

FIERCE COMPETITION FOR FDI WITHOUT CLOTHING QUOTAS

The removal of quotas on textiles and clothing means greater dominance by transnational corporations (TNCs) relying on economies of scale and consolidating production in larger factories. The dismantling of quotas on 1 January 2005, following the expiry of the WTO Agreement on Textiles and Clothing, added to already fierce competition for foreign direct investment (FDI) in these industries.

The emergence of TNC producers

TNCs are becoming increasingly important in the global distribution and production of textiles and clothing. That a few very large retailing companies (based in the US, Europe and Japan) shape trade and production patterns is well known. But TNCs are also expanding their role in the production stage. In contrast to retailers, however, these TNCs are often based in East Asia, with large factories across the world. Investment promotion agencies (IPAs) targeting FDI in these industries may want to keep a close eye on these new TNCs.

Some of these TNCs have grown into very large entities. For example, the **Esquel Group** (Hong Kong, China), a cotton shirt manufacturer, employed 47,000 people in 2003 and engages in textile production in China and apparel manufacturing in China, Malaysia, Mauritius, Sri Lanka and Viet Nam; **BooLim** (Republic of Korea), a maker of athletic, casual and knit wear, is established in more than 25 countries; and **Carry Wealth Group** (Taiwan Province of China), has plants in China, El Salvador, Indonesia, Lesotho and Viet Nam.

The presence of East Asian TNCs is visible in many parts of the world. In Africa, production increases in the years leading up to 2005 in Lesotho, Madagascar, Mauritius and South Africa were accounted for mainly by TNCs from East Asia. The same is true in Latin America and the Caribbean, where foreign producers dominate export production in the Dominican Republic, Honduras and Mexico. The picture varies in Asia, but most members of the Cambodian Garment Manufacturers Association, for example, are headquartered in Taiwan Province of China, China and the Republic of Korea.

No quotas means more competition for FDI

With the dismantling of quotas on 1 January 2005, sourcing and investment decisions are more affected by economic fundamentals. This is likely to lead to further consolidation of production into larger factories in a smaller number of locations - in other words: to more competition for FDI.

However, low labour costs will not be sufficient to attract these manufacturing projects. To become or stay competitive as host locations, countries will need to develop their ability to move up from simple assembly to "full-package" production. Many African countries that depend heavily on their exports of apparel are likely to be adversely affected by the quota phase-out. Most African-based exporters do not yet have the economies of scale required to compete effectively with more developed apparel industries.

Various studies suggest that China and India are in a particularly strong position in this new geography of production. Data on FDI projects in textiles and clothing manufacturing show that these two countries, together with Brazil, Bulgaria, Hungary and the United States, were the main recipients of such projects in 2002–2004 (table 1).

At the same time, various factors may also work against too much consolidation. Proximity to markets will continue to matter for some product categories, and some producers have signalled that they will retain several production bases in order not to become too dependent on any single source country.

Remaining trade preferences may provide opportunities for countries in Africa, Latin America and the Caribbean to develop their

UNCTAD Investment Brief

Number 2  2005

exports to markets in the US and Europe. But tariff preferences tend to erode over time, and the importance of geographical proximity has to be weighed against the ability to manage overall production and distribution processes. Countries seeking to be preferred exporters will have to improve their competitiveness and capabilities.

Challenging policy agenda

A number of policy areas need to be addressed by countries that aspire to become or remain host locations. In many apparel-exporting countries, lengthy turnaround times handicap competitiveness, particularly in high-value-added production, where time to market is a key factor for more fashion-sensitive items. This underlines the importance of infrastructure improvements to support efficient trade logistics. Key areas include public investments in ports and creation of EPZs, provision of incentives (grants, loans, tax relief) in line with international commitments to develop supportive industries,

and removal of bottlenecks that result in delays in shipping and customs clearance.

Various industry-level efforts may also be needed. Enhancing work productivity through skills training and technological upgrading can help diversify production into higher-value-added garments. Investing in information technology, in order to reduce lead times, as well as developing professional marketers, who can promote the country's textile and apparel products more effectively, are additional elements of an industry-level strategy. Countries may also seek to target production for emerging market niches, e.g. for socially and environmentally conscious consumers. This would focus on the manufacture and sale of eco-friendly fabrics, as well as garments aimed at consumers who are concerned with working conditions.

Source: UNCTAD.

Table 1. FDI projects in textiles and clothing manufacturing, 2002–2004, by host economy

Host economy	Number of projects
China	48
Bulgaria	18
United States	16
Hungary	13
Brazil	12
India	9
Viet Nam	8
Thailand	8
France	8
Poland	7
Uzbekistan	7
Other host economies	127
Total	275

Source: UNCTAD, based on LOCOmonitor.

For more on this topic, see ***TNCs and the Removal of Textiles and Clothing Quotas***.

It is available on-line at www.unctad.org/en/docs/iteiia20051_en.pdf.