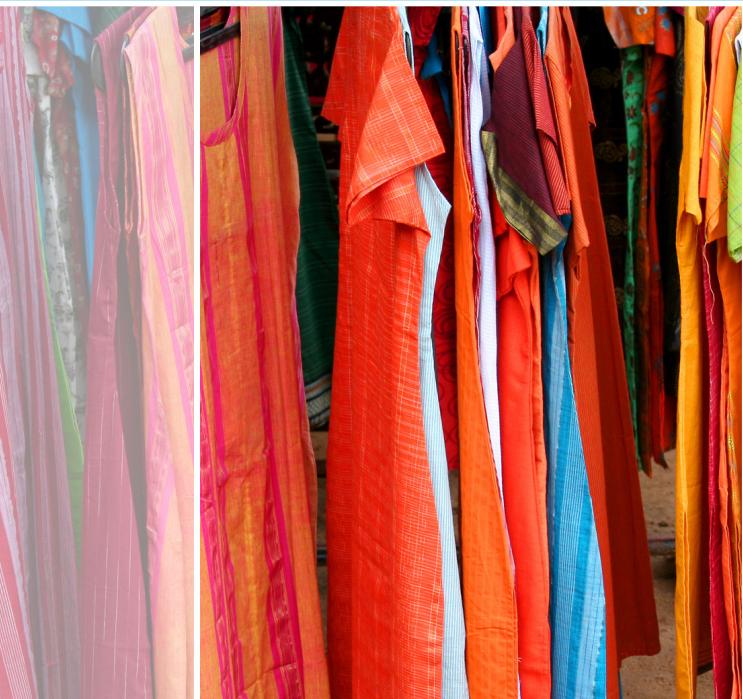


AID FOR TRADE AND VALUE CHAINS IN TEXTILES AND APPAREL



Aid for Trade and Value Chains in Textiles and Apparel



IDE-JETRO



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Acronyms

ACP	African, Caribbean and Pacific
ADB	Asian Development Bank
AfT	Aid for trade
AGOA	African Growth and Opportunity Act
ATC	Agreement on Textiles and Clothing
BFC	Better Factories Cambodia
CFC	Common Fund for Commodities
CIP	Caracol Industrial Park
CMT	Cutting, Making (sewing), and Trimming
CNGA	China National Garment Association
CNTAC	China National Textile and Apparel Council
CRS	Creditor Reporting System
DDA	Doha Development Agenda
DFQF	Duty-Free Quota-Free
DGCFMC	Director-General's Consultative Framework Mechanism on Cotton
EFP	Ethical Fashion Project
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GMAC	Garment Manufacturers Association of Cambodia:
GSP	Generalized System of Preferences
GVC	Global Value Chain
ICC	International Chamber of Commerce
ICT	Information and Communication Technologies
IDB	Inter-American Development Bank
IDE-JETRO	Institute of Developing Economies, Japan External Trade Organization
ILO	International Labor Organization

IMF	International Monetary Fund
ITC	International Trade Centre
ITU	International Telecommunication Union
LDC	Least Developed Countries
MFA	Multi-Fibre Arrangement
OBM	Original Brand-Name Manufacturing
ODM	Original Design Manufacturing
OECD	Organisation of Economic Co-operation and Development
OEM	Original Equipment Manufacturing
PPP	Public Private Partnership
SME	Small Medium sized Enterprise
SSA	Sub-Saharan Africa
UCTA	United States—Cambodia Textile Agreement
UN	United Nations
UNIDO	United Nations Industrial Development Organization
UNWTO	World Tourism Organization
USTR	Office of the United States Trade Representative
WB	World Bank
WTO	World Trade Organization

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 sourcing strategies away from a multitude of small suppliers in traditional 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 re-configuration. This re-configuration has put a premium on shorter delivery cycles, improvements in factory skills and supply chain management.

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

The results of the joint OECD-WTO survey of firms in the apparel and textiles 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 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 emphasizes border governance issues and access to finance, while 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 illustrates 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.

Structure of the report

This report was drafted by IDE-JETRO in collaboration with the OECD and WTO. The report builds on the findings of a private survey conducted jointly by the OECD and WTO. The aim of the publication is to survey the factors affecting connectivity, value addition and value chain creation in the textiles and apparel sector from the perspective of developing country suppliers.

This report is structured as follows. In Section 1, the changing picture in the global textiles and apparel market is discussed. The emergence of Asian suppliers and the fast growth of other developing country textiles and apparel value suppliers are discussed. Looking to the future, the report also highlights import growth in some key emerging markets as an important driver of future prospects in textiles and apparel value chains.

In Section 2, the textiles and apparel value chain is examined. Manufacturing processes are located according to the different factor intensity of each step in textiles or garment production process. Opportunities for economic upgrading in the apparel value chain are considered. Results from a joint Organization of Economic Co-operation and Development (OECD) and World Trade Organization (WTO) survey of private sector firms and associations engaged in the textiles and apparel sector are discussed in this context.¹ Factors impeding the access of firms to joining, moving up and establishing value chains are identified, together with investment drivers.

Section 3 discusses aid for trade to the textiles and apparel sector in developing countries. Drivers of aid-for-trade assistance to the textiles and apparel sector are identified (*e.g.* promoting development in the textiles sector (notably support to cotton producers), vertical integration between the textiles and apparel sectors, promoting preference utilization and support for “social upgrading” in the textiles and apparel value chain). The section also examines private sector activities and differing perceptions of both priorities and efficacy in aid-for-trade support between public and private sector actors. Section 4 provides conclusions and offers policy recommendations.

¹ The joint OECD-WTO survey was carried out in collaboration with Grow Africa, the International Chamber of Commerce, the International Trade Centre, the International Telecommunications Union and the World Tourism Organization for the Fourth Global Review of Aid for Trade. It is referred to hereinafter as the joint OECD-WTO survey.

1. Changing market dynamics in the global textiles and apparel market

Developing country suppliers and the global apparel market, 2005-2011

Between 2005 and 2011, the value of global apparel exports rose by 48%. Globally, apparel exports were worth USD 412 billion dollars in 2011. The top ten developing country suppliers now account for 58% of global apparel exports, with China taking 37% of that share in 2011 (see Table 1).

Table 1 Developing country suppliers and the global apparel market (2005-2011, USD million, current)

Exporter	2005	2011	Percentage change (2005-11)	% of total exports in 2011
China	74,162	153,773	107%	37%
Bangladesh	6,889	19,938	189%	4.80%
India	8,738	14,364	64%	3.50%
Turkey	11,833	13,947	18%	3.40%
Viet Nam	4,680	13,153	181%	3.20%
Indonesia	4,958	8,045	63%	1.90%
Mexico	7,305	4,637	-36%	1.10%
Malaysia	2,478	4,567	84%	1.10%
Pakistan	3,603	4,549	26%	1.10%
Cambodia	2,210	4,050	83%	1%
World Total	278,000	412,000	48%	

Source: WTO database.

Asian exporters in particular have consolidated their role as the principal exporters of apparel products. Export growth of apparels outside Asia has also been positive. In fact, some of the fastest growth in export sales has been recorded outside the Asian region (see Table 2), albeit from a very low base in most cases. With the exception of Chile, Egypt, Ethiopia and Panama, the rest of the fastest growing apparel exporters were marginal in global terms, exporting less than USD 10 million in 2011 – and in three cases less than USD 1 million.

Table 2 Fastest growing apparel exporters (2005-2011, USD million, current)

Country	2005	2011	Percentage gain
Panama	10	2,017	19359%
Mali	0	0	6196%
Samoa	0	0	4303%
Burundi	0	0	2615%
Ethiopia	2	35	1365%
Togo	0	4	1362%
Azerbaijan	0	6	1143%
Chile	47	441	831%
Egypt	184	1,380	651%
Yemen	0	3	524%

Source: WTO database.

Other developing country suppliers have seen their export sales slide and some might have exited apparel production altogether between 2005 and 2011 (see Table 3). The suppliers that experienced the biggest drop in export sales were the Dominican Republic (-66%), Costa Rica (-64%), Swaziland (-51%), the Philippines (-39%), Mexico (-37%) and Chinese Taipei (-36%). Apparel manufacture has all but ceased in certain marginal exporters, like Belize, the Maldives and Zambia.

**Table 3 Suppliers with falling apparel export sales
(2005-2011, USD million, current)**

Country	2005	2011	Percentage loss
Dominican Rep.	1,901	645	-66%
Costa Rica	473	172	-64%
Swaziland	174	85	-51%
Philippines	2,287	1,402	-39%
Mexico	7,305	4,637	-37%
Chinese Taipei	1,561	994	-36%
South Africa	173	119	-31%
Canada	1,860	1,288	-31%
Singapore	1,696	1,189	-30%
Rep. of Korea	2,580	1,839	-29%

Source: WTO database.

Declining apparel exports from the Dominican Republic, for example, contrast sharply with Haiti, whose apparel exports grew by 72% to reach USD 677.4 million in 2011. Labour price differentials may explain some of the divergence in performance, together with differing rules of origin in trade agreements.

Together, the European Union, the United States and Japan account for 72% of global imports of apparel in 2011. This share has fallen by 14% since 2005 as other import markets have grown in value. Imports to other OECD destinations *e.g.* Canada, Korea and Australia have grown in the range of 60-109% (see Table 4).

**Table 4 Apparel import markets
(2005-2011, USD million, current)**

Importer	2005	2011	% change 2005-2011	% of total imports in 2011
European Union	131,496	189,048	43%	44%
United States	80,070	88,587	11%	21%
Japan	22,540	32,934	46%	8%
Hong Kong, China	18,436	17,247	-6%	4%
Canada	5,975	9,531	60%	2%
Russian Federation	930	7,566	713%	2%
Switzerland	4,450	6,138	38%	1%
Korea, Republic of	2,913	6,110	109%	1%
Australia	3,119	5,839	87%	1%
China	1,628	4,012	146%	1%
World	279,021	431,136	54%	100%

Source: WTO database.

Import growth of between 65% and 132% has also been recorded by Brazil, Chile, China, India, Russian Federation, and Thailand between 2009 and 2011. Together, these

six markets accounted for USD 17.1 billion in clothing imports in 2011 - up from USD 3.9 billion in 2005 – but still only 4% of total apparel sales, a statistic that underscores the scope for further growth in these markets as incomes rise.

Tables 5 and 6 highlight the penetration of developing country suppliers in apparel exports to the United States and the European Union. These tables identify the top 15 apparel exporting countries to the US and EU.² In 1970, Hong Kong, the Republic of Korea, the Philippines, Mexico, Israel, and Singapore, were among the top 15 countries for garment exports to the United States. Japan, which joined the Organization for Economic Co-operation and Development (OECD) in 1964, headed the list of apparel producers in 1970. In 1980 China, Dominican Republic and Sri Lanka joined the top 15 exporting countries from the developing world, while India, Indonesia, Malaysia, Thailand and Bangladesh were added in 1990. Since 2000, China headed the list of apparel exporters to the US and European Union.

