

## INTRODUCTION

The World Trade Report 2006 is the fourth in a series launched in 2002. The contribution we hope to make with these Reports is to aid understanding of complex trade policy issues facing governments.

This is not intended primarily as a prescriptive Report, but rather as an invitation to deeper reflection, and it is aimed not just at policy-makers but also the public they represent and the individuals and organizations that actively seek to influence government policies. In addition to the core topic, the Report also takes a brief look at recent developments in trade and discusses some salient features of recent trade developments or a particular aspect of trade. This year, the Report includes a brief look at trade in textiles and clothing.

The elimination of quota restrictions on textiles and clothing at the beginning of 2005 does not appear to have had a major impact so far on demand or domestic market conditions in the major importing markets – the United States and the EU. What has perceptibly changed, however, is the composition of market shares among exporting countries. China and India, along with a number of other relatively recent market entrants such as Jordan and Peru, have gained market share, while a number of other countries that benefited previously from preferential market access through quotas now account for lower shares. The quotas have only been off for a little more than a year and one should not be too categorical about how the situation will develop. A complicating factor in the analysis is the reintroduction of restrictions on China's exports. Overall, the changed situation raises a number of questions of a developmental nature that merit closer consideration.

## EXECUTIVE SUMMARY

*International textiles and clothing trade entered a new phase after the expiry of the Agreement on Textiles and Clothing in 2005. This implies likely long-term structural changes, but overall market conditions did not change much in the EU and the United States in 2005.*

The phase out of textiles and clothing quotas is likely to accentuate underlying trends towards the replacement of domestic production in high-income countries by suppliers from lower-income countries, in particular China. However, the removal of quotas had a limited additional impact on textiles and clothing production, employment and price levels in the EU and the United States in 2005. This is explained partly by the fact that the sharply increased imports from some suppliers were partly offset by reduced supplies from the high-income East Asian economies and new export restraints on China's sales into those markets. With the exception of EU clothing output, production declines observed in preceding years continued without any deepening at the aggregate level. The decline of employment in the textiles and clothing industry did not accelerate, and prices of textiles and clothing in the EU and the United States largely remained flat, as in preceding years.

*However, shares in sales of textiles and clothing products to the US and EU markets changed in 2005.*

Shipments to the EU and the United States by some major suppliers that had benefited from the AT C quota system were partly displaced by increased supplies from other sources, in particular China, India, Turkey and Bulgaria. High income developing economies in East Asia recorded strong double-digit declines in their shipments to both the EU and US markets. While most of the preferential suppliers tended to lose market share, large variations in the development of shipments could be observed. In the US market, suppliers from AGOA and NAFTA recorded strong decreases in their shipments in 2005. Imports from Sub-Saharan Africa, Morocco and Bangladesh to the EU(25) decreased markedly in the first ten months of 2005.

## B SELECTED TRADE DEVELOPMENTS AND ISSUES

### 1. TRADE IN TEXTILES AND CLOTHING

The Agreement on Textiles and Clothing (ATC) came to an end on 1 January 2005. Much interest, not to mention concern, was expressed about the likely impact on production and trade of the removal of quota restrictions. It was apparent to most observers that there would be winners and losers from the additional liberalization. It is too early to say how the market will look beyond the relatively short period upon which we can base our observations, but this note looks at what we know so far about the pattern of trade that has emerged since the quantitative restrictions were (largely) removed. A caveat is in order here: there can be little doubt that the termination of the ATC affected the patterns of trade observed in 2005, but we have not developed a rigorous analytical approach to the question of what other factors might also influence the pattern of trade flows.

International trade in textiles and clothing has played an important role in the development process of many countries and in their integration into the world economy. Today, the textiles and clothing sector accounts for a major part of merchandise exports of a large number of low- and middle-income countries. Developing countries as a group accounted for more than one-half of world exports of textiles and clothing in 2004. In no other category of manufactured goods do developing countries enjoy such a large net-exporting position. Exports of textiles and clothing continued to exceed agricultural exports in many developing countries and in the aggregate throughout the 2000-04 period. However, textiles and clothing is not a very dynamic product group, as its share in developing country merchandise exports has been declining rather steadily since 2000. The share was less than 10 per cent in 2004. Further liberalization of trade in textiles is of major interest for many developing countries as it improves market access in an area where many of them have comparative advantage. However, some developing country exporters who have benefited from preferential market access are concerned about increased competition resulting from further liberalization.

