

Textile Trade Liberalization: Concerns about Widening Gaps among ASEAN Nations

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Among the members of the Association of Southeast Asian Nations (ASEAN), there are wide economic gaps between more developed countries including Singapore and Thailand and less developed ones including Vietnam. The gaps represents one of the largest obstacles to realizing the ASEAN's goal of market integration and the situation is at risk of getting even worse next year, as it is increasingly likely that the complete liberalization of textile and apparel trade will depress exports from Cambodia and cause its economic growth to plunge. In order for ASEAN to maintain its cohesion, it will become all the more important to take steps to redress disparities among its member nations.

Economic Growth to Drop Below 3%

Based on the Multilateral Fiber Agreement (MFA) signed in 1974, the US, Canada and the European Union (EU) have maintained quotas limiting the amount of textile products (textiles and apparels) imported from major developing countries. The quotas, however, are to be eliminated entirely by January 1, 2005 according to the rules established by World Trade Organization (WTO). With this, trade in textiles and apparels will be completely liberalized¹ and China and India is likely to further increase their presence in the US and European markets, which combinedly account for some 40 percent of world textile product imports, as the two countries have higher overall competitiveness including manufacturing cost, scale and product quality than other exporters. There is even a forecast for an increase in US import market share of China to 50 percent, compared with 16 percent in 2002.²

One of the countries that are likely to be severely affected by the change is Cambodia. The country's apparel exports to the US and Europe mainly consist of shirts and pants and the amount increased some thirteen-fold in the six years to 2002. Textile and apparel exports accounted for approximately 80 percent of its total exports and relative comparative advantage (RCA) was as high as 18.1. (See Exhibit 1.) Cambodia has been excluded from the import quotas imposed by the EU and the US has imposed a quota on Cambodian imports, which has been increased every year. Against this backdrop, Cambodia has built itself as a "textile-based nation."

Great uncertainty, however, looms in the future with the complete liberalization of textile and apparel trade. According to estimates by the International Monetary Fund (IMF), textile product exports from Cambodia to the US, its largest market, will

Exhibit 1: Textile product exports from developing countries

Country	RCA (exports),	Textile product exports as % of total
(ASEAN countries)		
Cambodia	18.1	77
Laos	11.6	29
Vietnam	3.7	18
Indonesia	2.0	14
Philippines	2.0	-
Thailand	1.3	8
Malaysia	0.4	4
Singapore	0.3	2
India	3.9	25
China	3.6	19
Bangladesh	18.6	83
Pakistan	6.5	-
Sri Lanka	14.4	53
Nepal	11.7	55

Source: Nordas (2004), IMF (2004) and others.

Notes: 1. $RCA = (\text{textile product exports of country } i / \text{total exports of country } i) / (\text{textile product exports of the world} / \text{total exports of the world})$

2. RCA figures are calculated based on apparel exports in 2000.

3. Export values are in 100 million USD.

decrease by some 30 percent from the 2002 level, and stay depressed in the coming years. The Asian Development Bank forecasts that GDP growth rate of the country to plummet to 2.3 percent from 4.5 percent estimated for 2004, by far the lowest level in the ASEAN region. (See Exhibit 2.) The total output of the textile and apparel industries accounts for 60 percent of the nation's industrial production and the industries employ approximately 200,000 workers,³ there are strong concerns about increases in unemployment. Cambodia will face a crucial challenge arising from the deterioration of its export environment, after maintaining an average annual growth of 7 percent over the five years to 2003.

Exhibit 2: GDP growth forecast for the ASEAN economies

	2004	2005
Cambodia	4.5	2.3
Laos	6.5	7
Vietnam	7.5	7.6
Myanmar	-	-
Indonesia	4.8	5.2
Malaysia	6.8	6
Philippines	5.5	5.5
Singapore	8.1	4.2
Thailand	6.4	6.6

Source: the Asian Develo

Note: - denotes that forecast data is not available.

