

STUDY ON THE IMPLICATIONS OF THE 2005 TRADE
LIBERALISATION IN THE TEXTILE AND CLOTHING SECTOR

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STUDY ON THE IMPLICATIONS OF THE 2005 TRADE LIBERALISATION
IN THE TEXTILE AND CLOTHING SECTOR

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Major conclusions of the report

The **current situation** of EU T/C industry is characterised by an ongoing **deterioration of competitiveness** vis-à-vis increasing extra-EU imports of finished and semi-finished products, accompanied by a **deterioration of production volumes and employment**.

Three major factors account for this phenomenon.

- 1) Growing concentration of EU retail and EU clothing brands' increased focus on communication and branding lead the whole chain to adopt strategies providing **higher gross margins** : in most cases the strategies chosen are – at least partly – based upon cheaper sourcing.
- 2) Third country suppliers have been rapidly improving their level of quality and, though to a lesser extent, of their service. A great number of them are making investments in order to **upgrade the whole of their T/C chain**, integrate design and other high value functions and develop non-apparel textile ranges. In parallel high labour cost producers in Asia, such as South Korea, Japan, Hong Kong or Taiwan, increasingly rely on China as a long term cheap production base for their home market as well as their export markets, such as the EU.
- 3) Even though many firms of the sector have succeeded in building competitive advantages based on a high level of creativity, flexibility and innovation, still significant parts of the industry do display **too little product differentiation** vis-à-vis imports from low-cost countries, be it in terms of product or service. They are not yet sufficiently export oriented, especially as regards export markets with considerable growth potential.

As a consequence, large parts of the EU industry are threatened by the forthcoming liberalisation process. The **termination of the quota system is due to have a further negative impact on EU production** volumes and make the future look gloomier. The negative impact will be more moderate in the case of textile which is relatively little protected and in many cases differentiated vis-à-vis quota-restrained countries. Clothing production is likely to suffer more from liberalisation as it is both more protected and less differentiated. This will have an **indirect negative effect** on textile exports destined for OPT in neighbouring countries. In fact, the fall in clothing production volumes in the EU and the larger PanEuroMed zone explains much of the overall impact on textile production in EU.

The impact of liberalisation on **employment** is going to be negative and probably more so in the EU countries where the consumer market is not enough developed to create non-industrial job opportunities in the sector. On the opposite, in larger EU markets, a number of companies may be expected to compensate for a part of job losses in the T/C sector by job creations linked to an increased integration of retail (e.g. the opening of stores), and the development of design, marketing and sourcing activities.

The recommendations presented at the end of this report focus on the **need for T/C companies to thoroughly review their business strategies** for developing or keeping competitiveness, as well as on **strategies by public and private bodies to support companies** in their efforts. Price competition definitely no longer is a viable positioning for the EU. **Adding value to industry's activities** thus is the only way to retain a significant part of production within Europe and the wider PanEuroMed zone.

In view of this, two broad strategic axes have to be followed.

- 1) First, a higher value has to be generated through an improved relationship with end consumers – e.g. through a better understanding of their desires and requirements in terms of product and related services, and through an increase of fashion and/or functional content, and a development of communication and branding strategies.*
- 2) Higher value is also to be created through better relationships with retail and industrial customers. In the case of retailers the objective is to allow them to compensate for higher costs of goods (compared to the cost of direct imports) by faster stock turnover. With regard to industrial customers, the added value should be derived from better service and better understanding of their customer's objectives and requirements.*

Already today, a great deal of tools and instruments exist to help industry along those two strategic lines. But they are not sufficiently used by most companies.

*The primary objective to be attained is therefore to achieve a **change in the general attitude of companies and public and private support bodies** : to give up dependence on continued trade policy protection and replace it by a supportive industrial and trade environment. This could restore **confidence that industry is able to successfully compete** in a free and fair international trade environment, based on its main competitive advantages: passion, innovation, creativity, flexibility and a spirit of conquest both on its home market and on third markets.*

1 – THE PRESENT EU POSITION AND COMPETITIVENESS

THE PRESENT EU POSITION AND COMPETITIVENESS

This introductory chapter examines the various factors which strongly influence the EU situation in textile and clothing. By looking at the recent period (1995-2001 or 2002), it analyses the impact of gradual liberalisation on the industry's performance. It also provides some measurements of its competitiveness, be it by comparison with third countries or by comparison between the different segments of the EU T/C supply chain, in order to draw a contrasted picture with the areas of vulnerability. It finally focuses on the highly constrained quota categories in order to get a finer analysis of the EU position in view of the coming liberalisation.

Market trends

*The largest part of the industry is **heavily dependent on its home markets**. Private consumption as a percentage of consumers' budgets for apparel and home textiles is declining and represents an overall stagnating value. Technical textile is the only growing sector in volume but remains limited in size (22 % of production).*

*Therefore the major areas for growth are export markets. **Export demand** has been sustained for most products over the 1995-2002 period. However the USA and Japan display the same features as the EU consumer market : maturity and stability/ slight erosion. Which clearly points at NIEs and developing economies as the sole areas for expanding sales in the future.*

Recent industry changes

***Turnover of both textile and clothing industries has been growing** over the 95-2001 period (+1.1% per annum and 2.5 respectively in current value terms) in EU 15. They represent a decreasing share of GDP (1.4% and 1.0 in 2001) in EU 15. For accession candidates these percentages are often much higher.*

*Despite developing sales, **the falls in employment** remain sustained throughout Europe and are even faster in accession candidates than in EU 15.*

***T/C exports are increasing**. They represent some 60 % of production but intra-EU trade makes 61 % of them. Exports to the accession candidates represent a further 7% of the whole.*

***Value-added per employee has increased** in EU 15 due to industrial restructuring : + 1% a year in textile since 1995 and + 2% in apparel. This growth has been much more limited for accession candidates : the present VA per worker is approximately 5 000 Euros in accession candidates, 34 000 in EU 15 in textile and 25 000 in EU 15 in clothing. Investment has diminished in EU 15 : from 3.9% to 3.2% of turnover between 1996 and 2000.*

All these evolutions occurred while the industry was gradually liberalising its international trade. However the relative impact of each change in trade bilateral regimes is not possible to differentiate within the overall development of imports.