The quota restrictions that went with the ATC were in respect of imports of Canada, the European Union and the United States.<sup>11</sup> These three markets account for more than one-half of world textiles and clothing imports. The removal of quotas could therefore be expected to have a significant impact on global trade flows,<sup>12</sup> even though the end of the ATC quota regime did not represent the complete elimination of protection in these markets – relatively high tariff averages continue to be applied in the sector.<sup>13</sup> Nevertheless, the end of a special trade regime that had existed for more than 40 years for textiles and clothing marked an important step forward, both in terms of trade liberalization and the elimination of negotiated trade arrangements clearly in breach of key WTO rules.

At the beginning of 2005, China introduced an export tax on a number of textile products. The tax was increased in May and partly abolished in June after the United States and the EU sought new restrictions on exports of textiles and clothing from China, their most important single supplier. The legal basis for these new restrictions was Paragraph 242 of the Report of the Working Party for the Accession of China to the WTO. The new quotas apply until the end of 2007 for the EU and until the end of 2008 for the United States (see Box 1). Imports from all other (WTO) suppliers remained free of quantitative restrictions in the EU and US markets. Certain other countries also applied restrictions on Chinese textiles in 2005, using the special safeguard negotiated as part of China's terms of accession to the WTO. These actions have no doubt slowed down Chinese export expansion. In what follows, we shall examine what changes have occurred in the level and geographical composition of trade in textiles and clothing during 2005. We shall also review briefly what has happened to prices, production and employment in the EU and the United States in the post-ATC period.

<sup>11</sup> Norway previously restricted its imports under the ATC but had eliminated its last quotas by January 1, 2001.

<sup>12</sup> The EU and the United States each account for about one-fourth of world imports if EU intra-trade is excluded. The three markets combined accounted for 54 per cent of global textiles and clothing imports in 2004.

<sup>13</sup> Tariff averages in textiles and clothing (MFN simple applied rates) are significantly higher than for total non-agricultural products (e.g. Canada 11.3 per cent versus 4.0 per cent, EU 7.9 per cent versus 4.0 per cent and the United States 8.7 per cent versus 3.3 per cent). See WTO, World Trade Report 2005, Tariff Profiles.

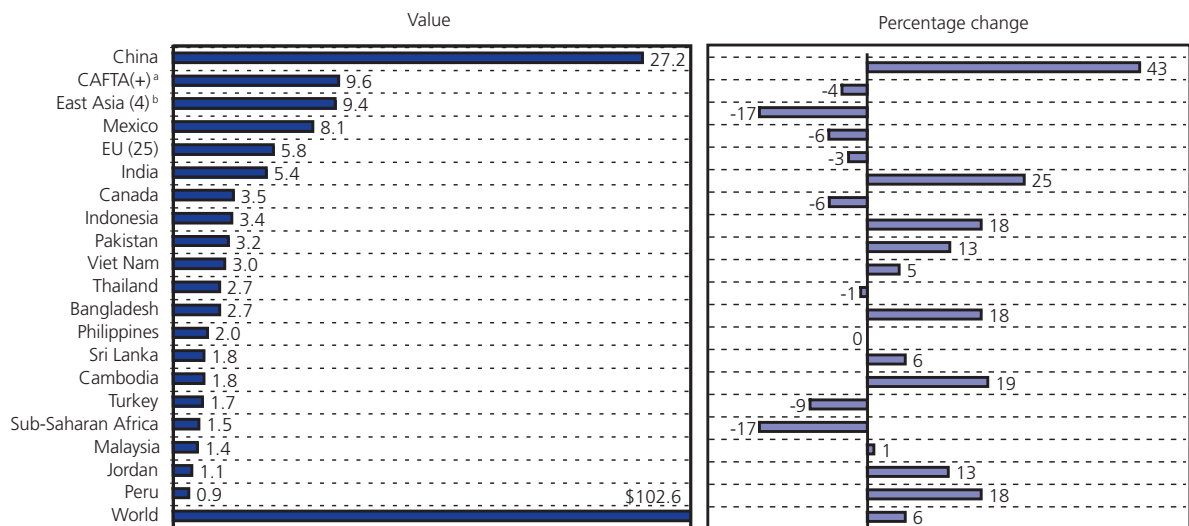
## (a) Textiles and clothing trade developments in 2005

