this figure was 2.6% lower than in 2004.

Knitted fabrics ranked second although exports were down by 5.4%

Shipments of knitted fabrics ranked as the second most important category in 2005 with a total export value of US$1,867.1 mn. Again, however, sales were lower, by 5.4%, than in the previous year.

Coated fabrics ranked third despite a 5.7% fall

Exports of industrial, impregnated and coated fabrics, meanwhile, held on to third place—despite a decline of 5.7% to US$1,494.7 mn.

In apparel, knitted garment exports dropped by 16.2% and woven by 29.1%

On the apparel side, exports of knitted garments went down by 16.2% to US$827.0 mn in 2005 while shipments of woven clothing plummeted by 29.1% to US$480.3 mn.

But exports of special woven and tufted fabrics grew by 7.2%

Taiwan's export performance had a few notable highlights. In particular, overseas demand for special woven fabrics and tufted fabrics remained robust in 2005, as total exports of these items increased by 7.2% to US$587.0 mn.

Wadding, felts and non-wovens also grew, by 4.5%

Shipments of wadding, felts and nonwoven fabrics grew by an encouraging 4.5% to US$378.5 mn.

Taiwan's top three export markets were Hong Kong, China and the USA

The primary markets for Taiwan's textiles and clothing exports in value terms in 2005 were Hong Kong, China, the USA, Vietnam, Indonesia, the EU and Cambodia, in this order.

Hong Kong took 23.1% of the total but shipments were down by 9.1%

Shipments to Hong Kong accounted for 23.1% of the total in 2005, at US$2,728.9 mn, although they were down by 9.1% compared with 2004.

Sales to the USA fell 14.3%, to Indonesia 2.0%, and to the EU 21.9%

Demand was also weaker in the USA (by 14.3% to US$1,545.6 mn), in Indonesia (by 2.0% to US$485.3 mn) and especially in the EU (by 21.9% to US$271.1 mn).

But sales to Cambodia grew by 25.8% and those to China rose by 10.1%

By contrast, textile and clothing sales to Cambodia grew by a rapid 25.8% in 2005, to US$245.4 mn, while exports to China increased by 10.1% to US$1,872,5 mn.

Sales to Vietnam and Japan grew by a more modest 6.1% and 3.4%

Shipments to Vietnam and Japan each grew at a more modest pace, having risen by 6.1% to US$271.1 mn and 3.4% to US$328.5 mn, respectively.

The EU bought fewer higher cost Taiwanese garments

The poor performance of textile and clothing export sales to the EU in 2005 is attributable to a general decline in orders for higher cost Taiwanese garments—particularly knitted jerseys, pullovers, shirts, T-shirts and brassières, and knitted and woven trousers.

Clothing demand was also slack in the USA

Clothing demand was also slack in the USA, especially for man-made fibre shirts and blouses, man-made fibre trousers, and women's and girls' man-made fibre sweaters.

But demand for knitted fabric surged in China, Cambodia and Thailand, and exports of certain yarns and woven fabrics to China and Vietnam rose

Poor performances in these two markets were compensated in part by surging demand for Taiwanese knitted fabric in China, Cambodia and Thailand.

In addition, growth was recorded in exports of certain yarns and woven fabrics to China and Vietnam.

Textile output fell for the sixth year, by 13.4%, and clothing dropped by 18.0%

Taiwan's textile production declined for the sixth consecutive year in 2005, down by 13.4% from the previous year, while clothing production went down by 18.0%.

The falls are not surprising as exports account for 80% of the industry's sales

These declines in production are not surprising given that Taiwan's textile and clothing industry depends on foreign demand for about 80% of its sales.

The downward trend will continue as operations are shifted overseas

Textile and clothing production is expected to continue to follow a downward trend in the years ahead as Taiwanese manufacturers move a larger share of their operations to low cost locations overseas.

This report was compiled from contributions by Alvaro Ferreira (USA, Latin America and East Asia) and Sam Anson (European Union). Reports on South Asia and South-East Asia will be published in the September-October 2006 issue of *Textile Outlook International*, together with updates on China, the European Union and the USA.