***OPT and other forms of delocalisation** have become dominant in the clothing sector, a little less so in textiles, where it is less easy to implement and less advantageous in cost.*

Competitive analysis

*The **EU overall deficit** in competitiveness in comparison with third countries (negative T/C trade balance of 30 Billion Euros in 2002) has almost doubled since 1995. The balance substantially varies according to products and trade partners : very high with **Nafta** and increasingly so, the surplus is*

*much smaller and eroding in the case of **Japan** (almost nil in textile). Not surprisingly **China** accounts for 41 % of the overall deficit and it grows fast. In terms of products the textile sector has a positive balance while the clothing sector displays a huge deficit (33 Billion Euros) both in woven and knitted clothing. For textile significant surpluses can be found in technical textiles and in apparel fabrics.*

***Internal comparisons between product categories** allow to evaluate the relative competitiveness of product groups or chains : technical textiles, low labour intensive apparel and cotton based items display performance levels which are better than average, while upstream textile activities like spinning and the synthetic system as a whole appear most vulnerable. The wool system presents a good level of competitiveness, but it is quite sensitive to demand. Clothing is already largely delocalised but as yet with little adverse impact on textile production in the EU.*

Binding quotas

*In general the EU industry commands **price levels** – for highly constrained categories – which are on average **twice as high as EU foreign suppliers’ prices**. However in some categories like tights, stockings, cotton and synthetic yarns, T-shirts and blouses, EU productions do compete more directly with imports, in very similar price brackets. Better differentiation and price premium can be generated on products like tailored clothing, knitted sweaters pants and jackets and on apparel fabrics.*

Some categories still under quota display both weak industrial performances (as per competitive analysis above) and high quota pressures, combined with low price differentiation. This is the case, in textile, for cotton and synthetic filament yarns and terry towels, and, in apparel, for blouses and hosiery. At the other end of the spectrum, apparel fabrics in general (especially for cotton and synthetic - discontinuous and continuous - fabrics), table linen, some categories of woven apparel like shirts and tailored clothing (men’s and women’s suits, women’s coats), bras and some knits like jerseys and trousers rank high in performance and price and quite low for quota pressure. Between those extremes the other categories are in positions of intermediate danger.

1.1 MARKET TRENDS

➤ EU MARKET : CONSUMPTION AND DISTRIBUTION

European T/C industry operates on three major markets : **apparel** (which, according to CIRFS represented in 2000 46% of total T/C production in Tons) **interior and household** (32%) and **technical** textiles (22%). The first two segments are predominantly geared towards consumer markets (fashion, home decoration) while the largest part of the third segment focuses on industrial and professional applications, and on contract businesses.

As a whole one can estimate that in Europe and in the developed economies,¹ the consumer market represents 70% of the total, professional markets (i.e. intermediate consumption) around 30%. As consumer markets are mature they are little sensitive to the economic cycle, except in the luxury segment. As can be seen in the table below, their overall growth is quite limited especially on the most

Table 1: Evolution of clothing consumption in EU and major markets

Countries	Clothing consumption expenditure - millions Euros			Average annual growth rate (% current Euros)	Clothing : share of total consumption expenditure (%)		
	1995	2000	2001	1995-2001(00)	1995	2000	2001
Austria	5 951	6 542	6 754	2.1%	5.9%	5.6%	5.5%
Belgium	5 985	5 712	5 314	-2.0%	5.4%	4.4%	4.0%
Denmark	2 922	3 296	3 287	2.0%	4.3%	4.1%	4.0%
Finland	2 012	2 412	2 575	4.2%	4.1%	3.8%	4.0%
France	28 851	30 368	30 797	1.1%	4.4%	3.9%	3.8%
Germany	62 180	62 649	63 859	0.4%	6.1%	5.5%	5.5%
Greece	6 118	8 113	na	5.8%	8.9%	8.9%	na
Ireland	1 563	2 817	2 969	11.3%	5.9%	5.9%	5.8%
Italy	37 644	52 127	55 324	6.6%	7.5%	7.3%	7.5%
Netherlands	8 253	9 371	na	2.6%	5.4%	5.1%	na
Portugal	3 563	4 799	4 992	5.8%	6.7%	6.4%	6.5%
Spain	14 999	19 105	na	5.0%	5.4%	5.0%	na
Sweden	4 000	5 595	5 363	5.0%	4.5%	4.7%	4.8%
U.K.	29 787	50 273	52 413	9.9%	4.5%	5.1%	5.2%
EU 15 (Excl. Lux)	213 828	263 179	ns	4.2%	5.8%	5.4%	ns
USA (2)	180 199	335 538	na	5.5%	4.7%	4.6%	na
Japan (1)	133 367	141 983	na	-3.2%	6.1%	5.1%	na

(1) Japan : IFM estimate from footwear-clothing total ; YGR in current yens

(2) YGR in current US\$

na : not available ns : not significant

Sources : Eurostat (EU countries except Lux) - OECD (Japan - USA)

¹ Source : IFM-CTCOE estimate

developed consumption markets in Europe, in the USA and in Japan. In most countries the textile budget decreases as a percentage of household expenditures. This clearly shows that in terms of final consumption possibilities of growth can essentially be found in the development of NIEs and emerging economies. In those countries social mobility is high, which directly stimulates apparel consumption.

On the opposite, industrial and professional markets record higher growth rates (on average +6% in volume between 1998 and 2000 to be compared with -3% and stability for apparel and home textiles respectively) but they are also more sensitive to the economic cycle. As the European industry increasingly focuses on professional markets and on luxury consumer markets it becomes less vulnerable to price competition but increasingly so to economic fluctuations.

Technical textile is a growing industry which covers a wide variety of applications from high value specialties such as prosthetic and orthopedic products to high volume low value materials like polyolefin fabrics or agricultural protective non-wovens. It does also cover special markets with specific logics as more technical applications of clothing (medical, sportive, workwear), interior (flame-retardant curtains) and household textiles (hospital linen). Most of the industrial and professional markets are still fragmented but some have begun to concentrate. This is the case for automotive textiles, industrial textiles, and also in workwear wherein large customers (public procurement) and textile rental firms control the market

➤ EXPORT MARKETS

The table below presents a detailed analysis of EU export markets per product group. These groupings provide a link between the industry-based ATC categories and corresponding market segments. Relative weights of each category in the total T/C exports are shown in column 3².

This analysis clearly demonstrates how dynamic market demands for EU technical and home textiles appear to be, in comparison to most other segments. Between 1995 and 2002, EU home textiles exports increased by 71%. However, EU home textiles exports represent only 4% of EU total T/C exports. Exports to the first client, the United States, represent 27% of the total amount, compared to 20% in 1995.

EU technical fabrics and finished items exports also recorded a strong growth : 76% between 1995 and 2002, the share in the EU total T/C exports rising from 10 to 12%.