Although the lifting of the ATC quotas created more favourable conditions for the expansion of world trade in textiles and clothing, trade in these products is estimated to have expanded in value terms by 5 per cent in 2005, compared to 12 per cent in 2004. This slowdown in 2005 is linked to the deceleration of economic growth in the developed countries and partly due to lower dollar prices as a result of exchange rate developments.<sup>14</sup> China's exports of textiles and clothing expanded by 21 per cent in 2005, which is marginally faster than in 2004 but not as fast as in 2003. China's share in global textiles and clothing trade has increased, reaching a new peak level in 2005 of 24 per cent if EU(25) intra-trade is included and 31 per cent if EU(25) intra-trade is excluded.

A review of textiles and clothing import developments in 2005 in the United States and the EU(25) shows that there was no acceleration in overall import growth, but that major shifts occurred among the principal suppliers in each market.

Imports of textiles and clothing<sup>15</sup> into the United States rose by 6 per cent in 2005, at about the same rate as in 2004 (to US\$103 billion). The growth rates of imports from different suppliers exhibited considerable variation, ranging from an increase of 43 per cent for China to a decrease of 24 per cent from the Republic of Korea. Data on US imports presented in Chart 1 show that – besides China – seven suppliers (five in Asia – India, Indonesia, Pakistan, Bangladesh and Cambodia – plus Jordan and Peru) expanded their shipments at double-digit growth rates, while high-income developing economies in East Asia<sup>16</sup> recorded a drop of 17 per cent in their exports to the United States. Imports from various preferential suppliers decreased by different degrees. While US imports from Sub-Saharan Africa shrank by 17 per cent, those from NAFTA member states decreased by 6 per cent and those from CAFTA member states plus the Dominican Republic declined by 4 per cent. According to the data provided in Chart 1, many suppliers gained market share but none expanded their share as strongly as China. On the other hand, many suppliers have seen their shares shrinking and some of them also experienced absolute reductions in their shipments.

**Chart 1**  
**United States imports of textiles and apparel by country and region, 2005**



<sup>a</sup> Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua.

<sup>b</sup> Hong Kong, China; Republic of Korea; Macao, China; and Chinese Taipei.

Source: US Department of Commerce, Bureau of the Census, International Trade Statistics.

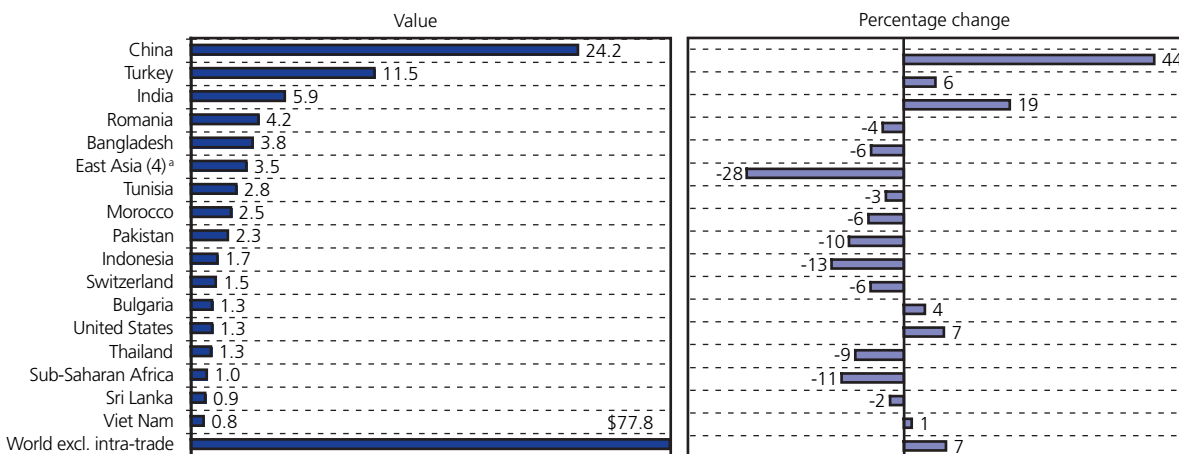
<sup>14</sup> The euro/dollar exchange rate decreased by 9 per cent in 2004 which inflated intra-European trade flows measured in dollar terms. In 2005, however, the euro/dollar rate remained on average unchanged from the preceding year.

