

# AID FOR TRADE AND VALUE CHAINS IN TEXTILES AND APPAREL

## EXECUTIVE SUMMARY



Since 2005, the global apparel and textiles market has both expanded in value and consolidated in suppliers. The top ten developing country suppliers now make up 58% of global apparel exports, with Asian suppliers accounting for 52% in 2011. The top exporters of apparel have also been amongst the main exporters of textiles. In 2011, global apparel exports were worth over USD 412 billion, while global textile exports reached USD 294 billion.

Despite the abolition of quantitative restrictions, with the expiry of the WTO Agreement on Textiles and Clothing in 2005, various market distortions remain in the form of tariff escalation, tariff peaks and continued use of export competition measures and non-tariff barriers. Market access conditions continue to exert a strong influence on value chain participation. Tariff preferences and preferential trade arrangements affect the ability of suppliers to access value chains to varying degrees.

Major buyers have shifted away from sourcing a multitude of small firms, from the old-style cut, make and trim sewing facilities, to forging relationships with a smaller number of strategic suppliers, managing production across multiple factories and international locations. To meet new market demands for “fast fashion”, marked by rapid shipments, higher quality requirements and low-retail inventories, value chains in the sector are undergoing profound reconfiguration. This reconfiguration has put a premium on shorter delivery cycles, improvements in factory skills and supply chain management.

Firms from developing countries can find their ways into apparel value chains through labor-intensive functions of relatively low knowledge intensity. Upgrading in the textiles and apparel value chain depends on firms' capacity to master services which are integral to the efficient functioning of the chain, for example transport and logistics, design, branding, advertising and retailing.

The results of the joint OECD-WTO survey of firms in the sector, governments and donors underscore these changing market dynamics. Production and labor costs drive relationships between lead firms and suppliers, but those costs are in turn greatly affected by efficient trade logistics, border management and access to trade finance. Efficient customs procedures are of particular importance in a value chain that is characterized by low retail inventories, high order volumes and just-in-time manufacturing processes that respond to swiftly changing fashion trends.

Results from the monitoring exercise highlight that there is discordance between the public and private sector with respect to priority areas for support. The private sector puts emphasis on border governance issues and access to finance. National governments, in contrast, place much greater emphasis on resolving infrastructure issues.

Four drivers for aid-for-trade assistance are identified in this paper: encouraging development of the textiles sector; supporting vertical integration between the textiles and apparel sectors; promoting preference utilization, and supporting “social upgrading” in the textiles and apparel value chain.

Given that various forms of support impact on the performance of the sector, it is not possible to track directly the assistance provided to the sector. Support to the cotton growers is the area where most clarity exists due to the WTO monitoring process through the Director-General's Consultative Framework Mechanism on Cotton. Direct assistance to the cotton sector to support textiles, leather and substitutes shows that aid has been focused on a small number of mainly African producers. An important feature of some countries' aid-for-trade support to the textiles and apparel sector consists in preference utilization support. Developing country suppliers in the textiles and apparel value chain have also benefited

from support to trade-related infrastructure and trade facilitation.

Social upgrading is an important feature of development partners' assistance to the apparel sector, particularly in the wake of industrial accidents in the sector in 2013. Approaches that focus on market differentiation in end-markets, such as ethical fashion or organic cotton also offer opportunities, particularly for more marginal suppliers. Private sector participation of both suppliers and lead firms in related programmes is another noteworthy trend.

In view of the importance of the textiles and apparel sector as a first-stage manufacturing activity for low-income countries, direct support to the sector has, with some exceptions, not exerted a major influence on market dynamics since 2005. Nevertheless, the survey of private sector operators clearly indicates that assistance to trade facilitation, access to finance and trade-related infrastructure can play an important role in promoting connectivity of developing countries' firms to the textiles and apparel value chains.