Concerning apparel fabrics, the most important export product group (33% of EU total T/C exports), the recent trends emphasise the rising importance of Romania as a main clothing sub-contractor of the EU. Romania is, by far, the first country destination for EU apparel fabrics exports. The country represents 17% of EU apparel fabrics exports in 2002, that is an 8 point gain compared with 1995. As a result, the share of Tunisia and Morocco in EU apparel fabrics exports is no longer increasing. The whole PanEuroMed zone represents 71% of EU total apparel fabrics exports in 2002 and its importance has been improving in the past few years (the PanEuroMed share amounted to 64% in 1995).

In 2002, EU woven garments exports totalised 10.3 billion Euros, nearly twice as much as EU knitted garments exports. Exports to Switzerland declined, while exports to the United States recorded a small gain : They represent 14% of EU total apparel exports in 2002. Exports to Japan have undergone a sharp decline, they only represent 9% of EU total apparel exports in 2002, compared to 14% in 1995. China is by far the first clothing supplier of Japan. Chinese market share in total Japanese apparel imports reached nearly 80% in 2002, compared to 70% in 1999.

² The comparison of exports with production is unfortunately not possible as data on output value are not available for the totality of the ATC categories that are used to compute the various product groups.

Table 2: Products groups and areas definition

Product groups	Corresponding ATC categories
Raw materials	46,51,54,55,124,126,128,147,154
Yarns, threads and filaments	1,22,23,41,42,47,48,56,62,115,125 A,127 A,129,130 A,B,131,133,148 A,B
Apparel fabrics	2,3,32,35,36,37,43,49,50,53,61,62,63,65,117,123,135,136,137
Technical fabrics and finished items	33,34,67 A,76,90,91,93,94,95,96,97,98,99,100,101,109,110,111,114,121,122,134,139,140,145,146, A B C,153,163
Home textiles	9,19,20,38 A B,39,40,66,67,112,113,118,120,141,160
Woven garments	6,7,8,14,15,16,17,21,26,27,29,31,68,72,78,77,84,85,87,88,159,161
Knitted garments	4,5,10,12,13,18,24,28,69,70,73,74,75,83,86,156,157
Textile floor coverings	58,59
Others	60,61,125 B,127 B,132,138,142,144,149,150,151 A B,152
Third countries / areas	
EU	15 Member States
NAFTA	USA, Canada, Mexico
Japan	Japan
Greater China	China, Hong Kong, Macao
India	India
PanEuroMed	10 accession candidates, Bulgaria, Romania, Turkey, Morocco, Algeria, Tunisia, Libya, Egypt, Lebanon, Syria, Jordan, Israel, Gaza Croatia, Switzerland, Iceland, Liechten., Norway, Albania, Russian Fed, Armenia, Azerbaidjan, Belarus, Georgia, Kazakhstan, Kyrgy Moldova, Tadjikistan, Turkmenistan, Ukraine, Uzbekistan, ex Yugoslavia.
Other Asia	South Korea, North Korea, Taiwan, Singapore, Indonesia, Malaysia, Philippines, Thailand, Vietnam, Bangladesh, Pakistan, Sri Lanka Bhutan, Maldives, Nepal, Myanmar, Laos, Cambodia, Brunei, Mongolia
Rest of the world	all others
OPT	According to DG Enterprise: list to be included

Table 3: Geographical distribution of EU 15 exports

EXPORT EVOLUTION 1995-2002 FROM EU TO MAJOR PARTNERS in value (1 000 000 euros)

Product groups	Total Extra-EU			Total Extra-EU		Client 1		Client 2		Client 3		Client 4		Client 5	
	exports			exports		%		%		%		%		%	
	95	02	02/95	95	02	95	02	95	02	95	02	95	02	95	02
	Total Extra-EU			Share in total		Turkey		China		Czech Rep.		Poland		USA	
Raw materials	1 402	1 169	-17%	4,9%	2,8%	9	16	9	12	4	8	4	7	8	4
	Total Extra-EU			Share in total		Hong Kong		USA		Turkey		Poland		Czech Rep.	
Yarns, threads and filaments	1 992	2 549	28%	6,9%	6,1%	7	10	13	9	6	9	3	6	3	6
	Total Extra-EU			Share in total		Romania		Tunisia		Morocco		Poland		USA	
Apparel fabrics	9 730	13 650	40%	33,9%	32,8%	9	17	15	15	13	15	18	14	11	10
	Total Extra-EU			Share in total		USA		Poland		Czech Rep.		Switzerland		Turkey	
Technical fabrics and finished ite	2 839	4 996	76%	9,9%	12,0%	10	13	7	9	3	7	8	5	4	5
	Total Extra-EU			Share in total		USA		Switzerland		Czech Rep.		Romania		Poland	
Home textiles	1 015	1 732	71%	3,5%	4,2%	20	27	15	11	6	6	1	5	4	4
	Total Extra-EU			Share in total		USA		Switzerland		Japan		Russia		Romania	
Woven garments	7 034	10 308	47%	24,5%	24,8%	15	18	17	15	15	10	3	6	1	5
	Total Extra-EU			Share in total		Switzerland		USA		Japan		Russia		Tunisia	
Knitted garments	3 288	5 404	64%	11,4%	13,0%	18	14	10	12	13	7	2	7	3	5
	Total Extra-EU			Share in total		USA		Switzerland		Russia		Czech Rep.		Japan	
Textile floor coverings	1 111	1 250	13%	3,9%	3,0%	14	23	13	8	20	6	3	6	8	4
	Total Extra-EU			Share in total		USA		Poland		Switzerland		Romania		Czech Rep.	
Others	334	551	65%	1,2%	1,3%	14	11	6	8	9	6	2	6	3	5
	Total Extra-EU			Share in total		USA		Poland		Romania		Tunisia		Morocco	
Total textile	18 422	25 898	41%	64,1%	62,2%	10	11	8	8	4	7	5	6	5	5
	Total Extra-EU			Share in total		Romania		Poland		Ukraine		Bulgaria		Morocco	
Of which OPT	2 397	2 329	-3%	8,3%	5,6%	10	19	27	11	2	8	3	7	6	6
	Total Extra-EU			Share in total		Switzerland		USA		Japan		Russia		Romania	
Total apparel (woven + knitted)	10 322	15 712	52%	35,9%	37,8%	17	14	13	14	14	9	3	6	1	4
	Total Extra-EU			Share in total		Bulgaria		Czech Rep.		Romania		Poland		Albania	
Of which OPT	570	871	53%	2,0%	2,1%	17	20	9	16	15	16	17	8	2	5
	Total Extra-EU			Share in total		USA		Switzerland		Romania		Poland		Japan	
Total	28 744	41 610	45%	100%	100%	11	12	10	8	3	6	6	6	9	5

The next two tables table below present the relative weights of six major partner countries/groupings (India, PanEuromed, other Asia, NAFTA, Japan and Greater China) in the exports of the EU. The composition of the groupings are provided above.

