



Sustaining Nepalese garment industry after quota abolition

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Delivering on the WTO Round:

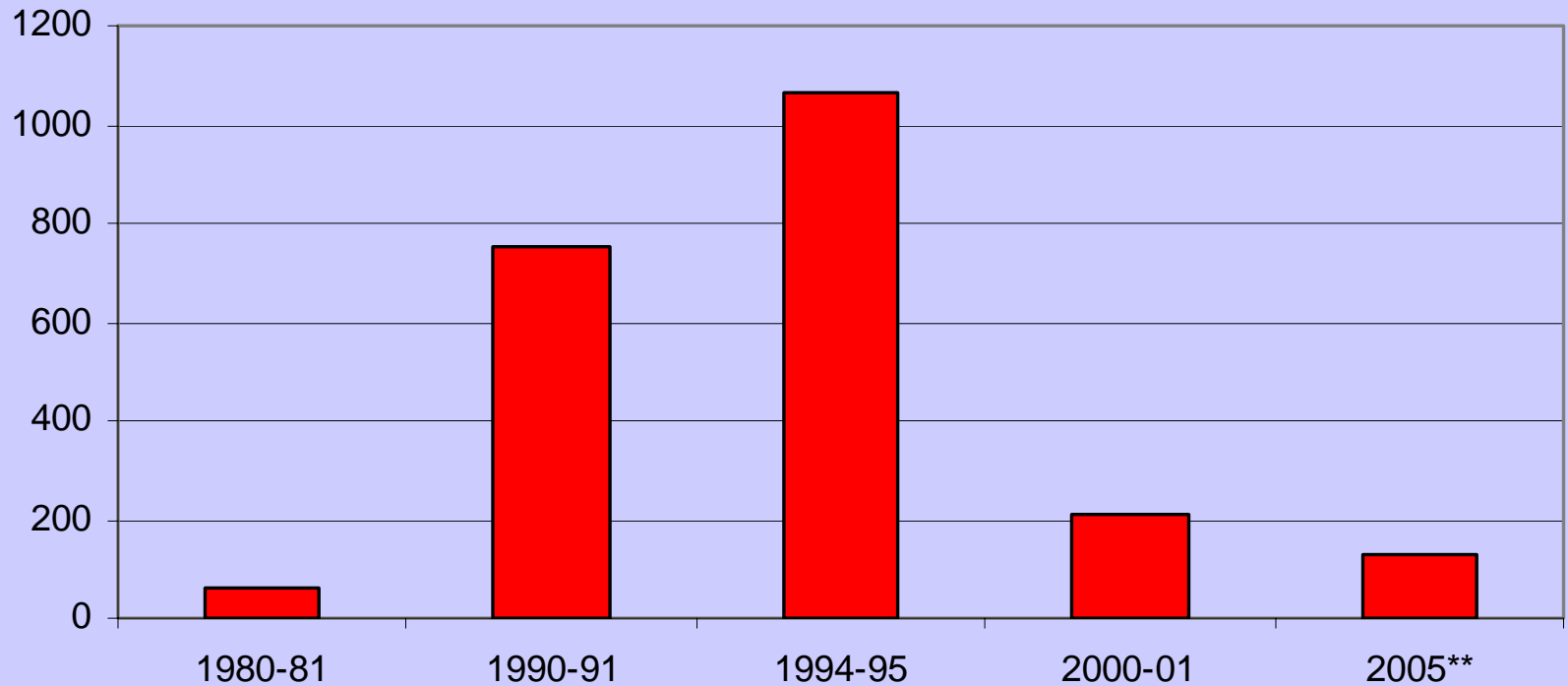
A High -Level Government-Business Dialogue for Development

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The post MFA situation

- Impact of loss of quasi guaranteed market access overwhelming.
- Nepal's position marginalized:
 - No consolidated output and supply capacity.
 - Higher transaction cost due to geographical disadvantage.
 - Discrimination of preferential market access.
 - Persistent internal bottlenecks restrained cost cutting measures.
- Post MFA effect most pronounced in Nepal.

