

An Investigation into the Measures Affecting the Integration of ASEAN's Priority Sectors (Phase 2): The Case of Textiles and Apparel

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EXECUTIVE SUMMARY

This study finds that ASEAN integration in textiles and clothing is limited and restrictions on investment and outward processing arrangements (OPA) are serious obstacles to efficient development of production networks. This is based on a field survey conducted between September and December 2006 aiming to identify the main non-tariff measures that are restricting intra-ASEAN trade in textiles, apparel and related inputs (accessories, spare parts, raw materials and other inputs). The survey involved interviews with 46 private companies, 14 industry associations and was supported by surveys of secondary data sources for seven major supplier countries of textiles and apparel in ASEAN, which are Cambodia, Indonesia, Lao PDR, Malaysia., Philippines, Thailand and Vietnam.

Three different Non-Tariff Measures (NTMs) are applied in considering obstacles to free internal ASEAN trade in textiles and clothing, which are estimated based upon a sample of respondents. They are the occurrence of NTMs, which refers to the number of times respondents cite an NTM; consistency, which refers to how often respondents experience an NTM as occurring; and the degree of restrictiveness, which refers to the impact of an NTM on trade volume, costs and prices. NTMs in this study are any measures inhibiting ASEAN integration that are found at the border (e.g., customs documentation), behind the border (e.g., value added tax, duty drawback) or across the border (e.g., product testing and standards).

The most frequent NTMs in occurrence are those involving customs administration (44 occurrences including inspections, documentation, licensing, fees, valuation, customs clearance, Electronic Data Interchange (EDI) problems, port handling, product classification, rules of origin), followed by technical barriers (20 occurrences including testing, labels/marketing, environment, safety, Sanitary and Phyto-Sanitary Standards), taxes and tariffs (19 occurrences including income tax, VAT, profit tax advance), investment (6 occurrences: national treatment, subsidies, profit remittance, others), outward processing arrangements (11 occurrences: tax treatment, documentation, lack of sourcing know-how, transport costs), and political economy and institutions (11 occurrences including intellectual property (IP) problems, state trading, disputes). Other restrictions include labor problems 12; trade remedies 5; subsidies 5; and quantity controls 5.

In terms of consistency, restrictions on OPA were the most consistent NTMs found, followed by investment restrictions, subsidies, taxes and tariffs, customs administration, political economy/institutions, trade remedies and technical barriers to Trade. In terms of the degree of restrictions, the most restrictive NTMs were found on OPA, followed by investment, subsidies, taxes and tariffs, political economy and institutions and customs administration with moderate to critical values.

Structural change characterizes the textile and apparel sectors with smaller countries (Cambodia, Lao PDR) becoming more specialized in clothing exports and larger more developed countries (Indonesia, Thailand, Malaysia) maintaining substantial textile capacities. The Philippines is undergoing transformation into a specialized clothing exporter as its textile sector is contracting. In Vietnam the opposite is occurring through foreign direct investment (FDI) flows into textile yarn and fabric production.

In response to the findings, policy reforms including establishment of an ASEAN Green Lane, zero Common Effective Preferential Tariff (CEPT) treatment on all textile and clothing and related inputs, and improvements in customs procedures and documentation requirements are fundamental to developing the most efficient textile and clothing sectors possible within the ASEAN region. Changes in tax policy such as the elimination of VAT on textile materials and intermediate products are also essential. In terms of investment, policy changes may

include the elimination of restrictive approval processes on FDI and entry of new firms, privatization, and improvement of the legal and regulatory environment. Furthermore, aside from improvements of capabilities to meet testing and standards, institutional improvements in anticipating problems like trade disputes (including antidumping investigations and measures), illegal smuggling, transshipment, IP issues should also become a priority.

To remain competitive in global markets in future, ASEAN should look beyond its immediate borders to possible links to East and South Asia in order to establish the most efficient production networks in the region. ASEAN should strive over the longer term to develop an integrated Asian textile and apparel community through ASEAN plus agreements with China and members of the South Asian Association for Regional Cooperation (SAARC). Outward processing arrangements that extend across the entire region will allow ASEAN-based exports to remain globally competitive. ASEAN suppliers benefit from the temporary product-specific safeguards the United States and European Union have imposed on shipments of textile and apparel products from China. These restrictions will be phased out over the course of the next two years, so ASEAN must move quickly in order to prepare for increased competition. Removal of internal NTMs and establishment of production networks that take advantage of competitive input supplies from across the region will be essential.