Table 5 Top 15 Apparel Exporters to the United States

Rank	1970	1980	1990	2000	2008	2011
1	Japan	Hong Kong	Hong Kong	China	China	China
2	Hong Kong	Other Asia	China	Mexico	Viet Nam	Viet Nam
3	Other Asia	Korea, Rep.	Korea, Rep.	Hong Kong	Indonesia	Indonesia
4	Korea	China	Other Asia	Korea, Rep.	Mexico	Bangladesh
5	Italy	Mexico	Philippines	Dominican Rep.	Bangladesh	Mexico
6	Philippines	Philippines	Italy	Honduras	India	India
7	Canada	Japan	Dominican Rep.	Indonesia	Honduras	Honduras
8	United Kingdom	Italy	Mexico	Other Asia	Cambodia	Cambodia
9	Mexico	India	India	Bangladesh	Thailand	Italy
10	Israel	Singapore	Indonesia	Thailand	Italy	Thailand
11	Germany	France	Singapore	India	Pakistan	Pakistan
12	France	Macao	Malaysia	Philippines	Hong Kong	EI Salvador
13	Spain	Dominican Rep.	Thailand	Canada	Sri Lanka	Malaysia
14	Austria	Sri Lanka	Bangladesh	Italy	EI Salvador	Sri Lanka
15	Singapore	United Kingdom	Sri Lanka	EI Salvador	Malaysia	Nicaragua

Source: UN Comtrade.

The emergence of developing country suppliers is also apparent as regards apparel exports to the EU (Table 6). Turkey's penetration of its neighboring EU market is clear from the table. While Turkey has been the second largest exporter to the EU since 2000, it does not appear in the list of the top 15 suppliers to the US. The same is also true of Tunisia and the FYR Macedonia. Likewise, while Honduras and Nicaragua appear in the list of the top 15 suppliers to the US, they do not appear among the same list for the EU. Geographical proximity, combined with preferential market access, may be an explanatory factor.

² While Table 5 shows ranks in 1970, 1980, 1990, 2000, 2004, 2008 and 2011 in apparel exports to the United States, Table 6 does so only in 2000, 2004, 2008 and 2011, because the data of importation by the 27 EU member countries is available only since the year 2000.

Table 6 Top 15 Apparel Exporters to the European Union

Rank	2000	2004	2008	2011
1	China	China	China	China
2	Turkey	Turkey	Turkey	Turkey
3	Hong Kong	Bangladesh	Bangladesh	Bangladesh
4	Tunisia	India	India	India
5	Bangladesh	Tunisia	Tunisia	Tunisia
6	India	Morocco	Morocco	Morocco
7	Morocco	Hong Kong	Viet Nam	Viet Nam
8	Indonesia	Indonesia	Indonesia	Pakistan
9	Thailand	Pakistan	Sri Lanka	Sri Lanka
10	Korea, Rep.	Thailand	Pakistan	Indonesia
11	Pakistan	Sri Lanka	Thailand	Thailand
12	Sri Lanka	Viet Nam	Hong Kong	Cambodia
13	Viet Nam	Korea, Rep.	Switzerland	Malaysia
14	Malaysia	Switzerland	Malaysia	Switzerland
15	Mauritius	Malaysia	Cambodia	FYR Macedonia

Source: UN Comtrade.

Changing market access conditions

From 1974, the Multi-Fibre Arrangement (MFA) governed the international textiles and apparel trade. A large portion of textiles and clothing exports from developing countries were subject to bilaterally negotiated quotas. In 1995, the MFA was replaced by the WTO Agreement on Textiles and Clothing (ATC), which set out a 10-year transitional process for removal of these quotas. With the expiry of the ATC on 1 January 2005, global apparel trade was no longer subject to quantitative restrictions. Other “market distortions” remain, however, notably in the form of tariff escalation, tariff peaks, export competition measures and non-tariff barriers.

Various duty-free quota-free (DFQF) access for LDC exporters have been established by developed and some emerging economies (see Box 1). Developed Members' GSP schemes play a major role in defining global market access conditions in textiles and apparel markets. Other non-reciprocal preferential access schemes, such as the US's African Growth and Opportunity Act (AGOA) grant preferences to eligible countries in Sub-Saharan Africa. An extensive body of literature has also been authored on how rules of origin applying to preferential market access schemes affect utilization rates. Both preferential rules of origin and DFQF access remain areas of negotiation in the Doha Development Agenda.

Box 1 Emerging markets Duty-free Quota-free (DFQF) schemes for least developed countries suppliers

A number of developing countries have announced schemes which grant DFQF market access for LDC products in line with the Hong Kong Ministerial Decision. Moreover, many of these schemes provide for a gradual phasing in of the duty-free access for LDC exports. The table below provides information on the duty-free coverage by emerging markets based on notifications as well as statements made in the WTO.

DFQF access for LDC products in selected developing countries

Country	Duty-free coverage
China	60% of all tariff lines are currently covered, with gradual phasing-in of up to 97%
India	85% of tariff lines
Korea, Republic of	95% of tariff lines
Chinese Taipei	Nearly 32% of tariff lines
Turkey	Nearly 80% of tariff lines

Source: WTO Secretariat, WT/COMTD/LDC/W/56/Rev.1.

Other trade policies also exert an influence on value chain dynamics. For example, both Chile and Panama have signed Free Trade and Trade Promotion Agreements with the US and Free Trade Agreements with the EU. Agreements signed by Egypt with the EU (EU-Egypt Association Agreement) and the US (Agreement on Trade and Investment Relations) may also be a contributory factor in that country's growing apparel exports. Both the US' African Growth and Opportunity Act (AGOA) and the EU's African, Caribbean and Pacific (ACP) scheme may also help explain growth among African markets in Table 7.³ Turkish investment in Azerbaijan together with its Partnership and Cooperation Agreement with the EU may also have contributed to some of the rise in Azeri apparel exports.

³ Trade figures for some low income countries may not be reliable given the institutional weaknesses of statistical collection. Also important to note is that given the size of the figures, the output reflects exports of one or more companies.

**Table 7 Fastest growing and fastest falling African exporters of apparel
(2005-2011, USD million, current)**

Country	2005	2011	Percentage change
Cape Verde	1.3	5.2	286%
Côte d'Ivoire	4.9	1.4	-72%
Egypt	183.8	1,380.30	651%
Ethiopia	2.3	34.5	1365%
Kenya	185.2	246.7	33%
Lesotho	445.9	568.7	28%
Madagascar	344.6	516.1	50%
Malawi	41.8	17.4	-58%
Morocco	2,847.20	3,183.70	12%
Mozambique	6.7	0.77	-88%
Namibia	28.2	5.3	-81%
South Africa	173.2	119..5	-31%
Swaziland	174.8	85.4	-51%
Togo	0.28	4.1	1362%
Zambia	3.8	0.38	-90%

Source: WTO database.

Preferential schemes have undoubtedly helped some low-income countries, but their impact has been mixed as far as the export performance of other countries is concerned. This is the case among Africa exporters who posted differing performance in this value chain during this period.

Sharp declines were registered in South Africa, Swaziland, Malawi, Mozambique, Namibia, Zambia, and Côte d'Ivoire. Despite the possibility to develop a fully integrated African apparel sector, benefitting from proximity to the region's abundant supply of cotton and textiles, Africa remains a net exporter of cotton and a net importer of textiles and clothing.

For all but a few African countries, low-income levels do not automatically translate into a comparative advantage in low-wage basic apparel manufacture. Other important constraints are the availability and cost of key backbone services, transportation, labour skills and a stable business climate. A recent survey of labor costs and productivity in selected African countries relative to comparators using data for 25 countries from the World Bank's Enterprise Surveys concludes that industrial labor costs are higher relative to GDP per capita than in comparator countries. Part of the explanation lies in a steep labor cost curve; as firms grow larger and more productive their labor costs increase faster in Africa than elsewhere. (Gelb, Meyer and Ramachandran, 2013). Specifically in the garment industry, a firm-level study demonstrates that production costs in Kenya are measurably higher than those in Bangladesh, not because of lower productivity, but due to higher labour costs in Kenyan firms (Fukunishi, 2009).

Developing country suppliers and the global textiles market 2005-2011

In general, the top exporters of apparel have also been amongst the main exporters of textiles. The fastest growing exporters of textiles in the period 2005-2011 were: Egypt (+446%), Viet Nam (+420%), China (+130%), Bangladesh (+125%), India (+80%) and Turkey (+52%). With the exception of Egypt, the other nine countries amongst the top ten exporters of textiles came from Asia (see Table 8).

**Table 8 Fastest growing exporters of textiles
(2005-2011, USD million, current)**

Country	2005	2011	Percentage gain
Egypt	272	1,485	446%
Viet Nam	725	3,772.00	420%
China	41,050	94,411	130%
Bangladesh	705	1,590	125%
India	8,331	15,016	80%
Turkey	7,076	10,772	52%
Malaysia	1,356	2,036	50%
Thailand	2,764.00	4,072.00	52%
Indonesia	3,353	4,791	43%
Pakistan	7,087	9,082	28%
WORLD TOTAL	202,000	294,000	45%
Swaziland	174.8	85.4	-51%
Togo	0.28	4.1	1362%
Zambia	3.8	0.38	-90%

Source: WTO database.

There are exceptions to the pattern of registering gains both in textiles and apparel exports. While the Dominican Republic registered a dramatic decrease in its apparel exports (-66%), it posted, although in very modest volume terms, an even higher upswing in its textiles exports (+1,000%). Likewise, Chinese Taipei's apparel exports shrank abruptly (-36%) but, in parallel, its textiles exports increased (+14%). While the Republic of Korea saw its apparel exports decline (-29%), its exports of textiles products increased (+19%). Similarly, in Romania, apparel exports declined significantly (-27%) while textiles exports increased (+81%). In Côte d'Ivoire, apparel exports contracted markedly (-72%) while its textiles exports posted important gains (+63%).

The textiles and apparel sectors are often treated as one industry with similar economic characteristics. However, they are two sectors with very different technological dimensions, particularly in factor intensity. They are connected through strong backward and forward linkages in a vertical production and distribution network; however, the textiles sector is in general much more capital intensive than the apparel sector.

The textiles sector (yarn and fabrics) comprises a wide range of products, which can roughly be classified into natural fibre based products (such as cotton, wool, or silk yarn and fabrics) and synthetic fibre based products (such as nylon or polyester yarn and

fabrics), each with significantly different production technology and industrial organization attributes. The former is closely linked to the agricultural sector; however, the latter has strong backward linkages with the chemical oriented industries and is more capital intensive. As such, developing countries with abundant labour but low levels of capital accumulation do normally not exhibit strong comparative advantages in the production of synthetic fibre and related products.

As the production of textiles also requires higher levels of technological contents, workers' skill and knowledge base also become critical. The natural fibre sub-sector, on the other hand, is typically less capital and technology intensive. Natural resource endowments are clearly important to the development of this sub-sector. However, resource endowments do not automatically translates into export competitiveness due to factors related to the business environment. Some LDCs are also concerned about the impact of export competition on the competitiveness of their cotton growing sector. The cotton sector connects with the traditional handicraft sector, which utilizes very labour intensive technologies (although some highly skill intensive), supporting livelihoods of many in both developed and developing countries.

When textiles are used as input materials for the production of apparel, they must meet specific quality standards in terms of physical and chemical properties. These would include, for instance, quantifiable standards such as strength and dimensional stability of the fabric, abrasion and pilling resistance, and colorfastness (against light, crocking, and washing). These qualities are normally tested in laboratories against the specific standards set by global buyers in relation to the final markets they serve. In comparison to the standards set for apparel products, these requirements are more elaborate, detailed, and difficult to comply with, and deter entry of less experienced firms in developing countries into international production and distribution networks.

