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**Session 1: State of World Trading System**

**Implications of the end of the**  
**WTO Agreement on Textiles and Clothing**

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and Manufacturers Association***

Good Morning, Ladies and Gentlemen:

**(TITLE SLIDE)**

2. It is indeed an honour to be a speaker here today and help mark the Pacific Economic Cooperation Council's 15<sup>th</sup> General Meeting. I would like to share my experiences as chairman of the Hong Kong Knitwear Exporters and Manufacturers Association and as a businessman and owner of a garment manufacturing and trading group established more than 40 years ago. Based in Hong Kong, we have factories in Thailand and China that supply fashion goods globally. **(SLIDE 2)**
  
3. For over four decades, textile and garment exports from developing countries to certain developed countries have been subject to a series of quota restraints outside the normal rules of the General Agreement on Trade and Tariffs (GATTs), including the Multi-fibre Agreement which was in force from 1974 to 1994. These restrictions, which are yearly quantitative limits, were I negotiated between the exporting and importing countries concerned. The quota system was instituted as a means of controlling the flow of goods manufactured in developing countries where labour and land are cheap, to the richer, consuming regions, particularly the US and EU. Such restrictions are a major

departure from basic GATT rules, and particularly the principle of non-discrimination.

4. With the establishment of the World Trade Organisation on January 1<sup>st</sup>, 1995, began the 10-year phase out of quota restraints under the WTO Agreement on Textiles and Clothing (ATC). The ATC replaced the Multi-Fibre Agreement, and calls for the progressive elimination of quotas over a 10-year period and in four stages. We have now entered Stage Three which started from January 1<sup>st</sup>, 2002, and which will end on December 31, 2004. By January 1<sup>st</sup>, 2005, trade in textiles and clothing will be fully integrated into normal GATT rules as any other commodity.

**(SLIDE 3)**

5. Before we go into the consequences of this integration and total elimination of quotas, let's take a look at the patterns that have emerged within the four decades when quota restriction was in place. Today, most of the textiles and clothing exported come from Asia. Early on, at the start of the 1980s, Hong Kong, like Singapore, Korea, Thailand and other Asian nations, was a major site of textiles and clothing production. **(SLIDE 4)**

6. My company, Milo's Manufacturing Group, which today specialises in knitwear, begun production in the late-Fifties. Since Hong Kong exports were limited by quantitative control, the only way to expand the business was to invest overseas.

7. In the Seventies, China had instituted its "Open Door Policy" which was indeed timely for Hong Kong's entrepreneurs. China opened its Pearl River Delta through designated economic zones and Hong Kong took advantage of China's low land and labour costs to expand its manufacturing activities.

8. Milo's, like many other Hong Kong entrepreneurs, established offshore production, with a factory in Thailand in 1985 which handled 30% of our production. In the late Eighties, we established a factory in Dongguan

in southern China. Hong Kong manufacturers set up facilities in all corners of the globe, from Australia to Central America, from South America to South Africa, from India to the Middle East, and Europe. Garments and textile manufacturers like ourselves needed the flexibility to avail not only of lower-cost manufacturing but also of quota allocations to expand market and client base. **(SLIDE 5)**

9. The end of the ATC would therefore mean that Hong Kong industrialists like ourselves would have more room to expand not only in our base regions but in other regions as well where there are textiles and clothing industries already established. There have been warnings from the developed nations, particularly the US, that after the end of the quota era, China could go unchecked and possibly dominate the world's textile and clothing sector. Such statement or warning has perhaps over-exaggerated China's competitiveness, and that they are merely an excuse to continually impose trade barriers and protectionist measures even after full liberalisation of the textile and clothing sector. **(SLIDE 6)**
10. When China joined the World Trade Organisation, it committed two provisions that would allow the US and all other WTO members to invoke safeguard measures against its textile and clothing products. These are the special textile safeguard and the product-specific safeguard. The special textile safeguard will last until the end of 2008, and stipulates that the importing country can invoke the restraints if imports from China cause market disruption. China will have no right to retaliate against these restraints.
11. The product-specific safeguard will be in effect for 12 years, until December 2013. Similarly, the importing country can invoke the restriction if imports from China cause market disruption, but it will require a public hearing before invocation of the safeguard. Both safeguards cannot be applied to the same product at the same time.

In addition to these two safeguards, China will continue to be subject to simpler rules for invocation of anti-dumping restraints until 2016.

