

The changing demand for apparel in New Zealand and import protection

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Abstract

New Zealand import protection has been reduced from amongst the highest in the developed world in the 1980s to about the OECD average in 1999. At that point, Government stopped further reductions that had been planned. That policy has left import protection on apparel goods (clothing and footwear) at high levels and restricted imports from many important trading partners, particularly in Asia. Future import protection in apparel goods may need to be revisited as New Zealand continues negotiations on free trade agreements with China and other countries. This paper reports on consumer demand elasticities estimated over the last 20 years for apparel items purchased by New Zealand households that would be useful in evaluating further reductions in import protection.

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1. Introduction

The standard textbook explanation for continuing protection against imports of clothing and footwear products, apparel, in higher income countries is largely couched in distributional terms. The (almost Rawlsian) argument goes that apparel is produced at home by lower income workers and demanded by all consumers. So, while there are efficiency gains to be made from unilateral free trade in these goods, the balance of distributional effects means that lower income workers benefit from continuing tariffs, quotas and anti-dumping actions, more

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than lower income consumers lose. Infant industry and regional development arguments are also used.

The story has been generally accepted in New Zealand and has led historically to widespread import protection against apparel imports, particularly from Asia. The protection afforded the apparel sector in New Zealand took the form of import selection often with specific tariffs applied, and by anti-dumping duties. The level and type of protection over a long period of time in New Zealand¹ induced structural changes that strongly influenced consumer choice—and in interesting ways. For example, the ad valorem equivalent tariff on expensive shoes was often lower than on cheaper shoes, with obvious distributional consequences. It created an incentive in New Zealand to produce less expensive shoes—that is where New Zealand's comparative disadvantage was the strongest.

Gibson and Lattimore (1991) provided evidence that cast doubt on the producer and worker benefits of import protection up to 1981 by showing that small regional economies and more labour intensive firms were not the major beneficiaries of the import protection policy. Deardorff and Lattimore (1999) reinforced these conclusions by showing that the import substitution sector (including apparel) of the New Zealand economy tended to employ relatively higher qualified (skilled) workers than the exportable sector. Accordingly, by Stolper–Samuelson, lower waged workers would benefit from trade liberalisation rather than import protection.

Over the last 25 years, import protection for the apparel and all other import-competing sectors has been significantly reduced in New Zealand but it has been most gradual in the case of apparel, WTO (2003) and Lattimore (2003).² In fact, the studies just cited demonstrate that apparel is one of the few areas where there are still significant tariffs in New Zealand: a pattern that mirrors that of many other developed countries. Not surprisingly, there is also evidence that tariff reductions in New Zealand have been accompanied by increasing anti-dumping actions and levies, Garcia and Baker (2005).

Import protection of the apparel industries by New Zealand and many other higher income countries has disadvantaged the growth prospects, through trade, of the developing countries with a comparative advantage in those commodities. Countries in this category—which happen to be mostly Asian—have been lobbying the higher income countries for easier access to their apparel markets. Liberalisation of the apparel trade takes on an added dimension in terms of employment of females in countries trying to increase the number of self-reliant female workers. In Asian garments industries, female workers typically form a large proportion of the workers, e.g. about 67% of the workers in the manufacture of wearing apparel in Bangladesh during the year 1999–2000 were females (Bangladesh Bureau of Statistics, 2005, Table 3.14). More recently, there have been a number of important world market developments that are increasing import pressure. The entry of China into the WTO world trading system and New Zealand's desire to negotiate a free trade agreement with that country, and others, means that further adjustments will need to be evaluated in the future.

The demand side of the welfare cost argument has received much less attention in New Zealand because there has never been a complete demand system model estimated for consumption goods, including apparel. Previous studies in New Zealand, e.g. Michelini (1999), estimated a one-stage demand system with apparel (or clothing) as one of the aggregate goods,

¹ Anti-dumping legislation from 1908 and an import selection policy (import licensing plus tariffs) from 1938.

² While average levels of import protection are significantly lower than they were, there are very distinct peaks in the New Zealand tariff. The WTO reported recently that the highest New Zealand tariff currently in force is a specific apparel tariff of 136%, WTO (2003).

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