The apparel sector, on the other hand, is in general more labour intensive, and variation in factor intensity according to products is much smaller than that of the textiles sector. As this sector is more downstream and closer to the consumers, the designing, branding and marketing functions become crucial. These functions are undertaken by firms in developed countries, and fetch a substantial proportion of the total value-added in the chain. Developing countries typically participate in these chains by catering for the labour intensive assembly functions.

As such, while this report addresses both the textiles and apparel sectors, for the sake of analytical clarity, it mainly focuses on the apparel sector. However, as the production systems for some type of apparel products, such as knitted apparel, are more vertically integrated and division between these two sectors is less clear than others, we will address textiles sector specific issues whenever necessary.

2. Textiles and apparel value chains

Overview

Changes in trade policy and market access conditions have been accompanied by new dynamics in the apparel market. Supply chains have undergone profound reconfiguration to meet new market demands for "fast fashion", marked by rapid shipments, higher quality requirements and low retail inventories. The reconfiguration towards new styles and models has put a premium on shorter delivery cycles, improvements in factory skills and supply chain management, including fabric production, material sourcing and finishing process.

On a global scale, buyers and intermediaries worldwide have turned increasingly towards larger suppliers that can source materials, coordinate logistics, induce creative development and operate in locations that allow for shorter delivery cycles (Staritz, 2012). Rapid and reliable transport networks and minimum customs clearance times have become as critical as labour and materials costs. OECD analysis (*e.g.* OECD 2012; Moisé and Le Bris 2013) shows that poor infrastructure and inefficient border procedures are major contributors to high costs that impede trade, and therefore an appropriate target for aid for trade.

The result has been supply chain consolidation. 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, sharing financial liability, providing greater value-added services and in the end, making a larger share of profits in the textiles and apparel trade (Forstater, 2010).

The proliferation of international production and distribution networks spanning across borders is presenting developing countries with both new economic development opportunities and challenges. Participation in these production and distribution networks is an important way to attract investment, increase technological capability, build industrial capacity, and foster economic growth. These international networks also serve as significant sources of employment, and exert a variety of impacts upon local labour markets. The industry typically serves as the springboard for export-oriented industrialization for capital-constrained developing countries, primarily because of its labour intensive production practices. As such, the industry, particularly the apparel sector, is contributing to generating much needed employment.

This section discusses how developing countries are integrating themselves into globalized apparel networks. It examines the dynamics of connecting to value chains and adding value (or economic upgrading). The section then examines the results of monitoring and evaluation surveys undertaken by the OECD and WTO of factors determining integration of the developing country firms into global value chains (GVCs).

Conceptualizing the textiles and apparel value chain

The term “global value chain” refers to the production and distribution processes whereby the successive economic links are organized by different inter-firm governance relationships across borders. These include arms-length market transactions at the one end, and a perfectly hierarchical ownership structure, such as FDI based relationships, on the other; most relationships fall in-between these two, based on a wide variety of non-equity inter-firm linkages.

One of the key characteristics of GVC frameworks is that they recognize different types of governance structures inherent in such inter-firm relationships. Lead firms are key as they coordinate the chain and entry of other firms, and the distribution of activities and value-addition and profits, and how they are allocated among different actors.

The apparel value chain is a typical “buyer-driven chain”, where lead firms are buyers in developed countries such as retailers, brand marketers, brand manufacturers, and trading firms (Gereffi, 1999; Gereffi and Frederick, 2010; Goto, Natsuda and Thoburn, 2011). These buyers coordinate global apparel production in relation to final customers on the one hand, and local industries in developing countries on the other hand (Schmitz and Knorringa, 2000).

Entry barriers to value chains are based on knowledge or skills that are unique and not universally accessible, insulating firms from simple price-based competition. Most value in the apparel sector is added at the planning and retail ends, associated with the control of key functions such as branding, designing, and marketing, which are highly knowledge intensive (Goto, 2012; Kaplinsky, 2005).

From a developing country’s perspective, entry barriers arise from the particular requirements from these lead firms (buyers) in terms of, for instance, product quality, production volume capabilities, lead times, and compliance with different social and environmental standards (Thomsen, 2007). Buyers’ sourcing patterns are also influenced by the distance from the source to the final markets as well as by the availability of trade preferences between the countries in question and key export markets.

Trade facilitation measures thus certainly play positive roles in connecting firms from developing countries in the global textiles and apparel value chains. It is in this context where Aid-for-Trade initiatives become particularly relevant. To help governments improve their border procedures, reduce trade costs, boost trade flows and reap greater benefits from international trade, the OECD has developed a set of Trade Facilitation Indicators that identify key areas for action and allow assessing the potential impact of reforms (Moisé and Sorescu, 2013).

Adding value in the textiles and apparel value chain

The concept of adding value or “economic upgrading” is a central part of the GVC analysis. Most studies on GVCs focus on the economic dimensions of upgrading, which we refer to as economic upgrading in this section. This section outlines the theoretical background to economic upgrading.

Economic upgrading can be achieved by improving the efficiency of the production processes (process upgrading); adding new product lines that are of higher value-added because of improvements in designs or technical specifications (product upgrading); increasing value addition by moving up the value chain and taking on new functions

which are of higher skills and knowledge intensity (functional upgrading); or switching to a different sector which final products are more technologically sophisticated and of higher value-added (inter-sectoral upgrading) (Kaplinsky and Morris, 2005⁴).

In the textiles and apparel industry, firms from developing countries usually find their ways into GVCs through labour intensive functions of relatively low knowledge intensity; cutting, making (sewing), and trimming (CMT). Under CMT arrangements, international buyers supply manufacturing firms with most of the input materials including yarns, fabrics and accessories, free of charge. Suppliers use these inputs to produce apparels based on specifications from buyers, and export the products under buyer arrangements in exchange for processing (CMT) fees.

Suppliers in the CMT production modality assume no responsibility for the more knowledge-intensive functions, such as product design, sourcing decisions of input materials, distribution arrangements, and marketing. Within this functional area, upgrading could happen in terms of process and product.

Process upgrading in the apparel value chain can be achieved by applying new technology or rearranging existing production systems. Innovation in production technology has occurred mostly in the pre-assembly stages such as pattern making and fabrics cutting. Sewing operations remain labor-intensive as substitutability between labour and capital is limited (Jones, 2006). Nevertheless, several empirical studies have indicated that transfer of advanced technologies through linkages with production and distribution networks coordinated by international buyers have become important in process and product upgrading (Goto, Natsuda and Thoburn, 2011; Schmitz and Knorringa, 2000).

Product upgrading involves a shift into higher value-added product lines, which are normally more difficult to produce because of differences in technical specification and input materials. For instance, a supplier may upgrade product-wise by shifting from the production of casual woven shirts to expensive suits. The suppliers' ability to produce products of higher value-added is highly correlated to the extent of upgrading in production processes.

Upgrading can also be functional, *e.g.* where a business moves into more complex functions in a particular value chain. In essence, functional upgrading has to do with shifting towards more knowledge and skill-intensive functions in the GVC, which enables reaping higher value-added and also embeds more risks in its transactions (Goto, 2012; Nadvi and Thoburn, 2004a). In the apparel industry, such functions include product design, material sourcing, branding, and marketing. More specifically, when the sourcing and procurement functions are added to the assembly function, this production modality is often referred to as original equipment manufacturing (OEM).⁵

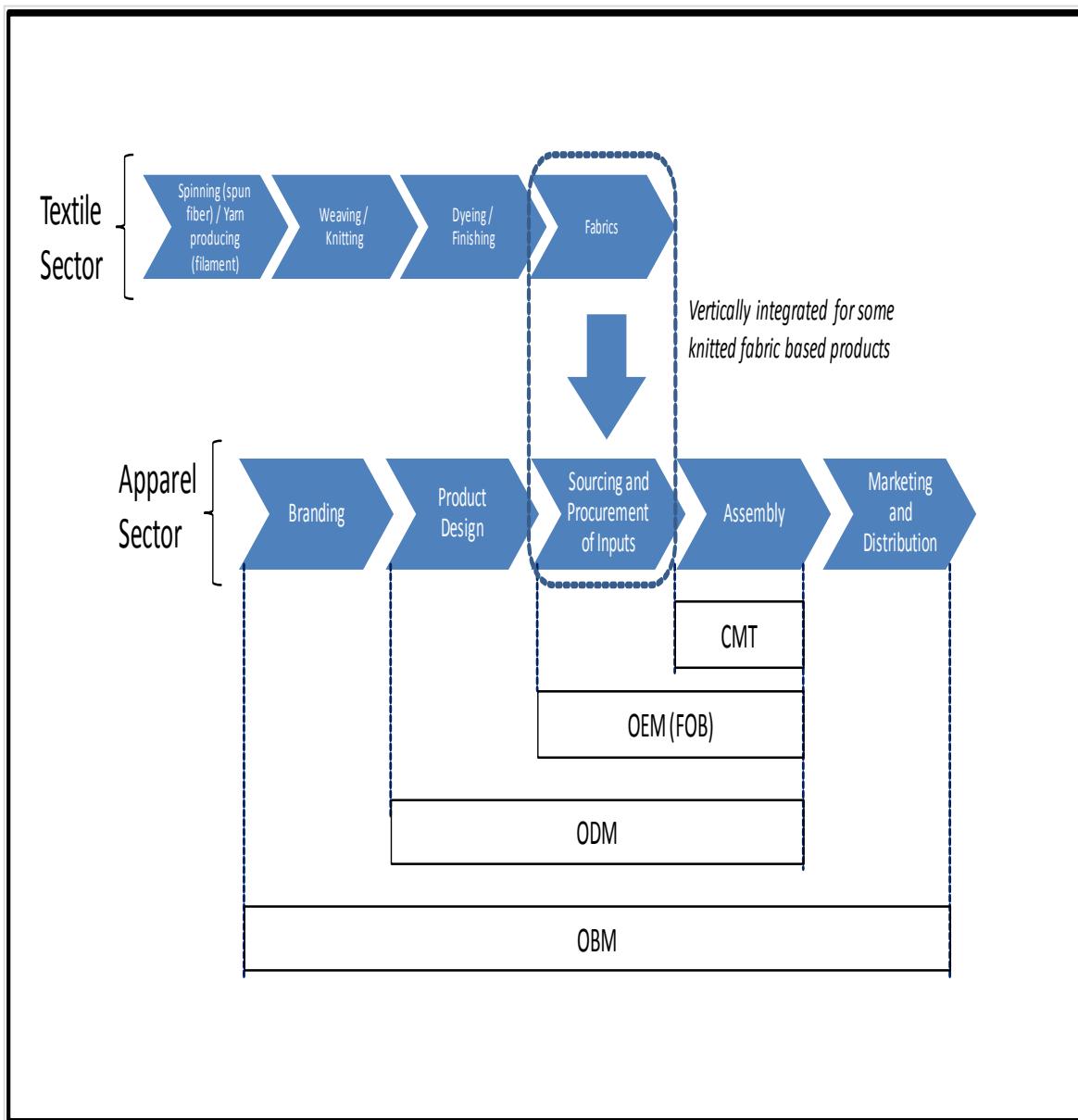
When product design functions are integrated by suppliers, this is referred to as original design manufacturing (ODM), and when suppliers further integrate branding and marketing functions, it is called original brand-name manufacturing (OBM). Functional upgrading, however, does not always entail “integration” of functions. As has been the case of textiles and apparel industries in many East Asian countries including Japan,

⁴ For sector-specific GVC studies, however, most research differentiate and categorize upgrading into three areas including product, process, and functions (see for instance Gereffi and Memedovic, 2003; Goto *et al.*, 2011; Kaplinsky, 2005; Kaplinsky and Morris, 2001; Palpacuer *et al.*, 2005).