<sup>15</sup> For the analysis of textiles trade various definitions are found. In this overview the textiles product categories are defined according to the Standard International Trade Classification, Revision 3 as is the practice in the regular WTO publications, International Trade Statistics and the World Trade Report. Textiles are defined as SITC Division 65 and clothing as SITC Division 84.

<sup>16</sup> Hong Kong, China; Republic of Korea; Macao, China and Chinese Taipei.

Looking at the EU(25) import market<sup>17</sup> for textiles and clothing in 2005, one finds some traits similar to those observed in the case of the United States. First, the overall increase in the first ten months was nearly 7 per cent. This growth rate was as strong as that of the United States but less than in 2004. Second, as in the case of the United States, the biggest import increases are reported for China and India. Third, large import decreases are observed for the four high-income developing East Asian economies and the Sub-Saharan economies.<sup>18</sup> EU(25) imports from geographically proximate major preferential trading partners recorded a mixed performance, with moderate import increases from Turkey and Bulgaria contrasting with lower supplies from Romania, Tunisia and Morocco. In contrast to the double digit increases in United States imports, EU(25) textiles and clothing imports from Bangladesh, Cambodia, Indonesia and Pakistan decreased in 2005 (see Chart 2).

**Chart 2**  
**European Union(25) imports of textiles and clothing by country and region, January-October 2005**



<sup>a</sup> Hong Kong, China; Republic of Korea; Macao, China; and Chinese Taipei.  
 Source: Eurostat.

A rapid rise in the import share of previously restricted suppliers was widely expected. In the case of China, developments in 2005 only accentuated an existing trend towards a larger share of Chinese exports in world trade. This trend could already be observed during the last four years or more. Over the same period, the high-income developing economies in Asia as well as the developed countries recorded a decline in their trade share (see Chart 3 and Chart 4 on US imports). In other words, the sharp rise in US and EU imports of textiles and clothing products from China largely reflects a shift among suppliers.

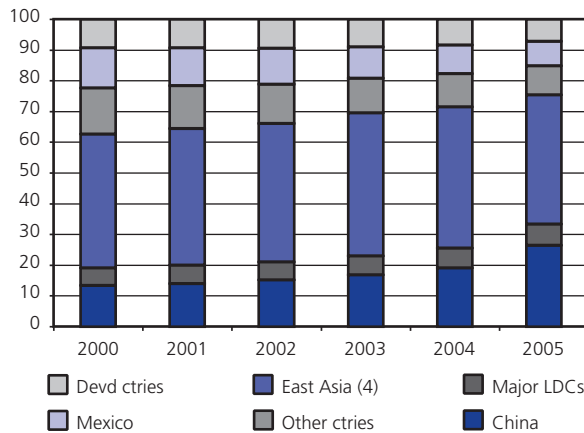
A review of the overall level of imports conceals more disruptive changes at a disaggregated level. The surges in imports of certain textiles and clothing categories observed in the early months of 2005 were concentrated on a subset for which the ATC quota restrictions had severely limited Chinese exports until the end of 2004. In the seven product categories for which the United States invoked safeguard actions and implemented new quantitative restrictions, the share of China in US imports was less than 4 per cent on average (in value terms) in 2004. In some other categories which had been less restricted, such as infants' apparel and gloves, China's share in US imports exceeded 50 per cent in 2004. It is therefore no surprise that for the group of tightly restricted categories, US imports from China tripled in the first nine months of 2005. For all the other categories, US imports from China increased by 46 per cent over the same period. In the EU, a surge of 168 per cent in the dollar value of imports occurred in the first quarter of 2005 in respect of the nine categories for which safeguard actions were taken in May, compared with an increase of only 17 per cent for all the remaining categories. Again, the share of China in EU(25) extra-regional imports was less than 10 per cent for this group of products in 2004.