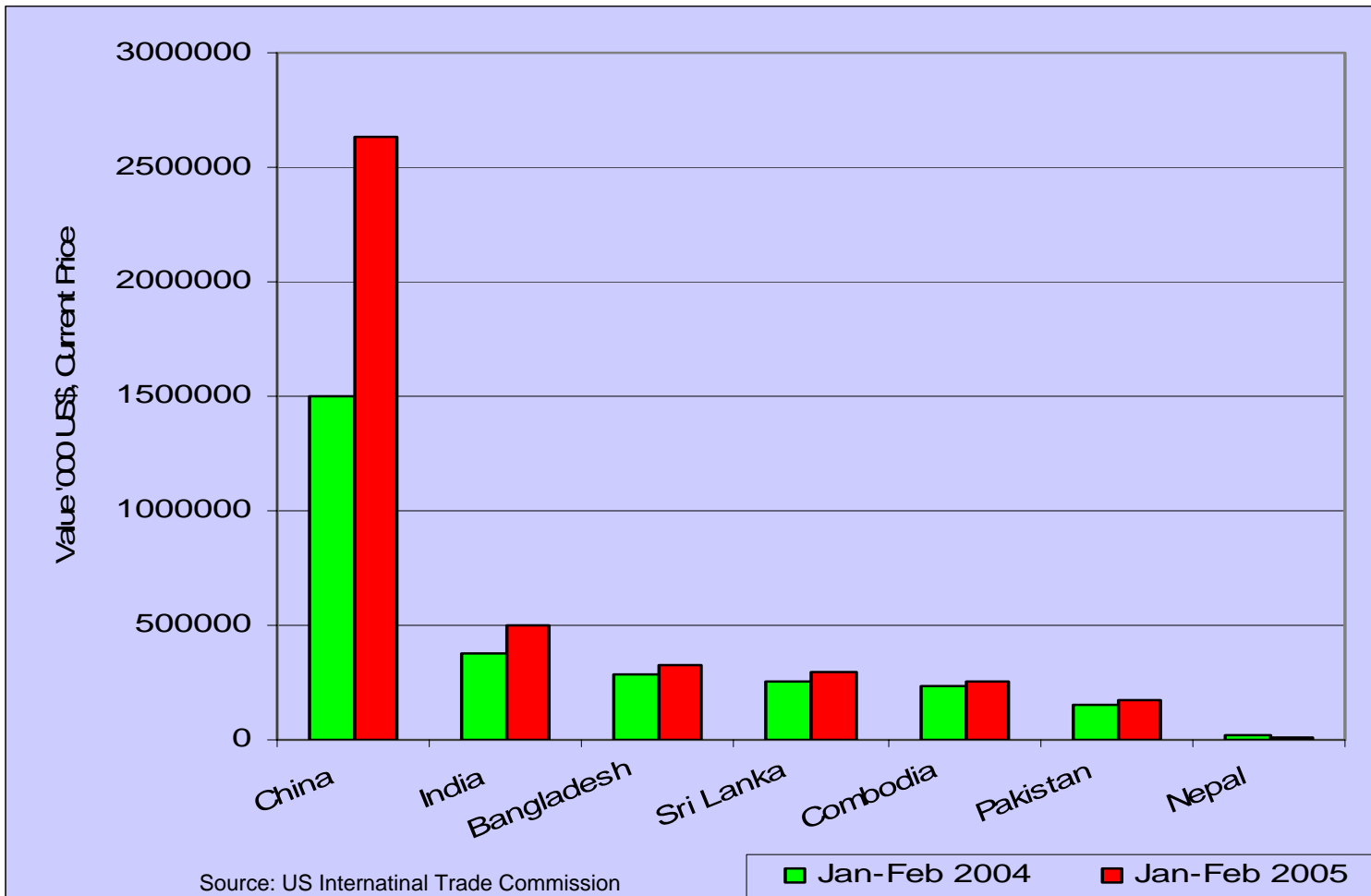
Garment Industries: Tumbling figure



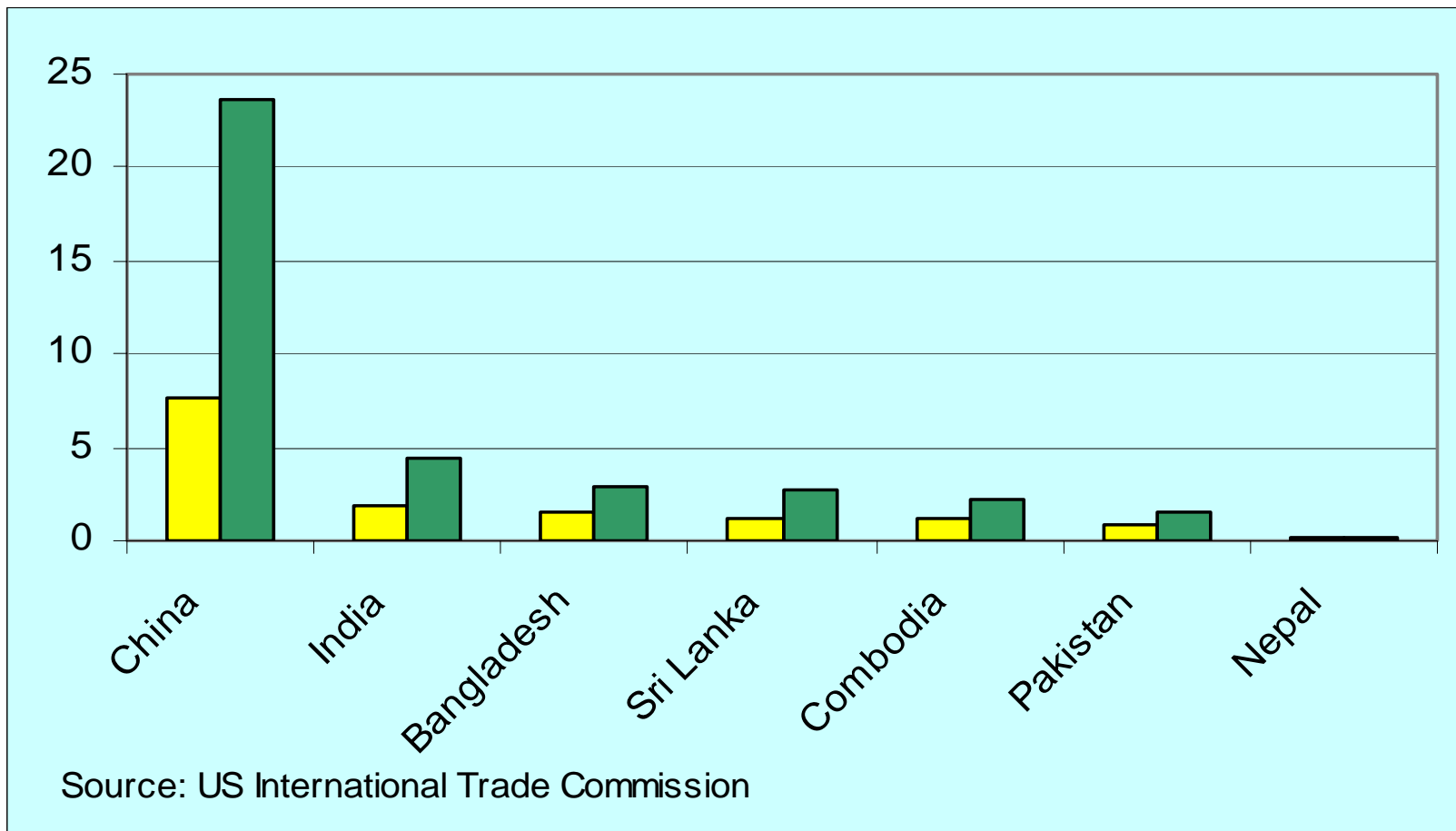
* As registered at GAN

** As of June 2005

US Apparel Import from Selected Asian Countries



Share of Selected Asian Countries in US Apparel import (Jan-Feb 2005 against Jan-Feb 2004)