EU exports in value are in majority established in destination of PanEuromed countries. The importance of that export market reinforced itself between 1995 and 2002 as 61% of EU exports go to PanEuromed countries (against 55% in 1995). Beside this regionalisation feature, the decline of Japanese and other Asian outlets also stands out, as the value of exports of EU products to these markets eroded from 16 to 10% between 1995 and 2002. While India turns out to absorb a negligible share of European textiles and apparels, the position of Greater China is stable with a 5% market share. Progression in exports has been made in NAFTA (especially for apparel) and in PanEuromed countries. Exports of EU apparel almost doubled to these two partner areas in value between 1995 and 2002, increasing from 1.6 to 2.7 billions euros to NAFTA and rising from 5.1 to 9.0 to the PanEuromed. In contrast to these high rates of increase, exports of EU apparel to other Asian countries and to China stagnated over the period. India stands out as a major exception to this stagnation, as exports of EU products increased threefold for apparel and twofold for textiles, from their very low 1995 level.

Table 4: Geographical distribution of EU 15 trade in value

TRADE EVOLUTION 1995-2002 FROM MAJOR PARTNERS INTO EU in value (1 000 000 euros)

Product groups	imports		imports		exports		exports		imports		imports		exports		exports	
	India	India	India	India	Pan Euro Med	PanEuroMed	PanEuroMed	PanEuroMed	Oth.Asia	Oth.Asia	Oth.Asia	Oth.Asia	Oth.Asia	Oth.Asia	Oth.Asia	Oth.Asia
	95	02	95	02	95	02	95	02	95	02	95	02	95	02	95	02
Raw materials	27	23	32	36	1 236	6 734	639	714	157	291	132	50				
Yarns, threads and filaments	338	438	7	9	1 323	1 886	962	1 417	593	705	105	114				
Apparel fabrics	372	416	19	80	1 789	2 408	6 246	9 758	1 446	1 674	670	676				
Technical fabrics and finished ite	44	479	21	36	1 026	2 020	1 490	2 840	190	316	233	275				
Home textiles	271	86	1	2	846	1 842	535	922	406	885	48	37				
Woven garments	1 139	1 341	2	6	9 190	15 181	3 216	5 626	2 806	4 696	441	427				
Knitted garments	430	885	1	3	3 991	8 609	1 849	3 350	2 122	4 878	180	226				
Textile floor coverings	242	232	1	6	245	347	648	624	177	145	73	62				
Others	86	105	3	4	63	96	168	324	54	61	12	26				
Total textile	1 378	1 779	83	172	6 528	15 334	10 687	16 598	3 023	4 076	1 273	1 239				
Of which OPT	0	4	5	6	553	368	2 234	2 107	76	100	20	21				
Total apparel (woven + knitted)	1 568	2 227	3	9	13 181	23 791	5 065	8 976	4 928	9 574	621	653				
Of which OPT	7	11	0	2	3 917	3 020	552	851	5	8	178	237				
Total	2 947	4 005	86	181	19 709	39 125	15 752	25 574	7 950	13 650	1 894	1 892				

TRADE EVOLUTION 1995-2002 FROM MAJOR PARTNERS INTO EU in value (1 000 000 euros)

Product groups	imports		imports		exports		exports		imports		imports		exports		exports	
	NAFTA	NAFTA	NAFTA	NAFTA	Japan	Japan	Japan	Japan	Greater China	Greater China	Greater China	Greater China	Greater China	Greater China	Greater China	Greater China
	95	02	95	02	95	02	95	02	95	02	95	02	95	02	95	02
Raw materials	315	247	121	80	83	108	50	37	266	340	150	157				
Yarns, threads and filaments	217	184	306	294	96	117	64	42	74	191	146	304				
Apparel fabrics	390	218	898	1 255	274	222	644	360	374	950	480	643				
Technical fabrics and finished ite	463	520	344	768	143	147	103	140	241	568	108	250				
Home textiles	69	87	225	510	8	12	57	45	316	795	15	36				
Woven garments	289	207	1 188	1 943	57	35	1 060	1 035	4 144	7 394	439	382				
Knitted garments	194	177	389	780	11	21	434	375	2 258	3 844	177	207				
Textile floor coverings	72	70	168	321	1	1	90	51	145	97	21	38				
Others	40	76	50	73	24	20	13	8	25	45	8	16				
Total textile	1 566	1 401	2 111	3 302	628	626	1 022	683	1 441	2 985	928	1 444				
Of which OPT	1	4	6	4	0	0	0	1	8	30	52	75				
Total apparel (woven + knitted)	483	384	1 577	2 723	69	56	1 494	1 410	6 401	11 237	616	589				
Of which OPT	4	5	1	0	0	1	0	0	124	128	10	9				
Total	2 049	1 785	3 688	6 025	697	682	2 515	2 093	7 842	14 223	1 544	2 033				

Table 5: Geographical distribution of EU 15 trade in percentage

TRADE EVOLUTION 1995-2002 FROM MAJOR PARTNERS INTO EU in value (1 000 000 euros)

Product groups	imports		imports		exports		exports		imports		imports		exports		exports	
	India	India	India	India	Pan Euro Med	PanEuroMed	PanEuroMed	PanEuroMed	Oth.Asia	Oth.Asia	Oth.Asia	Oth.Asia	Oth.Asia	Oth.Asia	Oth.Asia	Oth.Asia
	95	02	95	02	95	02	95	02	95	02	95	02	95	02	95	02
Raw materials	0%	0%	0%	0%	3%	9%	2%	2%	0%	0%	0%	0%	0%	0%	0%	0%
Yarns, threads and filaments	1%	1%	0%	0%	3%	3%	3%	3%	1%	1%	0%	0%	0%	0%	0%	0%
Apparel fabrics	1%	1%	0%	0%	4%	3%	22%	23%	3%	2%	2%	2%	2%	2%	2%	2%
Technical fabrics and finished ite	0%	1%	0%	0%	2%	3%	5%	7%	0%	0%	1%	1%	1%	1%	1%	1%
Home textiles	1%	0%	0%	0%	2%	3%	2%	2%	1%	1%	0%	0%	0%	0%	0%	0%
Woven garments	3%	2%	0%	0%	20%	21%	11%	14%	6%	7%	2%	1%	2%	1%	1%	1%
Knitted garments	1%	1%	0%	0%	9%	12%	6%	8%	5%	7%	1%	1%	1%	1%	1%	1%
Textile floor coverings	1%	0%	0%	0%	1%	0%	2%	1%	0%	0%	0%	0%	0%	0%	0%	0%
Others	0%	0%	0%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%
Total textile	3%	2%	0%	0%	14%	21%	37%	40%	7%	6%	4%	3%	4%	3%	3%	3%
Of which OPT	0%	0%	0%	0%	1%	1%	8%	5%	0%	0%	0%	0%	0%	0%	0%	0%
Total apparel (woven + knitted)	3%	3%	0%	0%	29%	33%	18%	22%	11%	13%	2%	2%	2%	2%	2%	2%
Of which OPT	0%	0%	0%	0%	9%	4%	2%	2%	0%	0%	1%	1%	1%	1%	1%	1%
Total	6%	6%	0%	0%	43%	55%	55%	61%	18%	19%	7%	5%	7%	5%	5%	5%