<sup>17</sup> Excluding EU(25) intra-trade, which accounts for about one-half of EU(25) total imports decreased by 2 per cent in the first ten months of 2005.

<sup>18</sup> Large variations in import growth could be observed among the Sub-Saharan countries. EU(25) imports from Madagascar rose by 15 per cent to US\$200 million, decreased by 15 per cent from Mauritius, the largest supplier in Sub-Saharan Africa, and by 18 per cent from all the other countries combined.

**Chart 3**  
**Regional structure of United States' textiles imports by region, 2000-05**

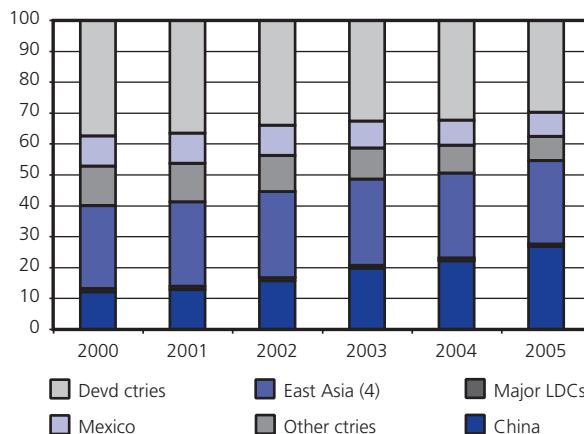
(Percentage shares)



Major LDCs (6): Bangladesh, Cambodia, Lesotho, Madagascar, Haiti and Nepal.  
East Asia (4): Hong Kong, China; Republic of Korea; Macao, China; and Chinese Taipei.  
Developed Countries: Canada, Europe, Australia, Japan and New Zealand.  
Source: UNSD Comtrade database and US Census Bureau, US International Trade Statistics.

**Chart 4**  
**Regional structure of United States' clothing imports by region, 2000-05**

(Percentage shares)



Major LDCs (6): Bangladesh, Cambodia, Lesotho, Madagascar, Haiti and Nepal.  
East Asia (4): Hong Kong, China; Republic of Korea; Macao, China; and Chinese Taipei.  
Developed Countries: Canada, Europe, Australia, Japan and New Zealand.  
Source: UNSD, Comtrade database and US Census Bureau, US International Trade Statistics.

The impact of restrictions on Chinese exports in the United States and the European Union was still limited in the third quarter. China's exports of textiles and clothing to the world increased by 26 per cent on a year-to-year basis in the third quarter, which was somewhat faster than in the first half of 2005. However, in the fourth quarter, the expansion of China's textiles and clothing exports slowed down markedly, to 12 per cent.

Textiles and clothing sales by China to the European Union expanded in the third quarter of 2005 by nearly 50 per cent, somewhat faster than in the first half, while in the United States a deceleration in the growth of imports from China could already be observed in the third quarter of 2005. The share of China in US textiles and clothing imports stabilized at 27 per cent in the third quarter of 2005 and decreased thereafter.