⁵ In many countries this is also often referred to as “FOB”, which comes from the trade term Free on Board.

Korea and Hong Kong, when apparel firms have reached the stage of ODM, they tend to outsource the labour intensive assembly functions (CMT) to firms in less developed countries, and reposition themselves in the chains to branding, designing and marketing functions.

Figure 1 Production and distribution flow of the textiles and apparel value chain



Source: Modified from Goto (2011)

Figure 1 depicts the production and distribution flow of the textiles and apparel value chain in order to help conceptualize these different types of upgrading within the chain. The textiles and apparel sectors are connected through backward and forward linkages; however, how these two sectors relate to each other is to a large extent dependent on the type of the apparel product. For example, for the production of woven fabrics-based

apparel, textiles and apparel firms are most often related through some sort of a market-based transaction with clear vertical specialization. On the other hand, the production of knitted fabric-based apparel tends to be much more integrated vertically. For example, the knitting and sewing process of products such as socks and underwear are indivisible as they occur almost simultaneously.

It should be noted that when suppliers in developing countries upgrade in terms of process and products, this does not mean that those suppliers are moving up along the value chain and entering into higher value-added activities. What it means is that, on the contrary, these types of upgrading have occurred within the same functional node (such as within the CMT assembly function), and that their efficiency levels within that particular function have increased (process upgrading), and/or have led to the production of higher value-added products within the same product category (product upgrading).

Moving up the chain into higher value-added functions, or functional upgrading, entails organizational changes in distribution and production, which is probably most difficult to achieve. In Figure 1, the CMT modality consists in functions that are mostly dependent on unskilled or semi-skilled labour and, therefore, is also one with the lowest value-added contents. As described earlier, suppliers can functionally upgrade and shift to OEM, ODM and OBM, by integrating higher knowledge-intensive functions such as sourcing, designing, branding and marketing. The possibility of functional upgrading is dependent on the suppliers' capacity to handle these increasingly complex and risky functions, and also to some extent on their buyer's willingness to delegate them to these suppliers.

Several studies have shown that while the supplier-buyer relationships in GVCs have helped suppliers in developing countries to upgrade in processes and products (Goto, Natsuda and Thoburn, 2011), however, depending on the type of governance relationships, these could have negligible or negative effects to their functional upgrading, as it is often discouraged by buyers (Giuliani, Pietrobelli and Rabellotti, 2005). Realizing functional upgrading and moving into branding, designing and marketing functions in the textiles and apparel industry have proved very difficult, with very limited cases of success within an export-oriented value chain. Alternatively, the domestic market could play larger roles when it comes to functional upgrading for textiles and apparel firms in developing countries (Goto, 2012).

With the economic crisis, faltering import demand and growing export competition, a major shift in end markets has been taking place. Domestic markets in developing countries have recently become more attractive. Markets in China and India, in particular, are large and characterized by rising spending power by a growing and more affluent middle class. Producers in developing countries are finding that they can even generate bigger margins in their domestic markets than in their export markets, where they face intense pressure from buyers to cut prices.

In emerging and developing countries, demand for textiles and apparel products is increasing at an even higher rate than economic growth. The fastest growth in apparel retail demand has been registered in China, Russia, India, Turkey and Brazil. In 2011, intra-Asian textiles trade and clothing trade rose significantly, by 18.3% and 22.8%, respectively (Textile Outlook International, 2013). Data from the China National Textile and Apparel Council (CNTAC) shows that the scale of the Chinese domestic apparel market doubled between 2005 and 2011, increasing in value terms from 700 billion yuan to 1,400 billion yuan. In 2007, more than half of the apparel production in China was destined for local consumers (Gereffi and Frederick, 2010). However, the sector faces

important challenges on how best to strike a balance between production and consumption, as many Chinese apparel enterprises are grappling with very high inventories and overstock problems. The China National Garment Association (CNGA) stated that the stocks in 2012 were enough to satisfy the demand in the domestic apparel market for three years (Li & Fung Research Centre, 2012).

End-markets have important implications for the dynamics of GVCs. Demand factors shape significantly the upgrading possibilities, not only quantitatively, but also by the nature of demand, whether it comes from lower- or high-income country markets. Demand in the latter has become increasingly sophisticated, with emphasis on product differentiation, innovation rates and high standards. Demand in lower-income countries, on the contrary, is generally for less sophisticated and lower-quality goods.

The development outcomes arising from these different requirements have important implications, as the sophisticated demand in rich countries have increased entry barriers and furthered consolidation in GVCs. Conversely, entry barriers feeding into lower-income countries have diminished, resulting in new opportunities for exports of cheaper products. As regards functional upgrading, there may be constraints to capture more functions, given similar economic structures, but the less sophisticated nature of demand may help suppliers benefit from higher-return activities, such as product development and design, branding and marketing. First evidence suggests that such functional upgrading seems more relevant in domestic or regional markets, where suppliers have the necessary knowledge and are able to adapt to its specificities (Cattaneo, Gereffi and Staritz, 2011).

It may be possible that suppliers in developing countries realize inter-sectoral upgrading by moving into different industries, using their competitive advantages gained through process and product upgrading within their functional nodes in the textiles and apparel industry. For example, Humphrey and Schmitz (2002) illustrate the case of the IT industry in Chinese Taipei, where process technology of TVs is used to make PC monitors, which led to a growth of the computer sector.

Such inter-sectoral upgrading is essentially a horizontal shift across different GVCs catering for similar functions in the new value chain, which consists from production technologies of similar factor intensity.⁶

Joint OECD-WTO private sector survey

Replies received to the joint OECD-WTO monitoring questionnaire underscore the changing market dynamics outlined in this report. The survey focused on the main issues that lead firms face in relation to integrating developing country suppliers into their value chains. The survey asked similar questions of developing country firms and associations about the problems which they face while connecting, moving up and establishing value

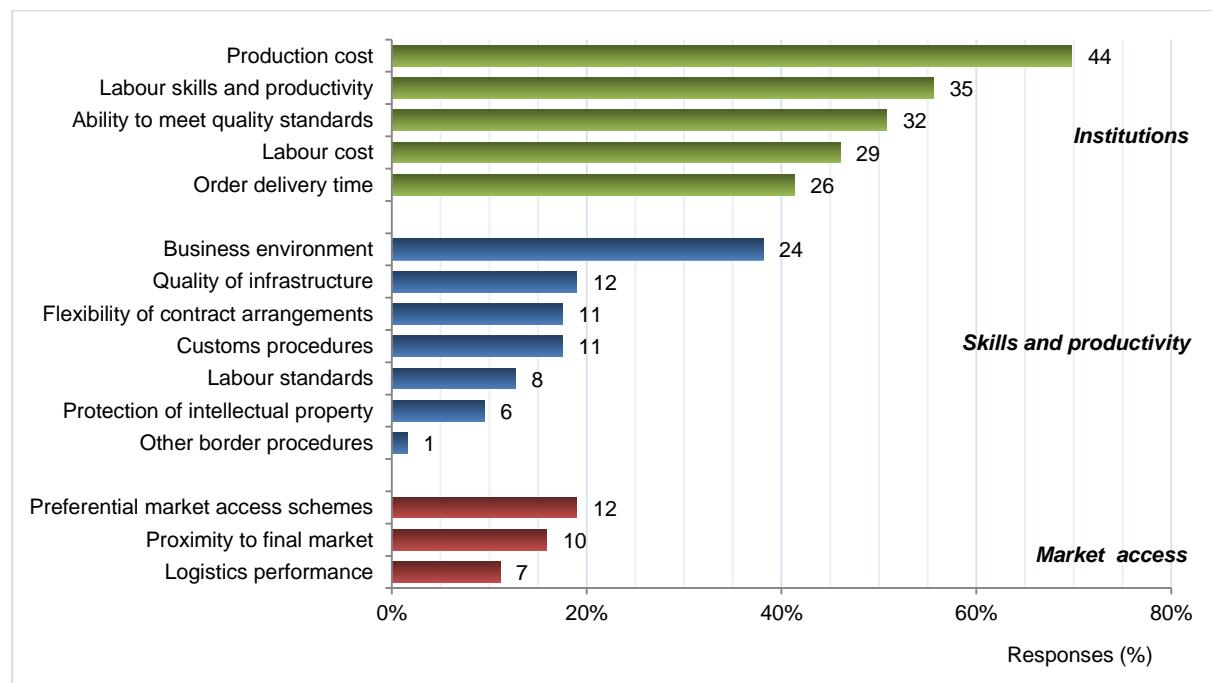
⁶ Advancement in production for a country/firm being engaged in sewing process to weaving and spinning processes is not easy because modern technology invoked in the latter processes is capital intensive while that of the former is highly labour intensive. Developing countries that have competitiveness in spinning and weaving such as China, India, Indonesia, Pakistan, and Thailand developed the upstream processes without relying on backward linkages stimulated by the development of the apparel industry. Yamagata (1998) illustrated the Philippine and Thai cases where synthetic fibre producing firms began production in the country first, and then advanced to the apparel industry in the 1960s and 1970s, rather than the other way around.

chains. The survey also examined the views of both groups on the factors determining investment and business transactions within the value chain.

A total of 106 responses were received from 47 countries – including 39 lead firms (from 27 countries, including 19 developing countries or territories) and 63 developing country suppliers across 35 countries. Five of the lead firms and one of the developing country suppliers reported revenues in excess of USD 1 billion. Given the wide cross-section and the sales volumes of some of the firms and associations involved, the results can be considered representative, albeit not statistically significant given the perception basis of the survey from which the results are drawn.

Figure 2 shows the main determinants of sourcing and investment decisions in the textiles and apparel value chain. About half of respondents raised “labour skills and productivity”, “labour cost”, “production cost”, “ability to meet quality standards”, and “order delivery time” as influential factors, followed by “skills and productivity”, “market access” and “institutions”. Around 40% of the total respondents raised the business environment as another important factor.