TRADE EVOLUTION 1995-2002 FROM MAJOR PARTNERS INTO EU in value (1 000 000 euros)

Product groups	imports		imports		exports		exports		imports		imports		exports		exports	
	NAFTA	NAFTA	NAFTA	NAFTA	Japan	Japan	Japan	Japan	Greater China	Greater China	Greater China	Greater China	Greater China	Greater China	Greater China	Greater China
	95	02	95	02	95	02	95	02	95	02	95	02	95	02	95	02
Raw materials	1%	0%	0%	0%	0%	0%	0%	0%	1%	0%	1%	0%	1%	0%	1%	0%
Yarns, threads and filaments	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	1%	1%	1%	1%	1%	1%
Apparel fabrics	1%	0%	3%	3%	1%	0%	2%	1%	1%	1%	2%	2%	2%	2%	2%	2%
Technical fabrics and finished ite	1%	1%	1%	2%	0%	0%	0%	0%	1%	1%	0%	1%	0%	1%	0%	1%
Home textiles	0%	0%	1%	1%	0%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%
Woven garments	1%	0%	4%	5%	0%	0%	4%	2%	9%	10%	2%	1%	2%	1%	1%	1%
Knitted garments	0%	0%	1%	2%	0%	0%	2%	1%	5%	5%	1%	0%	1%	0%	0%	0%
Textile floor coverings	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Others	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total textile	3%	2%	7%	8%	1%	1%	4%	2%	3%	4%	3%	3%	3%	3%	3%	3%
Of which OPT	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total apparel (woven + knitted)	1%	1%	5%	7%	0%	0%	5%	3%	14%	16%	2%	1%	2%	1%	1%	1%
Of which OPT	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	5%	2%	13%	14%	2%	1%	9%	5%	17%	20%	5%	5%	5%	5%	5%	5%

➤ CARPETS

An important sector in the EU industry is carpets. The carpet industry represents more than 25%³ of the turnover of the Belgian textile industry and more than 40% of the turnover of the Dutch textile industry. It is also a sizeable industry in Germany, the United Kingdom and the Czech Republic. The carpet industry is different by nature from other textile products. Its manufacturing is highly capital intensive, it requires a specific set of machinery and technologies. Geographic locations are not really influenced by the incidence of labour costs, but by the need to manage short lead times while reducing inventories. As such, the carpet industry is relatively sheltered against the impact of liberalisation in end markets and constitutes one of the **key areas of resistance** of the EU textile industry. However the positive impact on the industry as a whole is limited because it is not an alternative sector for other textile firms, and offers only a limited possibility of redeployment for textile workers as carpets require other skills. Moreover the carpet market is a mature market with low growth, a fairly high vulnerability to the economic cycle and to dynamic competition with other types of floor coverings.

The carpet industry is an important **market for yarn and fibre** productions (carded wool, polyamides and polypropylenes). However it requires different spinning techniques from those used in other textile branches, which brings the need for substantial investments in the event of market entry. On the whole there is little evidence that carpet manufacturing has a strong positive impact on yarn production. The only convincing case of re-employment concerns the Yorkshire (UK) wool industry, where carpet yarns have partly replaced apparel yarns. In Belgium there is evidence that carpet yarns are increasingly imported from the CEECs. This is confirmed by trade figures.

Therefore one may say that the carpet industry **softens the impact of liberalisation**, but only in regions where the sector is concentrated and represents a significant part of the regional activity. It does only offer little opportunities of redeployment of labour and/or capital. It has some positive impact on yarn production and contributes to a new division of labour with the CEECs. Last but not least it contributes to maintaining a supportive environment (training, associations etc.) to the whole industry in the regions with a strong concentration.

➤ NON-WOVENS

Non-wovens constitute an **increasingly complex reality** due to the wide variety of applications ranging from hygiene and personal care, interlinings and composites, to substitutes to classical textile substrates and to highly technical products. In all cases the technologies used are specific, the economies of scale are significant and oligopolies important. Other key success factors vary between product types and uses.

Some products are bulky, respond to just in time demands and require production to be located close to consumption markets. Some are very targeted and high-value added. As far as technical textiles are concerned non-wovens do offer major opportunities : as their applications essentially are outside the

³ See Statistical Appendix 1.

classical textile supply chain (filtration, automotive) they should not suffer from the coming T/C liberalisation.

Non-wovens used in apparel or in furniture are not bulky (except foam types) but derive an advantage from being produced near the areas of assembly. This is why large non-woven suppliers, especially in the interlining sector, have a “triad” strategy and have marketing and manufacturing operations in the three zones as well as in major production areas for these zones. The further delocalisation of EU clothing production as well as growing imports (especially from Asia) will possibly lead to further downsizing of interlining production in Europe. The social stake and risk involved is somewhat difficult to grasp in view of the classification of the industry. On the European level the impact on the interlining sector could jeopardise only some 2 000-3 000 people employed, due to highly automated production.

A major opportunity exists in non-woven substitutes for woven or knitted fabrics. These materials, e.g. developed by PGI (USA) and Freudenberg (Germany) have qualities of performance, touch and handle similar to wovens and can also be differentiated through finishing processes such as coating, lamination, printing. Non-wovens may also involve new processing methods such as welding, partly based on 3-dimensional fabrics. As non-wovens are much lower in production costs than wovens, and as the finishing process requires to be close to the final market, those new non-wovens create the opportunity for a **new pipe-line from fibre to end product.**

On the whole the non-woven sector may provide an opportunity for T/C redeployment especially for textile finishing and making up, but this would involve considerable research and development, investments in specific production technologies and market acceptance.

1.2 PRESENT STAKES AND RECENT TRENDS IN THE EU INDUSTRY

➤ OVERVIEW OF THE MAJOR STAKES

As can be seen in the table below, the textile and clothing industry still directly represents an important sector for the EU economy and employment. It is all the more true for the Member States for which figures are in bold .

This part of the analysis gives an overview of what is at stake throughout Europe. More detailed examination and data regarding turnover, employment, value-added etc and their evolution over the recent years are presented further down within this chapter.