12. Despite the foreseeable opportunities that the post-quota era would bring for China and Hong Kong, these "China-specific" safeguards will certainly put limits on the predicted wider expansion of the industry in China. Even before full non-quota status has been reached, the US textiles manufacturers have already petitioned their government to impose the safeguards on China.
13. More uncertainty is thrown into the picture when it comes to non-tariff barriers. The chances of achieving the full potential of so-called free trade in the textiles and clothing sector would be slim if there is a surge in the use of non-tariff barriers in place of quotas and tariffs..
14. Article XX(b) of the GATT does allow an importing country to introduce measures which are necessary to protect human, animal or plant life or health. Among others, the WTO Agreement on Technical Barriers to Trade also governs the imposition of technical requirements on products by an importing country. **(SLIDE 7)**
15. The principal non-tariff barriers (NTBs) are those relating to:

**Environmental issues** - major concerns being environmental damage, consumer safety and worker safety. As an illustration, the chemical contamination (from the use of pesticides) of growing cotton up to the weaving of textiles can be a health risk for farm and mill workers and consumers, and for the environment as well. Hazards for the consumers are the allergies that may be triggered by textiles and the carcinogenic substances used in the processing of textiles. Workers are also affected during the growing of cotton and processing of textiles. These considerations led to the banning, for example, of azo dyes by

Germany, which has also voluntarily introduced ecolabels on textile products to enable consumers to buy 'clean' products. **(SLIDE 8)**

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

**Anti-dumping actions.** Dumping takes place when a **company** sells a product in a foreign country at a price lower than the one in its own home market. To prove dumping a country needs to establish three things: (i) *Dumping test*: that imported goods are being sold at 'below the normal price'; (ii) *Injury test*: that a domestic firm is being injured by these exports; and (iii) *Causality test*: that dumping is causing injury. **(SLIDE 9)**

**Safeguard measures.** While both safeguard and anti-dumping measures are aimed at import surges, safeguard measures act in a blanket non-discriminatory manner, whereas anti-dumping measure is against a specific firm in the exporting country. When a safeguard measure is applied, the country applying the measure shall endeavour to maintain a substantially equivalent level of concession through mutual agreement with country(ies) affected by the measure. Whereas under anti-dumping actions, no compensation is required.

A case in point is the recent move by the US textile industry to seek protection against Chinese imports. On 24 July 2003, the US textile industry coalition, including cotton, man-made fibre, yarn spinners and fabric manufacturers, submitted to the Committee for the Implementation of Textile Agreements (CITA) the first petitions under

the special textile safeguard contained in China's World Trade Organization (WTO) accession agreement. This safeguard may be used to impose quotas on textiles and clothing products covered by the ATC, including those that have already been integrated into the GATT. The coalition wants the US government to impose quotas on Chinese knit fabric, dressing gowns, brassieres and gloves. A similar petition regarding socks is rumoured to be the next target for safeguard request. **(SLIDE 10)**

16. ***Preferential Rules of Origin***. Preferential rules of origin under various free trade agreements and customs unions could be used by countries to discriminate between imports from different countries. They allow a country to deny the benefits of an agreement to countries that have not signed up to a treaty or agreement (e.g. NAFTA, AGOA, CBTPA, ATPA, EU, etc.). This discrimination can operate in a positive and negative manner, positive for countries which are members of an agreement or treaty, and negatively if they are not.
17. Facing these challenges, Hong Kong has established a Compliance Resource Centre that has signed memorandums of understanding with the Worldwide Responsible Apparel Production or WRAP and with ECO-TEX. They cover auditing, social compliance, environmental issues and so on. These bodies take into consideration all the concerns of the buyers or customers, as well as educates the buyer or customer on Hong Kong companies' compliance levels.
18. Constant dialogue with customers and NGOs also ensures that even with the non-tariff barriers in place after full ATC integration in 2005, there will be the least disruption to the trade of textiles and clothing for Hong Kong companies since the issues have already been addressed from the ground up.
19. Because of the challenges posed by the tariff and non-tariff barriers, the Hong Kong industrialists sought ways to expand their businesses while remaining pro-active to NTB regulations. **(SLIDE 11)** Hong Kong

entrepreneurs availed of the low-cost land and labour for manufacturing in China. With strict quotas imposed on exports from Hong Kong, outward processing for non-origin conferring processes can be done in southern China, leaving the industry in Hong Kong a freer hand to concentrate on high-value specialised products. Not only have they become Original Design Manufacturers, Hong Kong entrepreneurs with the vision set up global production networks. This has made Hong Kong a well-developed hub for sourcing garments, managing production and services like order placement, product development, material sourcing, quality control, marketing and logistics. **(SLIDE 12)**

