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A STITCH IN TIME

Sep 8th 2005

China's clothing trouble is good news for South-East Asia

THE deal reached by China and the European Union on September 5th must have brought cheer to the clothing factories of South-East Asia.

Clothing quotas were supposed to have been scrapped for good among members of the World Trade Organisation at the beginning of the year, but the EU reimposed them in June. Under the new agreement, the EU will maintain import quotas on certain categories of Chinese-made clothes until 2008, although it will admit the quota-busting Chinese sweaters and trousers that had been piling up in European ports, in exchange for a reduction in next year's ration of exports. Since America is also imposing quotas on China, South-East Asian exporters now face much less competition, at least for a while. Governments in the region are still, however, pursuing a variety of strategies to save their clothing industries from oblivion in a quota-free world.

The now-postponed decision to scrap quotas prompted fears that low-cost Chinese competition would wound the clothing industry in pricier places such as Thailand and Indonesia, and kill it off altogether in countries like Cambodia, where it had sprung up solely to take advantage of the quota system. That, in turn, would put billions of dollars in export earnings and millions of jobs at risk. In Cambodia, to take the most alarming example, clothes make up almost 80% of all exports, and help support as much as a fifth of the population.

Cambodian clothes-makers are no longer trying to compete with China solely on price. Instead, they have been trying to build a reputation for strict labour standards that might appeal to western firms not wishing to be associated with sweatshops. The Cambodian government has passed elaborate labour laws. Inspectors from the International Labour Organisation monitor compliance, often through spot checks. According to a survey by the World Bank, the scheme is a hit with customers, including big retailers such as Gap.

Thailand, too, will try to avoid competing with China on cost, chiefly by raising the quality and value of its exports. The government wants to turn the country into a hub, where local companies do not just make clothes under contract for foreign retailers, but also design and market products of their own. Last month it organised "Bangkok Fashion Week", complete with a floating catwalk under an inflatable dome, to

show off the work of Thai designers.

Indonesia, meanwhile, is in the midst of a broad campaign to improve the local investment climate, and hence stem the flight of manufacturers to more accommodating jurisdictions. The government has recently tackled some of the most common complaints by scrapping onerous provisions of the labour law and reducing the power of local governments to levy arbitrary fines and fees. It is also trying to reduce corruption and red tape.

It is hard to measure the impact of any of these schemes. Other factors, such as depreciating local currencies, may have a bigger effect. Whatever the reason, clothes exports from the region are not just holding their own in the face of Chinese competition, but actually increasing (see chart). Moreover, the increase precedes the reimposition of quotas on Chinese exports by America and Europe.

The odd man out is Vietnam. It is not yet a member of the WTO--though it is trying to join--so still faces quotas on its exports to America. But it will struggle to fill them this year. On the whole, Vietnam's exports are booming, since its wages are lower even than China's. But as its South-East Asian rivals in the clothing trade have shown, price is not everything.

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