Figure 2 The most influential factors in sourcing and investment decisions in the textiles and apparel value chain



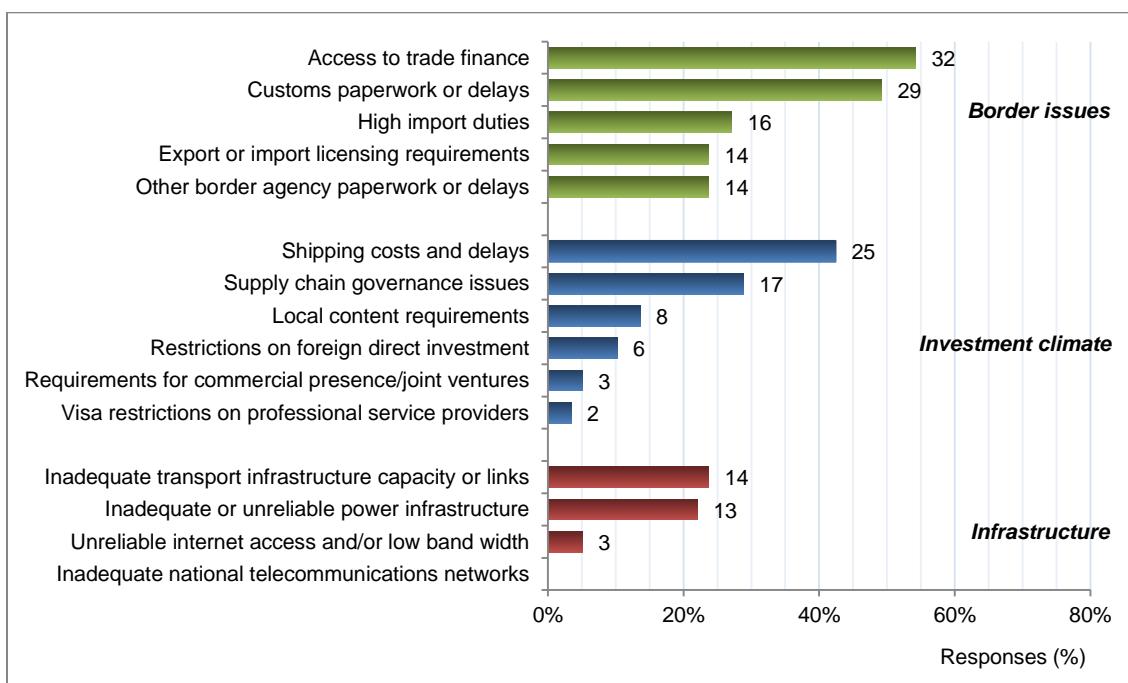
Source: Joint OECD-WTO survey.

Both developing country suppliers and lead firms point to production costs (70% and 48%, respectively) and the ability to meet standards (50% and 48% respectively). Much less agreement exists about labour skills, which suppliers rate as an important barrier (55%), but lead firms consider less important (19%). This probably reflects the different perspectives of the respondents. Whereas quotas helped to initiate a textiles and clothing industry in developing countries, maintaining or improving a country’s position in the global apparel value chain requires a continuous process of workforce development in a

sustainable manner. In the long run, innovative capacities depend on suitable human capital (Gereffi and Frederick, 2010). It becomes clear that in the textiles and clothing market characterized by rapidly changing consumer demand and retailer market power, organizational skills and flexibility has become as important as achieving cost competitiveness.

A related question asked was what difficulties private firms encounter in participating in textiles and apparel value chains. Figure 3 indicates that trade finance, customs paper work/delays, and shipping costs/delays are three main problems in the minds of respondents. Other border issues such as high import duties, export/import licensing requirements, and other border agency paperwork/delays are also among major concerns of the private sector. On the other hand, infrastructure is a secondary concern following border issues which is closely related with good governance. In particular, telecommunications and internet access are rarely raised as difficulties, probably because the mobile phone and wireless internet access have become widely available in developing countries.

Figure 3 Difficulties faced by respondents in entering, establishing or moving up in textiles and apparel value chains



Source: Joint OECD-WTO survey.

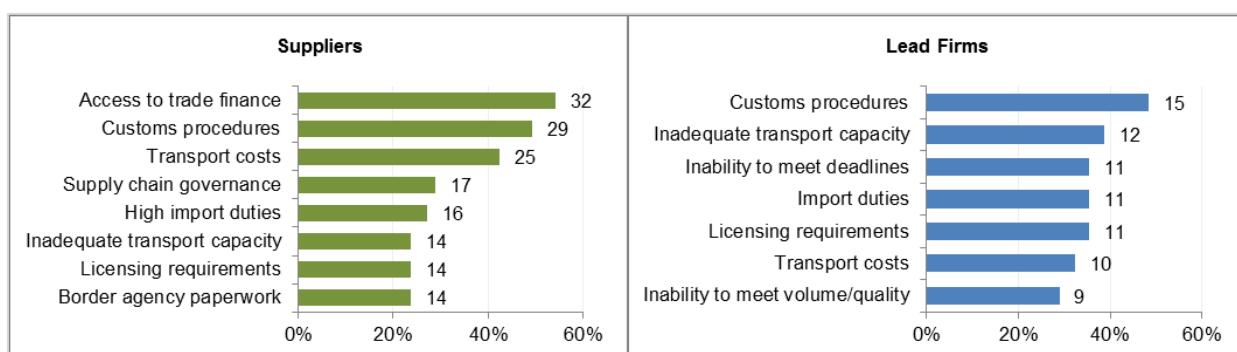
Figure 4 shows how both developing country suppliers and lead firms ranked the difficulties faced in connecting to textiles and apparel value chains, and that they accorded high priority to customs procedures (29 and 15, respectively). Efficient customs procedures are extremely important in a value chain that is characterized by low retail inventories, high order volumes and just-in-time manufacturing processes that respond to swiftly changing fashion trends. The need for speed is also apparent in the high priority conferred to constraints related to shipping costs and delays (25 supplier responses and 10 lead firms responses) and inadequate airport, maritime or transport capacities or links (12 lead firm responses). More than in most of the other value chains, trade policies are

still an important barrier in the textiles and apparel industry; 16 supplier firms and 11 lead firms pointed to high import duties as well as export and licensing agreements.

Effective trade facilitation is a good way to attract Foreign Direct Investment with positive developmental results in developing countries. As the joint questionnaire shows, the respondents concur that cutting red tape expedites the movement of goods across borders and improves the transparency and predictability of trade and of doing business. With the growing prevalence of regional and global supply chains, effective and predictable trade facilitation is an essential ingredient in ensuring supply chains work well and expeditiously.

Suppliers mention access to finance as the most important barrier to enter textiles or apparel value chains (52%). The 2008 financial crisis and the ensuing 2008-09 economic recessions brought the importance of suppliers' financial stability to the attention of all buyers. The crisis has made access to credit much more difficult and in the future, firms will have to prove their financial stability in order to become suppliers. To make matters worse, some customers are delaying payments and banks are becoming stricter with credit access. The general decline in credit availability is affecting all suppliers, but particularly hard hit are small and medium-sized firms and locally-owned firms (Barrie and Ayling, 2009).

Figure 4 Difficulties to connect developing countries to textiles and apparel value chains



Source: OECD/WTO Questionnaire 2013.

A parallel exercise was undertaken with officials of bilateral donors, multilateral donors, partner countries and South-South partners. Three questionnaires were tailor-made for: 1) partner countries, 2) bilateral and multilateral donors, and 3) South-South partners.⁷

Of the 81 respondents to the questionnaire, 36 indicated textiles and apparel as a leading sector in their national development strategy and so are included in the data set that is analysed in this subsection.

⁷ Since the number of respondents among South-South partners was as small as three, and since the questionnaire made for South-South partners was quite similar to that for donors, the data from South-South partners was merged with the data of donors for the purpose of analysis in this report. For more information on this “Monitoring Exercise”, see the Annex A.

Gap in perception on difficulties to which firms Are facing

The same question on difficulties to participate in the textiles and apparel value chain, which was posed to private firms/associations, was posed to partner countries. The top three obstacles were selected and ranked by importance as shown in Table 9.⁸

Table 9 Perception of obstacles for a local firm to participate in a value chain

Category	Obstacle	Importance			Simple Sum	Weighted Sum
		1	2	3		
Local capability	Lack of comparative advantage	7	1	5	13	28
	Lack of labor force skills	1	4	3	8	14
	Inability to attract foreign direct investment	0	3	1	4	7
Local institutions	Market entry costs	4	7	0	11	26
	Burdensome border procedures in export markets	3	0	2	5	11
	Burdensome documentation requirements	0	0	1	1	1
Local fundamentals	Inadequate domestic infrastructure	12	5	4	21	50
	Limited access to trade finance	4	7	6	17	32
Global conditions	Standards compliance	1	4	8	13	19
	Structure of value chains	2	3	3	8	15
	Trade restrictions	1	1	1	3	6
Others		1	0	1	2	4
Total number of respondents					36	

Note: Respondents were requested to rank the top three constraints among the options. The score number 1 is the most serious, and 2 and 3 follow. The weighted sum is the summation of counts associated to each option with the weight 3 to score number 1, weight 2 to score number 2, and weight 1 to score number 3.

In terms of both the simple and weighted sums, the highest points were given to “inadequate domestic infrastructure”. Border governance issues, such as “burdensome border procedures in export markets” and “burdensome documentation requirement”, were rarely stressed by partner countries (see the 5th and 6th rows). This stands in stark contrast with responses of private firms and associations that emphasized the seriousness of border governance issues. It seems that although the private sector was concerned about border governance issues, the public sector in partner countries did not have the same preoccupation. Here we see a gap in the perception of problems between the private and public sectors. In sum, the public sector emphasizes the role of infrastructure and considers less relevant border governance issues, while the private sector underscores the importance of the latter very strongly.

⁸ The simple and weighted sums of the points were calculated and appear in the final two columns of the table. To work out the weighted sum, the highest weight, 3, was assigned to the first choice, while 2 and 1 were given to the second and third choices, respectively.

3. Aid for trade and facilitating connectivity

This section focuses on the role that aid for trade is playing in helping developing country firms to connect to, and move up, textiles and apparel value chains. Four main drivers of Aid for-Trade assistance to the textiles and apparel sector are identified: promoting development in the textiles sector (notably natural fibre production and in particular cotton), support for vertical integration between the textiles and apparel sectors, promoting trade preference utilization and support for “social upgrading” in the textiles and apparel value chain. The section notes the importance of other forms of aid for trade support, notably trade facilitation. It also examines the views of the private and public sector with respect to both priorities and efficacy of aid for trade support.

It is important to underline that tracking aid for trade support to the textiles and apparel sector is not a straightforward exercise. Many different forms of assistance across different reporting categories in the OECD’s creditor reporting system may be of importance for textiles and apparel firms, *e.g.* support for banking and financial services or trade facilitation. Figures used in this report include those reported for the category textile, leather and substitute – sub-sector of the industry sector category under the building productive capacity heading. It is not possible to estimate total support provided to the textiles and apparel sector.

Box 2 below provides an overview of support from the Inter-American Development Bank to Haiti. It provides an idea of the important role that development partners can play in stimulating their textiles and apparel sectors, but underscores also some of the difficulties in tracking that assistance.

Box 2 Haiti and the Inter-American Development Bank

The textiles and apparel industry is Haiti's largest manufacturing sector, accounting for 80% of exports and around 10% of GDP in 2010. After the Jan. 12, 2010 earthquake, the IDB pledged to provide Haiti more than USD 2.2 billion in grants over the next decade to fund its recovery efforts and long-term development plans. The Bank also cancelled all of Haiti's outstanding debt and converted undisbursed loan balances into grants. Since the earthquake the IDB has approved USD 735.5 million in new grants and disbursed USD 501.9 million for Haiti. Since 2011, the IDB has provided USD 105 million in grants for the development of the Caracol Industrial Park also backed by the Haitian and U.S. governments to promote investment and job-creation in a region beset by poverty and unemployment. A first USD 50 million grant financed the construction of factory shells, administrative buildings and other basic infrastructure within the 240-hectare facility. A second grant of USD 55 million will finance the expansion of the CIP. One tenant is Korean textiles manufacturer Sae-A, which has hired and trained nearly 1,000 workers begun shipping Haitian-made garments for Walmart.

Source: Inter-American Development Bank website.