The reintroduction of quantitative limits on a single supplier has been justified by the importing countries in terms of the threat of market disruption. One element of market disruption concerns production and employment in the home market. Chart 5 shows the evolution of US textiles and apparel production since 2000. Between 2000 and 2004, US textiles and apparel production was shrinking in each year with one single exception (the stagnation of output in 2002). In the first six months of 2005, US apparel production was declining on a year-to-year basis by 6.5 per cent, slightly more than in 2004, but less than in each year since 1999. With respect to textiles output, the decrease was limited to 2.2 per cent, a lower rate than in the preceding year. In the second half of 2005 the output decline was reduced, leading to an average annual decline in 2005 smaller than in 2004. Employment in the United States textile and clothing industry has been steadily declining over the last ten years, with the decline more pronounced in clothing than in textiles. In clothing, employment decreased by more than two-thirds, from 820,000 in January 1995 to 280,000 in October 2005. Although US employment in apparel decreased further in the first half of 2005 – by nearly 10 per cent from the

preceding year's level – this decline was still somewhat less dramatic than the average decline observed over the last 10 years. Both employment and production data point to a major long-term structural decline in the US textile and apparel industry, which selective restrictions on imports have been able to delay somewhat, but have not arrested.

Textiles and clothing production in the EU also recorded a marked downward trend in the 2000-2004 period (Chart 6). The cumulative decline in production for the four years was 15 per cent for textiles and 25 per cent for clothing. In the first half of 2005, the production decline was steeper than in the preceding year (with a decline of 5 per cent in textiles and 10 per cent in clothing). In the third quarter, following the introduction of new restrictions on imports, the rate of decline decreased somewhat (to 4 per cent and 8 per cent, respectively). As regards EU employment, the decline observed over the 2000 to 2004 period was more pronounced in textiles than in the clothing industry. These divergent trends continued in the first half of 2005, as the decrease in textiles employment slowed down while that in the clothing industry accelerated, reaching 7.6 per cent over the year in the second quarter.

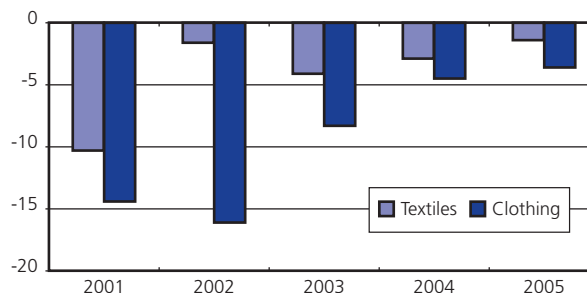
Both production and employment data indicate that the competitive situation of the textiles industry in Europe and the United States is more favourable than that of the clothing industry. Three factors might explain this. First, textiles production is far more capital-intensive than clothing, which reduces the advantage low-wage countries have *vis-à-vis* high-income countries. Second, some textiles production is destined to product markets (such as technical textiles) which exhibit stronger demand growth than is the case for clothing.<sup>19</sup> Third, preferential trading arrangements with specific rules of origin tend to support the textiles industry located in these two markets.

Price developments in international trade in textiles and clothing can be observed at different levels. Looking at overall import prices of textiles and clothing, one observes that the import prices of the United States (and Germany) in these two categories evolved slightly faster than those of all manufactured goods between 2000 and 2004. Prices of textiles increased somewhat faster than those of clothing (Table A28, ITS 2005). In the first nine months of 2005, US import prices for textile and clothing from all sources remained basically unchanged, while prices of other manufactured goods increased slightly over the preceding year's level. This price information does not support the view that the lifting of the quotas had a marked downside impact on prices at an industry level. However, investigations at the detailed product level (at which the safeguard actions were examined) revealed that the unit price of products originating from China decreased sharply in 2005. Despite their steep decline, unit values of Chinese goods did not necessarily fall below the prices of similar goods imported from all other sources in 2005 – in most cases the Chinese prices were higher in 2004. Despite their decline, Chinese unit values remained higher than those from all other sources in three out of seven textiles categories during the first nine months of 2005. The impact of China on average US import prices from all sources was moderate. In four out of seven categories, average unit values decreased between 1 per cent and 5 per cent and increased in one category by 3.5 per cent. For cotton yarn, however, the average unit value fell by 17 per cent. This decline is largely attributable to the fall in cotton prices over the same period. In general, increased imports of Chinese goods only exerted moderate downward pressure on the prices of textile goods in the US market.<sup>20</sup>

<sup>19</sup> "It is estimated that technical textiles are growing at roughly twice the rate of textiles for the clothing industry, where growth rates have been about 2 per cent a year in recent years" (Audet, 2004).