20. Hong Kong industrialists play a major role in helping shape Government policy. The industry works together to ensure that excellent logistic services are available and that the Government pays attention to the development of infrastructure. These efforts have ensured that Hong Kong renowned for its world-class port and airport, enables suppliers from this region to meet Just-in-Time demands and all the necessary supply chain capabilities that include sourcing, labelling, packaging, transportation and distribution. All these result in cost-savings for the customer, the timely arrival of the latest stock, and minimal space requirements for warehousing for the overseas buyer. **(SLIDE 13)**
21. These abilities have also enabled Hong Kong entrepreneurs to branch out into offshore manufacturing and still be able to answer to buyers' Just-in-Time requirements, especially in this day of Internet shopping and e-commerce. Through well-honed logistics and supply chain solutions worldwide, they have been able to compete with suppliers operating in regions that receive preferential trading concessions made possible through Preferential Rules of Origin in the case of free trade agreements or customs unions like NAFTA, ATPA, the EU.
22. Hence, although the phasing out of quotas under ATC will certainly boost textile and clothing exporting regions like Hong Kong and China,

it would not mean that the trade environment for this sector would be a barrier free arena. **(SLIDE 14)**

23. Hong Kong still produces and exports garments today which amounted to US\$8.3 billion in 2002 or about half of our total domestic exports to the world. To increase its competitiveness, the clothing industry in Hong Kong has evolved from OEM, or manufacturer and exporter of basic, label-less garments, to OBM, Original Brand Manufacturer and ODM, Original Design Manufacturer. Hong Kong has established upmarket brandnames in the global fashion market that can be found side by side with elite brands in the fashion centres of Paris, New York and London. Hong Kong industrialists remain flexible and adaptable to trends. Innovation and the constant advancement of technology in production and marketing and distribution has made Hong Kong's textiles and clothing industry the very competitive in the world today. **(SLIDE 15)**

24. In the late Eighties, our company, Milo's, formed partnerships with Italian fabric and yarn suppliers. Acting as their agent in the region, Milo's handles the distribution of their raw materials to garment manufacturers in Hong Kong and other production facilities in the region. For us, it meant shortening order lead time for knitwear garments to less than a month or as short as three weeks. We are now able to offer a One-Stop Shop for overseas clients with our buying office services. On behalf of our clients, Milo's can source from Cambodia, Mongolia, and Southeast Asian countries for products not within our normal range. We provide related services such as quality control, inspection, warehousing and distribution.

25. The services now available extend to automatic procurement that a number of leading industrialists are able to offer overseas department store clients. The daily replenishment of stock at these chain stores occurs automatically, in response to daily sales. This is just one of the



cutting edge supply chain solutions that very few suppliers worldwide can offer.

26. This fierce competition following the removal of the quota system would improve our suppliers' end of the market and ultimately benefit the consumers in major markets such as the US and the EU. There will be enhanced product quality to source and value added services that would make their buying processes simpler and more directed towards retail on their end.
27. The Hong Kong experience has shown that competition can be good. Production for most Hong Kong textiles and garment companies have moved upmarket, from mass-produced brand-less basic garments to Original Designs and Original Brand Manufacturing. In this sector, the development of fabrics, particularly synthetic in Hong Kong, has also been a must. **(SLIDE 16)**
28. Hong Kong's manufacturing activities will heighten with the Closer Economic Partnership Arrangement or CEPA that Hong Kong and the Mainland signed in June and that will take effect on January 1<sup>st</sup> next year. CEPA would provide Hong Kong entrepreneurs and multinational corporations already established in Hong Kong a headway to Mainland China's vast consumer and services markets ahead of China's liberalisation commitments in its accession to the WTO. With CEPA, about 90% of Hong Kong domestic exports to the Mainland can enjoy zero tariffs initially, with all Hong Kong-origin products entering the Mainland market free of tariff by 2006. Also, CEPA opens up 17 service industries to Hong Kong companies while further liberalisation will be considered. **(SLIDE 17)**
29. Both Hong Kong companies and multinationals can avail of CEPA. Hence, we would be seeing even better and more improved production environment in the Mainland as top-class logistics and transportation companies gain a foothold there through CEPA. **(SLIDE 18)**

30. The end of the Multi-fibre agreement will surely come with challenges and opportunities alike. While the tariff barriers may be going down, the Non-Tariff Barriers will ensure that the economic and business expansion that ensues would be accompanied by the equivalent improvement of social and environmental factors. Hong Kong industrialists have remained conscientious and pro-active on these issues, raising the product and manufacturing levels as well as achieving socio-economic solutions. This is why we have managed to keep ahead of the game and we intend to continue doing so.
31. Thank you.