Aid for trade to the textiles sector

Support to cotton producers

Initiated in 2004, the WTO has held biannual meetings of the Director-General's Consultative Framework Mechanism on Cotton (DGCFMC) since March 2004. The aim of the consultative framework is to enhance coordination within the development community in the delivery of cotton-related development assistance, avoiding a distorting proliferation of overlapping mechanisms. The DGCFMC allows Members to report their cotton development assistance programs regularly, and promotes enhanced involvement and dialogue between donors and cotton-producing countries.

The 15th version of the Evolving Table on Cotton Development Assistance (WT/CFMC/6/Rev.14) was issued in May 2013. It registers on-going assistance from Canada the European Union (and several of its Member States), Japan and the United States, and from several multilateral institutions, namely, the ADB, the CFC, the FAO, the IMF, the ITC, the UNIDO and the World Bank. The Evolving Table tracks both on-going and completed activities since 2005. This last version shows that on-going commitments of Cotton Specific Development Assistance amounted to USD 365.6 million and disbursement flows reached USD 131.7 million in this category of assistance. The other category monitored is that of Agriculture and Infrastructure-Related Development Assistance, in which total on-going commitments stood at USD 5.43 billion in 2013, while disbursements reached USD 1.59 billion.

Support to the textile, leather and substitute sector

The OECD collects data for the Creditor Reporting System that includes support for textile, leather and substitute as a sub-sector of the category "Industry". Table 10 indicates that around 10% of aid for trade for "building productive capacity" goes to "Industry" every year.

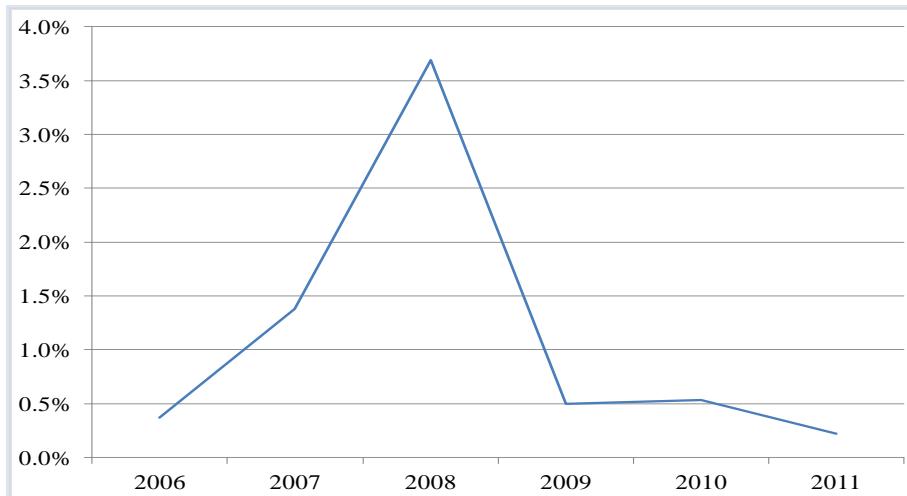
**Table 10 Aid for trade for building productive capacity
(USD million)**

Sub-category	2006	2007	2008	2009	2010	2011
Business and Other Services	1,439 (17.1%)	1,922 (18.6%)	1,864 (15.3%)	1,524 (10.8%)	1,576 (11.4%)	1,600 (10.8%)
Banking and Financial Services	1,370 (16.3%)	2,361 (22.8%)	2,762 (22.7%)	3,967 (28.2%)	2,440 (17.6%)	2,699 (18.2%)
Agriculture	3,080 (36.6%)	3,859 (37.3%)	4,865 (40.0%)	5,879 (41.8%)	6,764 (48.9%)	6,547 (44.2%)
Forestry	443 (5.3%)	524 (5.1%)	593 (4.9%)	660 (4.7%)	992 (7.2%)	931 (6.3%)
Fishing	206 (2.5%)	243 (2.3%)	373 (3.1%)	429 (3.1%)	343 (2.5%)	351 (2.4%)
Industry	1,092 (13.0%)	1,221 (11.8%)	1,309 (10.8%)	1,254 (8.9%)	1,402 (10.1%)	2,060 (13.9%)
Mineral Resources and Mining	745 (8.8%)	158 (1.5%)	296 (2.4%)	213 (1.5%)	172 (1.2%)	464 (3.1%)
Tourism	51 (0.6%)	67 (0.6%)	99 (0.8%)	129 (0.9%)	155 (1.1%)	167 (1.1%)
Total	8,427 (100%)	10,355 (100%)	12,161 (100%)	14,056 (100%)	13,845 (100%)	14,819 (100%)

Source: OECD database.

Two sorts of categories are contained under the title of “Industry”, one is a group of categories across sub-sectors and the other is that of detailed manufacturing sub-sectors. The former includes a sub-category of support to textiles, leather and substitutes.

Figure 5 Composition of aid for trade provided to the textile, leather and substitute sub category in the industry sector



Source: OECD database.

Textiles and apparel are included in the sub-category named “textile, leather and substitute”. It is not possible to track direct assistance to the textiles and apparel sector, as it is spread over different reporting categories. As Figure 5 shows, this sub-category makes up only a small percentage within the total amount of Aft directed to the industry sector. Among the sub-categories of the industry sector, the first group of categories

where no specific manufacturing sectors are specified, such as “SME development”, “industrial development” and “industrial policy and administrative management” makes up more than half of the total AfT to the industry sector. The manufacturing sectors receiving relatively greater AfT in the industry sector are energy manufacturing and agro-industries.

Direct support reported under the “textile, leather and substitute” code is not a major item of aid-for-trade expenditure. Table 11 displays the top 15 donors in terms of total amount of AfT directed to the textile, leather and substitute sector from 2005 to 2011. Disbursed funds totaled USD 104 million in this period.

**Table 11 Aid for trade to the textile, leather and substitute sector by donor
(USD thousand)**

Donor	2005	2006	2007	2008	2009	2010	2011	Total
World Bank (IDA)	0	0	13,776	41,093	0	3,672	0	58,541
Italy	2,214	178	101	1,617	1,592	945	1,071	7,718
United States	3,544	561	580	690	81	126	230	5,813
Japan	846	795	884	1,152	429	478	351	4,935
Spain	479	430	845	761	1,197	612	257	4,581
EU Institutions	0	0	0	3,658	170	19	299	4,147
Netherlands	940	843	678	500	0	0	79	3,040
Republic of Korea	0	783	471	180	69	0	606	2,109
UNDP	-1	111	0		1,453	115	256	1,935
France	0	0	0	547	544	662	0	1,753
Denmark	1,071	134	383	0	0	55	0	1,643
Canada	50	172	208	115	175	281	575	1,576
New Zealand	263	27	326	0	0	423	398	1,437
Belgium	20	11	2	715	240	277	2	1,268
Norway	223	193	166	109	88	154	218	1,151
Other Donors	764	570	228	440	651	164	248	3,065
Grand Total	10,410	4,808	18,651	51,577	6,691	7,984	4,590	104,711

Source: OECD database.

Note: The figures in the Total column are the simple (undiscounted) sum of aid for 2005–2011. The donors are listed by order of the total amount of AfT to the textile, leather and substitute sector.

The sequence of disbursements is irregular by year. For example, the largest donor, the World Bank, disbursed large amounts in 2007, 2008 and 2010, while there was no disbursement in other years. Such large amounts were provided as part of the Poverty Reduction Support Credit to Mali in 2007, and as part of the Economic Recovery and Governance Grant to Togo in 2008 and 2010. A high degree of fluctuation in disbursement is common to most of the top donors.

Table 12 Aid for trade to the textile, leather and substitute sector by partner country (USD thousand)

Partner Country	2005	2006	2007	2008	2009	2010	2011	Total
Togo	0	0	0	41,093	0	3,672	0	44,765
Mali	58	3	13,824	481	20	14	3	14,403
Egypt	95	18	502	3,675	160	115	135	4,699
Bangladesh	2,935	403	384	56	111	321	176	4,387
Jordan	125	63	20	238	1,584	743	1,062	3,836
Cambodia	674	63	480	724	558	756	562	3,816
Laos	2,565	528	176	295	0	0	0	3,563
Pakistan	954	886	678	500	133	52	1	3,205
Viet Nam	396	164	103	852	331	312	107	2,267
Ethiopia	0	333	0	14	1,396	63	276	2,082
Syria	77	169	233	1,386	58	72	25	2,019
Peru	267	94	91	12	256	363	178	1,260
Other countries	2,263	2,085	1,783	1,912	1,873	1,457	1,965	13,339
Total	10,410	4,808	18,651	51,577	6,691	7,984	4,590	104,711

Source: OECD database.

Note: The figures in the Total column are the simple (undiscounted) sum of aid for 2005–2011. The partner countries are listed by order of the total amount of AfT to the textile, leather and substitute sector. The category of “Bilateral, unspecified” includes assistance provided to groups of countries.

Table 13 Aid for trade to the textile, leather and substitute sector by recipient region

Region	Sub Region	2005	2006	2007	2008	2009	2010	2011	Total
Africa	North of Sahara	355	219	642	4,075	257	494	193	6,235
	South of Sahara	657	520	14,041	41,800	1,545	4,033	787	63,383
	Group of Countries	19	0	0	0	22	1	0	42
	Sub Total	1,031	739	14,682	45,875	1,824	4,529	980	69,660
America	North and Central America	167	102	312	160	303	65	87	1,195
	South America	569	160	163	225	735	650	585	3,085
	Group of Countries	0	0	0	0	66	0	22	88
	Sub Total	736	262	475	384	1,104	716	693	4,369
Asia	Far East Asia	4,120	1,326	995	2,311	954	1,119	880	11,705
	Middle East	202	231	444	1,932	1,680	817	1,091	6,397
	South and Central Asia	4,230	1,772	1,574	643	706	542	489	9,955
	Group of Countries	0	0	0	89	69	0	0	158
	Sub Total	8,552	3,328	3,013	4,976	3,409	2,478	2,460	28,216
	Europe	91	479	104	3	143	218	357	1,396
Oceania		0	0	0	0	0	0	0	0
Group of Countries		0	0	376	339	211	43	100	1,070
World Total		10,410	4,808	18,651	51,577	6,691	7,984	4,590	104,711

Source: OECD database.

Note: The figures in the Total column are the simple (undiscounted) sum of aid for 2005–2011.

The figures suggest that Africa accounted around 70% of direct AfT to the textile, leather and substitute sector. These figures highlight the complementary support which some donors, notably the EU and US, have offered alongside preferential market access schemes to stimulate textiles and apparel production in developing countries.

Support for vertical integration

Developing integrated processes of textiles production and garment assembling has various motivations, *e.g.* capturing more value in the chain and fulfilling rules of origin requirements.⁹ For example, in Bangladesh, cash incentives began being granted to exports of apparel products using domestic fabrics in 1994 in order to encourage its domestic production for the export sector (World Bank, 2006). As a result, in the early 2000s, most of demand for knit fabric in the export-oriented garment industry was met by domestically produced fabrics. However, the production of woven fabrics has not increased, and domestic fabrics accounted for less than 20% of total demand in the export-oriented sector, mainly because much larger investments were required in establishing the weaving process (World Bank, 2006).

The Vietnamese garment industry also relies mostly on imported fabrics despite the presence of a textiles sector mainly run by state-owned enterprises. The government is supporting production of man-made fibre and yarn by investing in polyester fibre mills, while state-owned and private textile firms are modernizing technologies by installing new facilities (Staritz and Frederick, 2012).