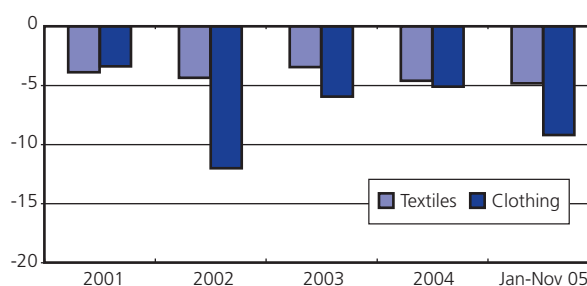
<sup>20</sup> US retail prices of apparel decreased by less than 1 per cent in 2005 or half the average annual decline recorded in the four preceding years.

**Chart 5**  
**United States textiles and clothing production, 2001-05**  
(Percentage change)



Source: Board of Governors of the Federal Reserve System, Federal Reserve Statistical Release January 17, 2006 (available at [www.federalreserve.gov/releases/G17](http://www.federalreserve.gov/releases/G17)).

**Chart 6**  
**European Union(25) textiles and clothing production, 2001-05**  
(Percentage change)



Source: Eurostat.

The moderate impact of the sharp rise in imports of Chinese textiles on price levels is also confirmed for the EU market. According to the EU Commission, retail prices recorded small changes. Producer prices remained flat in the textiles industry and increased marginally for clothing. In the first nine months of 2005, producer prices increased slightly faster than in 2004. Overall price stability at the retail and producer level contrasts with the observed decrease in the import unit values of textiles and clothing goods from China, for which safeguard actions were initiated in May 2005. For the nine categories involved, price declines measured in euro terms ranged from -5 per cent to 36 per cent, and averaged 22 per cent (arithmetic average). One explanation for the limited impact of China on the overall price level might be found in the value of imports from China in these categories (€5.3 billion) compared to total EU(25) textiles and clothing imports (€54.5 billion). Prices of non-monitored textiles imports from China, which amounted to €11.1 billion, have probably been more stable than prices of monitored goods.

The expansion of global textiles trade in the years to come will be driven primarily by the rise of consumer expenditure in the United States and Europe. Consumer expenditure on clothing (and shoes) in the United States expanded much faster than overall consumption over the last three years, underpinning import growth. It is not certain that this dynamic growth can be maintained. The new quotas introduced in 2005 will cap the expansion of Chinese textiles sales to the US and EU markets in 2006 and 2007. However, the annual growth rates of these quotas are well above past import demand trends, so China's share of imports in these two markets can be expected to increase over the next few years. This implies that competitive pressures on the world's largest import markets for textiles and clothing will prevail.

### Box 1: Selected Trade Policy Actions in the Textiles Sector in 2005

#### United States:<sup>1</sup>

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|------------|---|
| April 27   | The (US) Committee on the Implementation of the Textiles Agreement (CITA) agreed to consider the requests for safeguard actions on imports from China for seven categories of textiles and apparel products. The public is invited to comment on this request in the review process. <sup>2</sup>   |
| May 23     | CITA requests bilateral textile negotiations with the government of China and establishes limits on imports of (seven) textile categories originating from China. Quotas limiting imports start on May 23 and extend through December 31, 2005. The consultations and the implementation of quotas are based on paragraph 242 of China's Accession Agreement to the WTO. This paragraph allows WTO Members who believe that imports of Chinese origin textile and clothing products are causing market disruption and threatening to impede the orderly development of trade in these products to request consultations with the government of China with a view to ease or to avoid such market disruption. Upon receipt of the request, China agreed to hold its shipments to a level not greater than 7.5 per cent above the amount entered during the last 12 months. |
| November 8 | Memorandum of Understanding (MOU) is signed by the United States Trade representative and the Minister of Commerce of the People's Republic of China. Its objective is to limit exports from China and imports into the United States of Chinese origin textile and apparel products in 2006, 2007 and 2008. For 21 categories, quantitative levels are fixed for each year. The 2006 quotas allow for an increase of between 173 per cent and 640 per cent between 2004 and 2006 (for the most restricted categories). For all the products covered, the quantitative increases range from 12.5 per cent to 16 per cent in 2007 and between 15 per cent and 17 per cent in 2008.   |