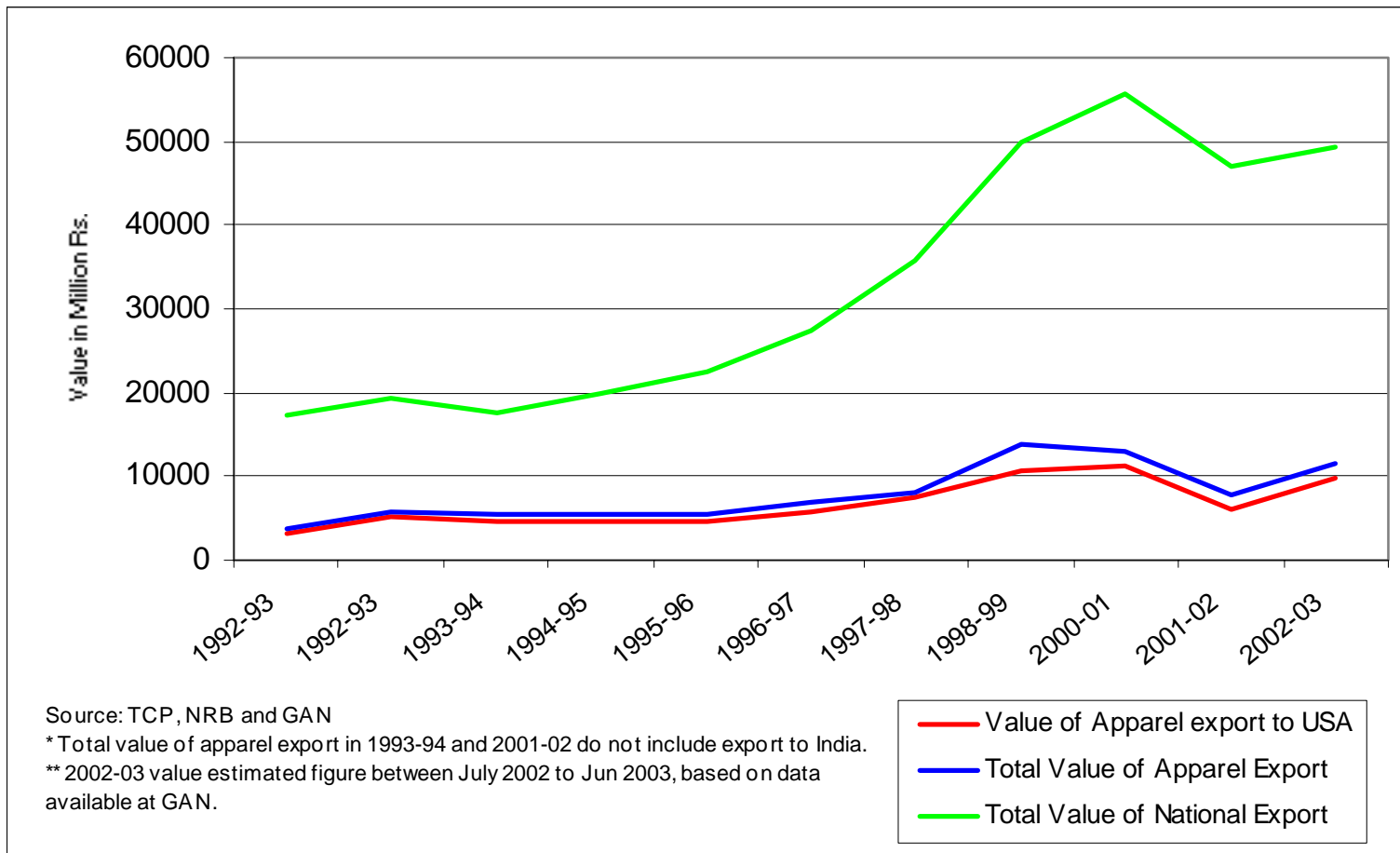
Trade under different regimes

| USA | EU | CANADA |
|-----|---|--|
| MFN | <ul style="list-style-type: none">■ GSP■ Derogation from GSP rules of origin (1997)■ EBA (2001)■ Derogation facility extended to Nepal in 1992 and 1994, and effective until 2006. | GSP under Market Access Initiative for LDCs (2003) |

Preferential and non-preferential markets

- Two distinguished markets:
 - Preferential and non-preferential markets.
- Efforts to change protected market into preferential market prior to MFA phase-out.
- Low preference utilization in the existing preference giving countries.
- However, preferential markets indicated promising signs.

Trend analysis



Essence of preferential market access

- For level playing field.
- To match with down trend in world apparel prices:
 - China's average price down by 48% (2001- 2004)
 - Price declined by 58% on items interest to Nepalese traders (cotton trousers and shirts)
- Can help off set higher output and transaction cost.
- To substitute losses in markets without preference.
- Promising signs in EU. But.....??
- Should wait for US TRADE Act 2005?

Erosion of preferential margin

- Preferences not binding and subject to conditions.
- Lack of fabric base to restrict preference utilization.
- Preference margin would depend on NAMA negotiation under DDA.
- Output and cost efficiency in other LDCs to subside Nepal's duty advantage.
- Constraints to supply efficiency.

Sustaining Nepalese Garment Industry After Quota Abolition

Assumption of standard costing format for apparels

| Description | Cost per pc of garment (Men's cotton trouser) | In percentage |
|--|--|---------------|
| 1. Total raw material/accessories cost | US \$ 2.61 | 61.41% |
| 2. Import expenses | US \$ 0.08 | 1.88% |
| 3. Labor cost | US \$ 1.24 | 29.17% |
| 4. Export expenses + Transport | US \$ 0.17 | 4.0% |
| 5. Financing cost | US \$ 0.07 | 1.64 |
| 6. Sales commission | US \$ 0.08 | 1.88% |
| TOTAL COST | US \$ 4.25 | 100% |

Facing post MFA challenges

- **Exploitation of market access opportunities**
 - Two separate marketing strategies.
- **Consolidation of production capacity**
 - Establishment of the garment processing zone (GPZ) for industry clustering.
- **Adaptation to the changing trade environment:**
 - Capacity building and institutional arrangement for perceiving rules related to MTS and RTA/FTA.
- **Coalition of LDCs**
 - For binding of preferential market access.

Thank you!