Table 6: Major EU 15 T/C indicators

THE STAKES FOR EU 15

	T/C Turnover (2001)		T/C Employment (2001)		T/C Exports (2000 and 2001)	
	% of country's GDP	% EU T/C Turnover	% of country's manufacturing employment	% of EU T/C employment	% of country's exports of goods	% of EU T/C exports
Austria	1.7	1,7	4.7	1.4	3.8	2.5
Belgium	3.7	4,5	8.0	2.5	5.6	10.6
Denmark	1.0	0,9	2.9	0.6	3.5	1.8
Finland	1.0	0,6	2.6	0.5	n.a.	n.a.
France	2.1	14,4	5.3	9.6	4.1	12.5
Germany	1.2	12,1	2.6	8.9	3.6	20.5
Greece	1.8	1,2	15.0	2.0	12.3	1.3
Ireland	0.8	0,4	4.1	0.5	n.a.	n.a.
Italy	6.0	34,8	12.8	29.3	10.6	25.8
Netherlands	1.0	2,0	2.9	1.2	2.5	5.4
Portugal	6.6	3,9	27.1	10.6	18.2	4.4
Spain	2.6	8,2	9.4	11.4	4.4	5.1
Sweden	0.6	0,7	1.7	0.6	n.a.	n.a.
U.K.	1.4	10,4	5.5	10.1	2.9	8.5
EU 15 ⁴	2.4	100	7.4	100	3.8	100
TOTAL EU 15		(209 billions Euros)		(2 180 workers)		(102 billion Euros)

Sources : figures based on Eurostat statistics

⁴ UE 15 represents 94 % of EU 25's turnover, 75 % of employment and 85 % of exports.

Table 7: Major new members T/C indicators

THE STAKES FOR SELECTED NEW MEMBERS

	T/C Turnover (2001)		T/C Employment (2001)		T/C Exports (2000)	
	% of country's GDP	% EU T/C Turnover	% of country's manufacturing employment	% of EU T/C employment	% of country's exports of goods	% of EU T/C exports
Czech Republic	4,3	1,2	8.9	4.4	5.9	1.5
Estonia	8,5	0,2	19.8	0.8	11.3	n.a.
Hungary	2,7	0,7	12.8	3.6	5.7	1.3
Lithuania	5,8	0,3	24.5	2.1	15.9	0.6
Latvia	4,6	0,1	16.5	0.9	5.9	0.1
Poland	2,5	2,3	11.8	9.6	7.6	2.2
Slovenia	7,0	0,6	12.6	1.0	7.7	0.6
Slovakia	2,2	0,2	11.8	1.7	7.2	0.8
EU 25	2,4	100	8.2	100	7.1	100 %
(TOTAL)		(221 billion Euros)		(2.9 million workers)		(120 billion Euros)

Source : Eurostat.

Business stakes (turnover) and social stakes do not always correspond, as employment is gradually shifting from industrial positions (accounted in the above figures) to more service oriented jobs (sales and marketing in the broad sense), which are out of T/C statistics.

Italy stands out in terms of T/C importance, both as a part of the EU but also in its own economy and workforce. One should also stress upon Portugal's dependence on the sector under all aspects covered.

For what concerns the 10 new Member States, Poland, Hungary and the Czech Republic represent high stakes for the EU industry, stakes which are comparable to those within the EU 15 particularly for employment. However the ten candidates' dependence on T/C for employment and for exports is quite higher than in EU 15.

➤ **TURNOVER**

Within the EU 15 the industry's **turnover at current prices** is following a positive trend, + 1.1 % in the textile sector per annum between 1995 and 2001 and + 2.5 % for apparel. The second column of the table below reports the annual inflation of consumer prices of clothing and footwear (Eurostat) between 1995 and 2001. The EU 15 average inflation of prices in the clothing and footwear sector reached 0.2% annually over the period, underlining the fact that the EU 15 industry's **turnover at constant prices increases** between 1995 and 2001, though at a slightly lower rate: + 0.9% in the textile sector per annum and + 2.3% for apparel.

Performance has been above the EU average in current prices for the textile industries in Spain (4.9%), UK (3.4%), Netherlands and Sweden (2.5%), Italy (+2%), and Belgium (+ 1.9%), among the major players.

This contrasts with the poor performance in Austria and Germany (- 2.8 %) which is correlated with an extra-EU export performance significantly below the EU average.

For apparel, the EU performance contrasts more sharply with some Northern economies, such as Austria, Denmark, Germany and Netherlands, losing sales (- 3.7, -4.1,- 4.7 and – 5.6 % respectively per year over the period), while UK (5.1%), Italy (+5.4 %) and Spain (+ 5.5%) are leaders among those who have developed their turnover figure.

Table 8: Textile turnover in EU 15 and new members

TEXTILE TURNOVER current prices								
	YGR prices Clothing footwear	Turnover Million Euros		% evolution YGR 01/95	GDP Billion Euros		TO as % of GDP	
		1 995	2 001		1995	2001	1995	2001
Austria	-0,4%	3 120	2 628	-2,8%	179 810	211 688	1,7%	1,2%
Belgium	0,2%	6 639	7 419	1,9%	211 537	254 004	3,1%	2,9%
Denmark	-2,0%	1 171	1 205	0,5%	137 763	180 315	0,9%	0,7%
Finland	0,1%	624	695	1,8%	98 850	135 878	0,6%	0,5%
France	0,3%	16 705	16 706	0,0%	1 187 345	1 462 392	1,4%	1,1%
Germany	0,4%	18 357	15 469	-2,8%	1 879 370	2 069 321	1,0%	0,7%
Greece	4,4%	1 384	1 328	-0,7%	89 905	130 854	1,5%	1,0%
Ireland	-3,0%	565	533	-1,0%	50 839	114 330	1,1%	0,5%
Italy	2,0%	34 888	39 344	2,0%	838 809	1 215 645	4,2%	3,2%
Netherlands	0,8%	2 857	3 322	2,5%	317 115	428 736	0,9%	0,8%
Portugal	-0,1%	4 460	4 534	0,3%	81 954	122 592	5,4%	3,7%
Spain	1,5%	7 211	9 615	4,9%	446 621	651 031	1,6%	1,5%
Sweden	0,7%	975	1 128	2,5%	183 633	234 242	0,5%	0,5%
U.K.	-4,3%	10 898	13 340	3,4%	867 631	1 587 551	1,3%	0,8%
EU 15	0,2%	114 854	122 375	1,1%	6 571 183	8 798 578	1,7%	1,4%
	YGR prices Clothing footwear	Turnover Million Euros		% evolution YGR 01/98	GDP Billion Euros		TO as % of GDP	
		1 998	2 001		1998	2001	1998	2001
Czech Rep*	6,8%	1 454	1 876	6,6%	52 826	63 306	2,8%	3,0%
Estonia		189	233	5,4%	4 703	4 785	4,0%	4,9%
Hungary*	16,2%	556	612	2,4%	39 494	57 723	1,4%	1,1%
Lithuania		289	305	1,4%	9 338	9 946	3,1%	3,1%
Latvia		136	171	5,9%	5 414	6 193	2,5%	2,8%
Poland*	13,9%	2 127	2 675	5,9%	157 979	196 839	1,3%	1,4%
Slovenia		618	830	7,7%	17 310	17 394	3,6%	4,8%
Slovakia*	8,3%	186	256	8,3%	18 154	22 888	1,0%	1,1%
EU 25		120 495	129 434	1,8%	6 876 401	9 177 652	1,8%	1,4%
Bulgaria*		233	279	4,6%	11 478	11 635	2,0%	2,4%
Romania*		652	763	4,0%	29 271	29 369	2,2%	2,6%

