

Chapter 6

Trade Policy and Its Implications for Sourcing Fashion Goods

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ABSTRACT

This chapter builds on trade data and a wide range of existing research in the Global Value Chain (GVC) and international economics literature, to highlight the importance of trade policy to sourcing decisions in the fashion sector. Using the EU as an example, it highlights how preferential access through unilateral or bilateral trade regimes, provides incentives to source fashion goods in certain countries and how the conditions attached to market access can impact, both on sourcing and on governance in producing countries. Finally, the issue of anti-dumping action and its actual and potential impacts on the fashion sector is explored. The chapter concludes with some observations on the growing importance of effective oversight of supply chains, in a context where retailers are increasingly being called to account for the impacts of their sourcing choices.

INTRODUCTION

Managers in the fashion sector often have only a partial or limited understanding of the trade policy environment and how it can provide both opportunities and challenges, as they seek to optimize the organization of their supply chains. Extensive research has been undertaken in both the Global Value Chain (GVC) tradition and in international economics, which explores the interaction between trade policy and trade flows and can provide important insights for company sourcing strategy. This work has focused in particular on the areas of preferential trade, the conditions which govern market access and anti-dumping.

This chapter brings together this existing research in order to give managers a better understanding of the different elements of trade policy which can affect company sourcing choices. The issues covered in this chapter were chosen because they have consistently been found by researchers to impact on trade

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flows. As it is companies which ultimately decide trade flows through their sourcing and investment decisions, it is clear that their strategies evolve in reaction to policy change. The research which we will summarize here is widely discussed in academic journals and conferences, yet it remains underexploited in international companies. Given the potential for trade policy to impact on cost structures and sourcing options in the fashion sector, it is important that managers pay greater attention to this factor when developing their global supply chain strategy.

The chapter will focus mainly on trade policy in the European Union (EU), the policy context which governs trade for all 28 member states of the EU. Most developed country markets use broadly similar policy instruments to encourage or discourage trade, although their workings and relevant exceptions often differ. Where relevant, key differences with the US system are highlighted, in order to provide some indication of the extent of these differences. In order to understand how trade policy impacts on trade it is important to understand its structure and workings. Therefore, each section will provide an overall introduction to the policy context in the EU, as well as detailing existing research on their impacts, together with some up to date figures to help to put that research into context.

BACKGROUND

Trade policy has historically had a strong impact on the fashion sector, especially the clothing industry (Abernathy, Volpe & Weil, 2006; Gereffi, 1999; Spinanger, 1998). The links between trade policy and trade flows in the sector have been quite extensively studied and the chapter will draw on this work. Early work tended to focus on the impact of the quota system which restricted trade under the Multi Fibers Arrangement (MFA) and the ensuing Agreement on Textiles and Clothing (ATC), under which trade was slowly liberalized (Gereffi, 1999), as well as the likely impacts of that liberalization (Curran, 2008). The MFA established quota limits on imports to key markets from a number of suppliers and distorted trade in clothing extensively for many years. The objective of the system was to protect the domestic clothing and textile manufacturers of the key world markets – mainly the US and the EU – by limiting imports of certain products from the most competitive exporters. Retailers, whose traditional sources were constrained by quota, looked to new low cost suppliers to fulfil their requirements. As these new suppliers became more important, they in turn began to be constrained by quota limitations. Thus, over time the number of products and exporters covered by the system expanded, as the industry spread across an ever wider range of countries (Gereffi, 1999).

The end of the quota system in 2005 eliminated the most obvious distortions to trade in clothing products, but has not resulted in completely free trade. Trade policy still impacts on sourcing choices in the fashion sector (Abernathy et al. 2006; Pickles, 2012). Since the quota system was dismantled, academic work has focused on a wider range of factors which influence trade flows. The key factors which have been consistently shown to play a role are: the impacts of tariffs and preferential trade agreements (Abernathy et al, 2006; Frederick & Staritz, 2012; Pickles, 2012; Staritz, 2012), as well as the rules of origin that govern such market access programs (Azmeah & Nadvi, 2013; Frederik, Bair & Gereffi, 2014; Curran & Nadvi, 2015) and the effects of anti-dumping action (Curran, 2009; Eckhardt, 2011). It is these factors on which we will therefore focus in this chapter. The research on which we will draw underlines that, even within a relatively liberalized environment, trade policy still has important impacts. Companies need to understand these, if sourcing choices are to be optimal.

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