While the benefits of vertical domestic and regional integration of the textiles and clothing supply chain would seem to favor the development of a fully integrated African textiles and clothing sector given the proximity to the region's abundant supply of cotton and other raw materials, such integration has not materialized. African exporters have not become significant processors of raw cotton into textiles and clothing products, accounting for less than 1% of world exports in such products. Consequently, despite being a net exporter of cotton, Africa remains a net importer of textiles and clothing – and an important part of that is accounted for by imports of second-hand clothing.

Vertical integration has not, for the most part, been successful in low-income countries, despite government and donor initiatives. It appears that other textiles and apparel suppliers have strong competitive advantages in cost and manufacturing process, which more than compensate for the additional transportation costs and delivery time challenges entailed by importing fabrics into low-income countries. This is primarily due to capital-intensive technology, particularly in the spinning and weaving processes, which results in concentrating production in locations where there is a large demand for textiles products and an abundant supply of cotton and raw materials.

Aid for trade to promote preference utilization

Promoting preference utilization is one of the key objectives of aid-for-trade programmes of donors focusing on the textiles and apparel sector. This section focuses on the support offered by the US to assist African countries in benefitting from preferences offered under the African Growth and Opportunity Act.

The United States Trade Representative Office of African Affairs oversees implementation of the African Growth and Opportunity Act and works closely with other U.S. agencies, such as USAID, to provide trade capacity building assistance for eligible

⁹ The EU GSP rules of origin provision was relaxed specifically for LDCs in 2011, so that only one processing requirement, *e.g.* sewing, is necessary. The U.S. does not provide GSP for most of apparel products except for a limited number of countries in sub-Saharan Africa and Latin America and the Caribbean.

African countries to make the most of AGOA's trade benefits. The Africa Office leads U.S. Government interagency engagement with sub-Saharan African partners on trade and investment issues, including fewer than eleven trade and investment framework agreements with sub-Saharan African countries and regional economic organizations. The United States also has a Trade, Investment, and Development Cooperative Agreement with the five countries of the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland) and bilateral investment treaties with six sub-Saharan African partners. USTR's Africa Office is also leading U.S. efforts to forge a new trade and investment partnership with the East African Community and is helping to implement the President's Presidential Policy Directive for sub-Saharan Africa.

Of particular importance are the annual U.S.-Sub-Saharan Africa Trade and Economic Cooperation Forums. AGOA Forums bring together senior U.S. and African officials, as well as U.S. and African members of the private sector and civil society. Another key instrument is the three trade hubs in West, East/Central, and Southern Africa which the US funds in Africa through its new African Competitiveness and Trade Expansion Initiative. This initiative, launched in June 2011, will provide up to USD 120 million over four years to improve Africa's capacity to produce and export competitive, value-added products, and to address supply-side constraints that impede African trade. Apparel is one of the key sectors supported by the three hubs activities. A variety of other programs, *e.g.* supporting trade facilitation, also support firms make use of trade preferences.

Aid for trade to promote social upgrading in the textiles and apparel sector

The textiles and apparel industry, particularly the apparel sector, accounts for a significant share of total manufacturing exports for LDCs; 70% in Lesotho, 71% in Bangladesh, 85% in Cambodia, and 86% in Haiti in 2008 (Frederick and Staritz, 2012). It has also generated significant employment opportunities for unskilled workers, many of them women. The share of female workers in this sector is particularly high in Asia: 80 % in Bangladesh, 82 % in Sri Lanka, and 89 % in Cambodia (ILO, 2005).

A clear benefit for developing countries to enter into textiles and apparel value chains is that it generates employment for many, especially for young and less educated women, who often find themselves in alternative jobs with worse working conditions typically in the agricultural sector, or with no jobs at all (Robertson, 2012). Some have argued that the textiles and apparel sector offers unparalleled opportunities for developing and, in particular, Least Developed Countries to raise living standards and exit absolute poverty, particularly for women (Fukunishi, Murayama, Nishiura and Yamagata, 2006; Kabeer and Mahmud, 2004; Robertson, 2012; Yamagata, 2006).

Social upgrading has not been easy to achieve in the apparel sector, reflecting mounting pressure on labour as a cost factor, related to the intensification of competition. However, progress has been notable in China, India, Jordan and Nicaragua, where both employment and wages increased in the apparel sector from 2004 to 2009. China recorded the highest increase in real wages (+88%) while in the three other upgraders wages more than doubled in the same period. Jordan saw the largest expansion in employment (+64%) with a significant share going to migrant workers (Bernhardt, 2013).

Comparing across regions, economic and social upgrading have been fairly concentrated in Asia. Robertson (2009) reported significant wage premiums in the export-oriented apparel industries (but not necessarily for the textiles industry) of

Cambodia, El Salvador, Honduras, Indonesia and Madagascar. In contrast, where competitive pressures have been felt and export performance declined, “social downgrading” in the apparel industry has been identified.

One of the most studied issues on the intra-industry wage differences is the gender effect. Several studies report positive social upgrading effects on female workers, as the wage levels of the textiles and apparel industry are often higher than alternative or informal job opportunities available in rural areas. However, in most cases they also tend to be lower than their male counterparts (Abras, 2012; Savchenko, 2012). Nevertheless, de Hoyos, Bussolo and Núñez (2008) report that while female workers in maquila industries (of which the majority work in the textiles and apparel industry) in Honduras earn much less than men, this gender effect is much smaller in comparison to other industries, and is also diminishing over time.

Available studies seem to suggest that while economic upgrading may support social upgrading, this is not an automatic process. (Barrientos, Gereffi and Rossi, 2011; Goto, 2011). To address this concern, there is a growing focus among donors on promoting social upgrading. Programmes in this area have been influenced by two main approaches: the Better Work Programme and the development of ethical fashion value chains.

Better Work Programme

The Better Factories Cambodia (BFC) was launched in 2001 as a factory monitoring programme for the United States—Cambodia Textile Agreement (UCTA) that sets a quota on imports of apparel products made in Cambodia. The UCTA incorporates labour clauses, like other trade agreements, but in a unique manner, so much so that the industry was rewarded by compliance of labour standards rather than punished by non-compliance (Shea, Nakayama and Heymann, 2010). If factories made substantial improvement of working conditions, additional quota was awarded in the next year. The programme is administrated by the Project Advisory Committee comprising representatives from the Government of Cambodia, the exporters association (Garment Manufacturers Association of Cambodia: GMAC), and the workers organizations. Given the relatively small number of exporting factories, all factories are registered and monitored by the programme.

Inspection takes place without prior notice for all the registered factories, in which more than 400 items are checked through interviews with employers and employees (Rossi and Robertson, 2011). The check-list comprises fundamental rights such as freedom of association and forced labour, contracts, wages, working hours, leave, welfare, occupational safety and health, and labour relations (Oka, 2011). The results of the auditing are disclosed to core buyers of the audited firm as well as to the firm itself, and a summary at the industry level is made public. Besides monitoring, the BFC provides training and capacity-building programmes for government staff, union leaders and factory managers. Buyers are involved in the BFC through approval of the International Buyers Principles set out by the programme.

In 2006, the Cambodian programme was expanded to six other countries and transformed into the Better Work Programme. It covers Jordan, Viet Nam, Haiti, Lesotho, Indonesia and Nicaragua, with plans to start in Morocco and Bangladesh. Unlike BFC, Better Work does not cover all export-oriented garment firms, though in some countries it aims at full coverage. Currently, the programme covers about 20 to 60 factories in each country. The programme has also extended to other industries; a pilot

programme in the footwear industry has started in Cambodia, and an extension to electronics, tourism and agribusiness industries is also planned.

Assessments suggest that compliance has improved significantly, notably in Cambodia where the programme has been running longest. Overall, the rate of compliance was 78% at the first visit by monitoring staffs, and it rose to 89% at the fifth visit (Rossi and Robertson, 2011: Figure 3). Compliance tends to be higher for factories that have a buyer which has a strong commitment to social corporate responsibility (Robertson, Dehejia, Brown and Ang, 2011). In line with those results, wages of unskilled workers, specifically operators and helpers, increased in both nominal and real terms, and the gap between unskilled and skilled wages contracted from 2002 to 2008 (Asuyama *et al.* 2013).

The Cambodian garment industry continued showing high growth despite high labour compliance and increased competition in the export market. Exports grew by 16.6% annually between 2000 and 2007 until the financial crisis erupted. Asuyama *et al.* (2013) demonstrated that firms maintained competitiveness by enhancing productivity. There are two hypotheses whereby the BFC has contributed positively to the performance of garment firms. One possibility is that the BFC has established a reputation of the Cambodian products as sweat-shop-free, and attracted reputation-sensitive buyers, adding premium on the price of the Cambodian products (Oka, 2011). Oka found that reputation-sensitive buyers consider the compliance status of suppliers when they decide to start sourcing, although it rarely affects the decision to continue or not sourcing from the same supplier. Another possibility is that better working conditions enhance efficiency of production. So far, no study directly investigated this hypothesis in the context of the BFC, while empirical investigations in Sri Lanka and Mexico provided mixed evidence.¹⁰

Apart from the direct effect of the compliance programme, it is possible that BFC motivates garment firms to make productivity enhancements. Additional labour costs required garment firms to raise productivity in order to stay competitive in the export market. Fukunishi (2013) suggests that the increase of labour costs due to the BFC partly induced productivity growth. The case of the Cambodian garment industry suggests the possibility that social upgrading catalyzed economic upgrading, although this relationship is still unclear.

Ethical Fashion

The ITC's Ethical Fashion Initiative,¹¹ a part of the Poor Communities and Trade Programme, targets specifically small and informal apparel producers in low-income countries. It aims at creating an inclusive business model through connecting groups of informal manufacturers in disadvantaged African communities to the international apparel markets. Rather than working with small ethical brands, it has a unique strategy to create a link to large apparel retailers or well-known brands, so that the programme effectively promotes ethical fashion in the volume zone of the market.

¹⁰ Ruwanpura and Wrigley (2011) indicates no premium was added on price of labor-compliant products in Sri Lanka, while Locke and Romis (2007) reports positive effect on productivity enhancement in Mexico.

¹¹ This section is based on International Trade Center (2013), Cipriani, Brown and Mukai (2011), and Fair Labour Association and ITC (2012).