Sources : figures based on EUROSTAT statistics; OECD

* Rate is the arithmetical average of consumer prices annual inflation rate between 1995 and 2001 (OECD).

Table 9: Clothing turnover in EU 15 and new members

CLOTHING TURNOVER current prices								
	YGR prices Clothing footwear	Turnover Million Euros		% evolution YGR 01/95	GDP Billion Euros		TO as % of GDP	
		1 995	2 001		1995	2001	1995	
Austria	-0,4%	1 166	929	-3,7%	179 810	211 688	0,6%	0,4%
Belgium	0,2%	2 043	1 996	-0,4%	211 537	254 004	1,0%	0,8%
Denmark	-2,0%	794	618	-4,1%	137 763	180 315	0,6%	0,3%
Finland	0,1%	602	615	0,4%	98 850	135 878	0,6%	0,5%
France	0,3%	12 107	13 359	1,7%	1 187 345	1 462 392	1,0%	0,9%
Germany	0,4%	13 045	9 791	-4,7%	1 879 370	2 069 321	0,7%	0,5%
Greece	4,4%	1 030	1 079	0,8%	89 905	130 854	1,1%	0,8%
Ireland	-3,0%	453	374	-3,1%	50 839	114 330	0,9%	0,3%
Italy	2,0%	24 259	33 342	5,4%	838 809	1 215 645	2,9%	2,7%
Netherlands	0,8%	1 080	762	-5,6%	317 115	428 736	0,3%	0,2%
Portugal	-0,1%	2 925	3 596	3,5%	81 954	122 592	3,6%	2,9%
Spain	1,5%	5 523	7 601	5,5%	446 621	651 031	1,2%	1,2%
Sweden	0,7%	326	336	0,5%	183 633	234 242	0,2%	0,1%
U.K.	-4,3%	6 226	8 372	5,1%	867 631	1 587 551	0,7%	0,5%
EU 15	0,2%	74 510	86 372	2,5%	6 571 183	8 798 578	1,1%	1,0%
	YGR prices Clothing footwear	Turnover Million Euros		% evolution YGR 01/98	GDP Billion Euros		TO as % of GDP	
		1 998	2 001		1998	2001	1998	2001
Czech Rep*	6,8%	540	827	11,2%	52 826	63 306	1,0%	1,3%
Estonia		110	175	12,3%	4 703	4 785	2,3%	3,7%
Hungary*	16,2%	604	965	12,4%	39 494	57 723	1,5%	1,7%
Lithuania		140	267	17,5%	9 338	9 946	1,5%	2,7%
Latvia		81	116	9,4%	5 414	6 193	1,5%	1,9%
Poland*	13,9%	2 084	2 287	2,4%	157 979	196 839	1,3%	1,2%
Slovenia		345	389	3,0%	17 310	17 394	2,0%	2,2%
Slovakia*	8,3%	208	239	3,5%	18 154	22 888	1,1%	1,0%
EU 25		80 070	90 765	3,2%	6 876 401	9 177 652	1,2%	1,0%
Bulgaria*		248	423	14,3%	11 478	11 635	2,2%	3,6%
Romania*		865	1 328	11,3%	29 271	29 369	3,0%	4,5%

Sources : figures based on EUROSTAT statistics; OECD

* Rate is the arithmetical average of consumer prices annual inflation rate between 1995 and 2001 (OECD).

Table 10: Textile and clothing turnover in EU 15 and new members

TEXTILE AND CLOTHING TURNOVER current prices								
	YGR prices Clothing footwear	Turnover Million Euros		% evolution YGR 01/95	GDP Billion Euros		TO as % of GDP	
		1 995	2 001		1995	2001	1995	2001
Austria	-0,4%	4 286	3 557	-3,1%	179 810	211 688	2,4%	1,7%
Belgium	0,2%	8 682	9 415	1,4%	211 537	254 004	4,1%	3,7%
Denmark	-2,0%	1 965	1 823	-1,2%	137 763	180 315	1,4%	1,0%
Finland	0,1%	1 226	1 310	1,1%	98 850	135 878	1,2%	1,0%
France	0,3%	28 812	30 065	0,7%	1 187 345	1 462 392	2,4%	2,1%
Germany	0,4%	31 402	25 260	-3,6%	1 879 370	2 069 321	1,7%	1,2%
Greece	4,4%	2 414	2 407	0,0%	89 905	130 854	2,7%	1,8%
Ireland	-3,0%	1 018	907	-1,9%	50 839	114 330	2,0%	0,8%
Italy	2,0%	59 147	72 686	3,5%	838 809	1 215 645	7,1%	6,0%
Netherlands	0,8%	3 937	4 084	0,6%	317 115	428 736	1,2%	1,0%
Portugal	-0,1%	7 385	8 130	1,6%	81 954	122 592	9,0%	6,6%
Spain	1,5%	12 734	17 216	5,2%	446 621	651 031	2,9%	2,6%
Sweden	0,7%	1 301	1 464	2,0%	183 633	234 242	0,7%	0,6%
U.K.	-4,3%	17 124	21 712	4,0%	867 631	1 587 551	2,0%	1,4%
EU 15	0,2%	189 364	208 747	1,6%	6 571 183	8 798 578	2,9%	2,4%
	YGR prices Clothing footwear	Turnover Million Euros		% evolution YGR 01/98	GDP Billion Euros		TO as % of GDP	
		1 998	2 001		1998	2001	1998	2001
Czech Rep*	6,8%	1 994	2 703	7,9%	52 826	63 306	3,8%	4,3%
Estonia		299	408	8,1%	4 703	4 785	6,4%	8,5%
Hungary*	16,2%	1 160	1 577	8,0%	39 494	57 723	2,9%	2,7%
Lithuania		429	572	7,5%	9 338	9 946	4,6%	5,8%
Latvia		217	287	7,2%	5 414	6 193	4,0%	4,6%
Poland*	13,9%	4 211	4 962	4,2%	157 979	196 839	2,7%	2,5%
Slovenia		963	1 219	6,1%	17 310	17 394	5,6%	7,0%
Slovakia*	8,3%	394	495	5,9%	18 154	22 888	2,2%	2,2%
EU 25		200 565	220 199	2,4%	6 876 401	9 177 652	2,9%	2,4%
Bulgaria*		481	702	9,9%	11 478	11 635	4,2%	6,0%
Romania*		1 517	2 091	8,4%	29 271	29 369	5,2%	7,1%