#### European Union:<sup>3</sup>

- |          |   |
|----------|---|
| April 29 | European Commission starts investigations for evidence on market disruption caused by imports from China in nine textiles categories. |
|----------|---|

- May 25 European Commission engages in formal consultations with the government of China according to paragraph 242 of China's Accession Agreement to the WTO with a view to addressing market disruption.
- June 10 Memorandum of Understanding (MOU) between the European Commission and the Ministry of Commerce of the People's Republic of China on the export of certain Chinese textiles and clothing products to the European Union is signed. This MOU limits China's textiles export growth to the European Union for ten categories for the years 2005, 2006 and 2007. Annual quantity growth rates range for most categories from 10 per cent to 12.5 per cent from the import level of a base year, April 2004 to March 2005.<sup>4</sup> The European Commission agrees to exercise restraint concerning the application of the EU rights under Paragraph 242 for the textile categories which are not restricted until 2007, and for all textile products in 2008. In contrast to the MOU between the US and China, no quantitative limits are set on China's textiles exports to the European Union for 2008.

***China:***<sup>5</sup>

- January 1 China's Ministry of Finance unilaterally introduces a specific export duty on 148 (8-digit) textiles and clothing products.
- May 20 Ministry of Finance announces that, effective 1 June 2005, export taxes would be increased for 74 textiles and clothing products (8-digit level), reduced for 3, removed for 2, and one more product was added.
- May 30 Effective 1 June 2005, China revoked the export duties on 79 textiles and clothing products.
- June 10 China's Ministry of Commerce signs a MOU with the EU Commission.
- July 21 The peg of the Chinese currency to the United States dollar is replaced by a peg to a currency basket which leads to a moderate appreciation of the Renminbi.
- July 25 China announces the removal of export taxes on 17 textiles and clothing products, which are subject to quantitative restrictions based on the MOU with the EU Commission.
- November 8 China's Ministry of Commerce signs a MOU with the United States Trade Representative.
- December 13 Ministry of Finance announces that it will suspend all export taxes on textiles products by January 1, 2006.

***Other developments:***

- In the first half of 2005, 14 anti-dumping investigations were initiated and notified to the WTO in the textiles sector (HS Section XI), two less than in the first half of 2004. No initiations of countervailing measures are reported in this sector in the first six months of 2005
- September Colombia notifies the WTO of provisional safeguard measures on the imports of textile products originating in China. (Measures taken are based on the transitional product-specific safeguards provided in China's WTO Accession Protocol).
- December Brazil discusses restrictions on China's textiles exports to Brazil, according to press reports. (February 14, 2006 an export restraint agreement was signed, covering eight categories (comprising 70 products), which will be in effect until the end of 2008.)

<sup>1</sup> Information on US trade policy actions is taken from the website of the United States Office of Textiles (<http://otexa.ita.doc.gov/msrpoint.htm>) and that of the United States Trade Representative [http://www.ustr.gov/Trade\\_Sectors/Textiles\\_Apparel/Section\\_Index.html](http://www.ustr.gov/Trade_Sectors/Textiles_Apparel/Section_Index.html).

<sup>2</sup> In the second half of 2004 several similar requests had not been accepted for consideration by CITA.

<sup>3</sup> Information on EU trade policy actions is taken from European Commission website [http://europa.eu.int/comm/trade/issues/sectoral/industry/textile/index\\_en.htm](http://europa.eu.int/comm/trade/issues/sectoral/industry/textile/index_en.htm)

<sup>4</sup> For two categories (4 and 115) the base year is March 2004 through April 2005, and for three other categories (5,6 and 7) the annual growth is limited to 8 per cent in 2005.

<sup>5</sup> China Ministry of Commerce (<http://english.mofcom.gov.cn/>), China Ministry of Finance (<http://www.mof.gov.cn/index.htm>) and other sources.