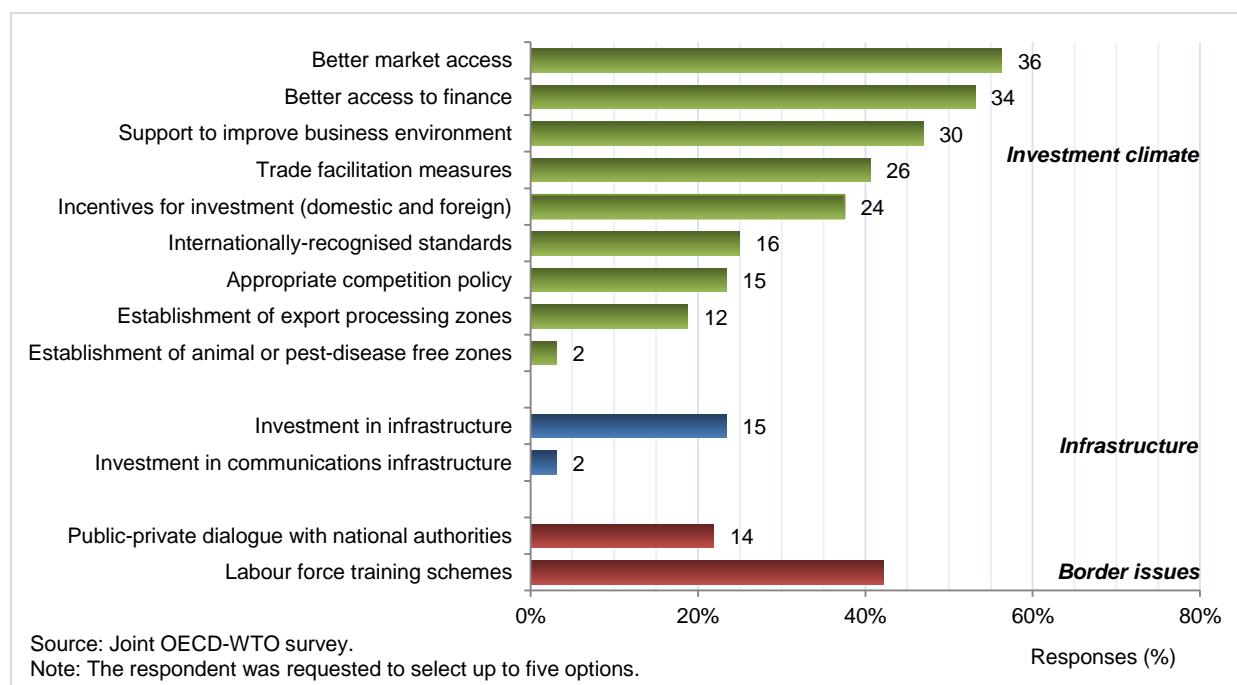
The pilot project started in 2010. In that year, the ITC reported that more than 7,000 jobs were generated for women. The Fair Labor Association and ITC (2012) reported that at the outset of the programme, 30 communities in Kenya and Uganda were involved, but currently fewer groups are working with EFAL. About 90% of producers are women, 12% are uneducated and 38% have only primary education (International Trade Center, 2010). In 2012, the Ethical Fashion West Africa started in Ghana.

The ITC conducted an early impact assessment of the Ethical Fashion Project (EFP) in 2010 on a sample of 10 community groups (International Trade Center, 2010). It reported that the surveyed participants earned between USD 4 to USD 7 per day after the programme started, while 20.4% of them would have earned less than USD 1 per day if they had no order from the EFP. 62% of participants depend on the orders placed by the EFP. As a result of the implementation of the EFP, a significant improvement in food intake is reported; 54% of surveyed participants have enough to eat on a regular basis and 86% affirm to have better meals. It also reported that 88% of the surveyed participants mentioned that the most important change in their lives is their ability to make independent financial decisions, and 72% feel that they are receiving more respect from their family. A preliminary assessment shows substantial positive impacts on the economic and social livelihood of informal apparel producers.

Private sector views on support to connecting to value chains

The joint OECD-WTO monitoring questionnaire surveyed the views of developing country suppliers and lead firms as to the most effective support to connecting to textiles and apparel value chains. The results highlight that improved market access, better access to finance, improvement in the business environment, labour force training, and streamlining customs bureaucracy and border delays are the areas where support is considered most effective (see Figure 6). Figure 6 is striking in that transportation infrastructure was not amongst the forms of aid that respondents cited.

Figure 6 The most effective support according to private sector respondents



The final question posed to the lead firms was what the private sector should do itself to address these issues. The results of the survey contained in Table 14 show that the priority areas considered were: through public private partnership (PPP); compliance with labour and environmental rules, and through industry-funded activities and the development of industry codes of practice.

Table 14 How best should the private sector be engaged?

Engagement	Yes	No	Total replies
By providing co-funding for development assistance projects	83%	17%	24
By providing joint public-private training	92%	8%	25
Through implementation of ODA projects	81%	19%	21
By ensuring compliance with labor and environment rules	92%	8%	24
By ensuring compliance with national legislation in developing country markets	87%	13%	23
Through industry-funded activities and development of industry codes of practice	91%	9%	22
Through each company's CSR agenda	83%	17%	24
By focusing on core commercial activities	81%	19%	26

4. Conclusions and recommendations

The textiles and apparel value chain is full of entry points for developing countries. On the one hand, cotton growing is the entry point at an upstream part of the chain for countries with appropriate climatic conditions. On the other hand, for those with large young and typically low-skilled populations, sewing at a downstream part of the chain is the entry point because of its labor-intensive nature. In addition, some middle-income developing countries play a critical role at a midstream scale, in activities such as spinning, weaving, knitting, dyeing and finishing, as well as producing synthetic fibres. Thus, the textiles and apparel value chain is “fertile” for developing countries, in the sense that it bears fruits at many pieces of the chain. Above all, apparel is a commodity for which low-income countries have become indispensable parts of suppliers to the world market.

The apparel industry is a promising entry point, not only along the textiles and apparel value chain, but for industrial development as a whole. In fact, many East Asian economies achieved industrial development and became high-income countries through this entry point. Some low-income countries have made remarkable progress in apparel exports in the past decade – success achieved without large scale transfers of aid. The textiles and apparel industry is now one of the most globalized industries, providing employment opportunities to more than 60 million workers worldwide, most of them in low-income exporting countries.

AfT connects the public and private sectors through assistance for international trade. The surveys undertaken for this report shed light on both promises and difficulties in public-private partnership. While the private sector stresses the seriousness of border governance issues for business transactions, the public sector puts more weight on inadequate transportation-related infrastructure.

It looks easier and more realistic for private firms in developing countries to move between two production processes with similar factor intensity in different value chains. Assembling sleeves and body into an apparel is closer to assembling semiconductors and motherboard into electrical machinery with respect to operation procedure than weaving yarn into a fabric and spinning fibre into yarn.

Strengthening each piece of the chain, in other words, enhancing productive capacity in the production process, make sense as an industrial promotion strategy. Even sewing, which is typically regarded as a labor-intensive process, has a broad scope of productivity increase through training of workers, process innovation and introduction of new machines. Thus, each process in a value chain may be strengthened to enhance competitiveness.

Public private partnership is a key factor of AfT in the sense that “aid” is provided by the public sector and “trade” is undertaken by the private sector. With sources for financing international development highly diversified, and with flows from the private sector becoming ever more important, expectations for the private sector to contribute substantially to AfT are growing. The public sector must complement private initiatives so that all areas in need are covered by either the private or the public sector.

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Annex A

The aid-for-trade monitoring exercise

Background

In order to evaluate the performance of Aid-for-Trade and to explore further demand for assistance, the OECD and WTO conducted opinion surveys which were directed to both the public and private sectors. On the private sector survey, Grow Africa, the International Chamber of Commerce (ICC), the International Trade Centre (ITC), the International Telecommunication Union (ITU) and the World Tourism Organization (UNWTO) collaborated with the OECD and WTO. The surveys were undertaken using an online electronic format from October 2012 through March 2013. Delegations to the WTO were requested to circulate the electronic formats to their national authorities in the private sector. As for that directed to the public sector, Members, Observer Governments and Observer Organizations of the WTO were invited to respond.

The private sector survey was designed to examine: *i*) the barriers that companies in developing countries face in participating in global value chains; *ii*) those that companies in developed countries face in sourcing or establishing a commercial presence in developing countries; and *iii*) the measures to remove these barriers. The private sector monitoring exercise surveys the following five sectors of particular economic importance to developing countries: agri-food; information and communication technologies (ICT); textiles and apparel; tourism; and transport and logistics.

This report cites responses returned by respondents from the textiles and apparel sector.

Respondents

Two different questionnaires were drafted for the private and public sectors. The private sector includes companies and associations, both of which are engaged in the textiles and apparel value chain, while the public sector contains departments of central governments of nations and multilateral donors which oversee the textiles and apparel sector. The nations and organizations were classified into donors and South-South partner countries.

Private Sector

The private sector is considered to be not only a beneficiary of AfT but also an actor to facilitate the strengthening of production and trade capacity in developing countries. The delegates to the WTO selected representative companies and industrial and commercial associations being engaged in the textiles and/or apparel business and encouraged them to respond to the questionnaire. One hundred and six companies/associations from various developing and developed countries filled out and submitted the questionnaire. Among the 106 respondents, companies account for 82.1%, and the rest are industrial and/or commercial associations (Table A.1).

The roles of respondents in the textiles and apparel value chain are summarized in Table A.2. More than 60% of respondents are companies or associations that supply textiles or apparel products in a developing country. The rest, making up less than 40%, are lead companies or associations which are mostly located in developed countries.

Table A.1 Organizations with which a respondent is affiliated (private sector)

	Response Ratio	Response Count
Company	82.1	87
Association	17.9	19
Total Number of Answered Questionnaires	100	106

Table A.2 Role of respondents in the textiles and apparel value chain

	Response Count
Company (or association) in a developing country that supplies textiles or apparel products*	63
Lead company (or association) that sources from companies in developing countries**	37
Total Number of Answered Questionnaires	100

Note:

* This option was shortened from its original expression. The original expression was “company (or association) in a developing or least-developed country that supplies textiles or apparel products or services to firms elsewhere in the value chain”.

** Similarly, the original expression was “lead company (or association) in a textiles or apparel production or service network supplying to the final consumer and that sources from companies in (other) developing or least-developed countries”.

Public Sector

The survey on the public sector was conducted in cooperation with ministries in charge of trade, investment, economic affairs, or finance from partner countries, donors and South-South partner countries. The latter are non-OECD member countries which provide development assistance to developing countries.

Three different questionnaires were made to each of the three categories of countries, even though the basic structure was the same in the three questionnaires and many core questions were reproduced and shared among them.

In all the three questionnaires, there was a section to ask whether some specific sectors were emphasized as strategic areas. In the questionnaire for partner countries, it was asked which sectors were identified in the national development strategy as sources of growth. In the questionnaires given to donors and South-South partners, it was inquired if there was any sectoral focus in the scheme of public-private partnerships which supported the implementation of trade-related development cooperation strategies. The respondents who identified either the textiles industry or the apparel industry (or both) were selected and their answers were filtered and further investigated in this report.

Thirty-six out of 80 developing countries indicated the textiles or the apparel industry as a growth-driving sector (East Asia and the Pacific: 3; South Asia: 4; Middle East and North Africa: 7; Sub-Saharan Africa: 13; Latin America and the Caribbean: 9).

As for donors and South-South partner countries, 15 out of 43 donors and three out of nine countries stated that either textiles or apparel was a sectoral focus in the scheme of public-private partnerships, respectively. The group of donors focusing on either textiles or apparel consisted of 10 bilateral donors and five multilateral donors. The three South-South partner countries came from East Asia, the Middle East and North Africa, and Latin America and the Caribbean.

AID FOR TRADE AND VALUE CHAINS IN TEXTILES AND APPAREL

The main findings of the study show that market access matters (notably preferences); the termination of the multi-fibre agreement increased trade in textiles and apparel substantially for large economies, whereas Free Trade Agreements have enabled small economies to enter value chains. The most competitive sectors in developing countries remain in lower-end activities (cutting, making and trimming) since it is very difficult to move up to the design state. Economies tend to shift to other labor intensive sectors with higher returns rather than moving up the textiles and apparel value chain. Constraints are access to finance, customs paperwork, shipping costs and delays. Adding value to textiles and apparel production requires attention to services such as branding and design.

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