Competition and Division of labor with China

The situation that Cambodia is now faced with is reflective of an issue common among less developed countries in the ASEAN region, as to how their products can be differentiated from those of China. Textile products, of which China is the world largest exporter, are also one of the principal exports of less developed countries in the region, accounting for some 80 percent of Cambodia's total exports and 14 to 29 percent of those of Vietnam, Laos and Indonesia, compared with 2 to 8 percent in the case of more developed countries, i.e. Singapore, Malaysia and Thailand. (See Exhibit 1.) In those less developed countries, labor intensive industries other than textiles and apparel rank high among their exporters, and, there are concerns that, should the free trade agreement (FTA) between China and ASEAN currently in negotiation be implemented, "Leather products and shoes may not be able to compete with Chinese products and the local manufacturers may suffer," as the Vietnamese government put it.

The more developed countries in the region also have some products including home electrical appliances that face competition from Chinese products but they have been promoting division of labor and specialization. As trade between China and ASEAN4 quadrupled over the ten years to 2002, exports from ASEAN were driven by electrical and electronic products such as integrated circuits and semiconductor devices.⁵ While China rapidly developed as the world factory, ASEAN increased its role as a base for supplying components that China found difficult to source domestically. Such division of labor between different manufacturing steps has been expanding to the entire East Asia region and contributing to growing trade within the region. The ASEAN member countries that have been participating in this network, however, are more developed countries with significant accumulation of foreign capital and less developed nations have generally been left out. Low levels of trade in components originating from less developed ASEAN countries are manifested in very low shares that machinery and transportation equipment, as defined in SITC code 7, have in their exports to East Asian countries. (See Exhibit 3.)

Exhibit 3: Shares of machinery and transportation equipment in the exports to East Asian countries

Countries	1995	2001
Cambodia	0.7	6.6
Vietnam	3.8	15.2
Laos	0.4	2.8
Indonesia	4.4	14.0
Malaysia	53.7	64.5
Philippines	60.8	84.1
Thailand	49.6	50.1
Singapore	53.7	59.3

Source: Ng and Yeats (2003)

Note: Machinery and transportation equipment include those items in SITC code 7.

Steps to redress disparities

In Southeast Asia, there was a surge in cooperative spirit catalyzed by peacemaking in Cambodia in the early 1990s. Against that background, Vietnam, Myanmar, Laos and Cambodia joined ASEAN in succession. ASEAN achieved the original goal of “ASEAN-10,” having ten Southeast Asian countries covering the whole region as its members. At the same time, however, the organization is now faced with serious disparities among its members after the accession of the less developed countries. GDP per capita of the richest Singapore today is approximately 150 times that of the poorest Myanmar. In a situation where the issue remains unaddressed, in order to improve its competitiveness with China, ASEAN is now focusing on the economic integration of the region primarily by way of ASEAN Free Trade Agreement (AFTA), which aims at eliminating tariffs on trade within the region. At the ASEAN Summit in November 2003, in a move to declare their resolution to further solidify the organization, the members agreed to form an “economic community” by completely liberalizing the movement of goods, services, capital and people within the region by 2020.

The road to integration, however, is not a flat and easy one with some member countries at low stages of economic development and lacking in the competencies required for members of the network of specialization that divides labor and hence manufacturing process among nations in East Asia. Singapore and Thailand, more developed countries in the region, are advocating the “two-plus-x” approach, where countries ready for liberalization will move ahead of the others. That approach, however, entails risks of further widening the economic gap within the region and making it all the more difficult to achieve regional integration. In this context, difficulties in Cambodia will likely illustrate the issues also faced by the other less developed countries in the region and highlight the importance for ASEAN to take steps to redress disparities among its member nations in tandem with its efforts toward integration.

¹ Some countries are proposing to postpone the tariff elimination to 2007 and, even if tariffs are completely eliminated, the US and other countries may enact safeguard clauses against certain Chinese imports.

² Nordas (2004)

³ Based on CEIC data.

⁴ Including six of its members, *i.e.* Singapore, Thailand, Malaysia, the Philippines, Indonesia and Brunei Darussalam.

⁵ Oizumi (2004)

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