Sources : figures based on EUROSTAT statistics; OECD

* Rate is the arithmetical average of consumer prices annual inflation rate between 1995 and 2001 (OECD).

The above tables show a major difference between EU 15 Member States and accession candidates. On average T/C turnover represents 2.4% of EU 15 GDP in 2001 even though the figure is much higher for certain countries like Portugal (6.6%), Italy (6%) and Belgium (3.7%) in particular. The percentages range from 2.5% for Poland whose economy has strongly diversified from the T/C sector to extremely high levels (6% for Bulgaria, 7% for Slovenia, 7.1% for Romania and 8.5% for Estonia).

➤ EMPLOYMENT

This turnover development was not in tune with the industrial **employment** trend with job losses averaging 41,000⁵ jobs per year over the 1995-2001 period in clothing, whereas in the textile sector, which now represents more jobs than the apparel sector (52.3 % of total T/C employment) the

⁵ Estimates based on Eurostat figures.

situation has been less difficult for employment, losses averaging “only” 30,000⁶ jobs per year over the same period. The decline in employment in T/C has undergone a significant acceleration over the last years as emphasized by the yearly loss of 77,000 jobs in clothing and 34,000 jobs in textile between 1999 and 2001.

In contrast with an EU overall loss of 14 % for textiles and 19 % for clothing over the period 1995-2001, there has been a net increase in Spain for both sectors (+21 % and +11 % respectively), whereas apparel losses in Germany and most smaller economies (Denmark, Austria and Ireland) have been above 25%. For Italy, job erosion has been limited :-2 and -14 % between 1995 and 2001.

Table 11: Textile employment in EU 15 and new members

TEXTILE EMPLOYMENT					
EU Member States	Textile number of occupied persons				
	1995	latest year known		YGR	Global evolution
Austria	27 418	2001	19 377	-6%	-29%
Belgium	46 029	2001	43 472	-1%	-6%
Denmark	11 733	2001	8 611	-5%	-27%
Finland	7 003	2001	5 565	-4%	-21%
France	146 449	2001	118 538	-3%	-19%
Germany	170 053	2001	124 602	-5%	-27%
Greece	23 742	2001	19 508	-3%	-18%
Ireland	9 628	2001	6 648	-6%	-31%
Italy	331 110	2001	323 763	0%	-2%
Netherlands	22 324	2001	19 911	-2%	-11%
Portugal	125 082	2001	97 793	-4%	-22%
Spain	94 941	2001	115 141	3%	21%
Sweden	9 495	2001	10 130	1%	7%
Luxembourg	1 537	2001	1 273	-3%	-17%
U.K.	170 165	2001	132 192	-4%	-22%
EU 15	1 321 790	2001	1 141 878	-2,4%	-14%
	1997	latest year known		YGR	Global evolution
Czech Republic	83 140	2 001	69 495	-4%	-16%
Estonia	8 891	2 001	10 718	5%	21%
Hungary	39 664	2 001	31 614	-6%	-20%
Lithuania	28 536	2 001	21 390	-7%	-25%
Latvia	12 747	2 001	10 495	-5%	-18%
Poland	137 780	2 001	87 060	-11%	-37%
Slovenia	15 855	2 001	13 477	-4%	-15%
Slovakia	20 571	2 001	19 408	-1%	-6%
EU 25	1 606 810	2 001	1 407 200	-3%	-12%
Bulgaria	46 400	2 001	32 719	-8%	-29%
Romania	160 234	2 001	106 978	-10%	-33%

Source: Eurostat (NACE 1: category 17 for textile and 18 for clothing).

⁶ Same as above.

Table 12: Clothing employment in EU 15 and new members

CLOTHING EMPLOYMENT					
EU Member States	Clothing number of occupied persons				
	1995	latest year known		YGR	Global evolution
Austria	17 112	2001	10 120	-8%	-41%
Belgium	17 218	2001	10 957	-7%	-36%
Denmark	8 669	2001	4 870	-9%	-44%
Finland	8 404	2001	6 046	-5%	-28%
France	136 749	2001	93 654	-6%	-32%
Germany	127 269	2001	69 834	-10%	-45%
Greece	29 964	2001	24 770	-3%	-17%
Ireland	11 283	2001	3 527	-18%	-69%
Italy	364 853	2001	314 568	-2%	-14%
Netherlands	12 610	2001	6 138	-11%	-51%
Portugal	138 099	2001	133 722	-1%	-3%
Spain	120 627	2001	134 303	2%	11%
Sweden	2 992	2001	3 604	3%	20%
Luxembourg	124	2001	42	-17%	-66%
U.K.	148 379	2001	88 048	-8%	-41%
EU 15	1 282 451	2001	1 037 924	-3,5%	-19%
	1997	latest year known		YGR	Global evolution
Czech Republic	67 097	2 001	56 590	-4%	-16%
Estonia	12 536	2 001	13 581	2%	8%
Hungary	93 840	2 001	56 590	-12%	-40%
Lithuania	30 211	2 001	38 992	7%	29%
Latvia	10 844	2 001	14 899	8%	37%
Poland	246 792	2 001	191 047	-6%	-23%
Slovenia	19 638	2 001	16 084	-5%	-18%
Slovakia	28 526	2 001	30 200	1%	6%
EU 25	1 802 312	2 001	1 477 259	-5%	-18%
Bulgaria	87 369	2 001	126 758	10%	45%
Romania	231 136	2 001	313 257	8%	36%

Source: Eurostat (NACE 1: category 17 for textile and 18 for clothing).

➤ **EXPORTS**

In parallel extra-EU **exports** have considerably grown : for textiles by 47 % in value terms and 53 % for clothing.

Extra-EU (15) exports represented in 2001 44 % of total EU exports for textiles and 33 % for apparel. One tenth of these textile exports is shipped to candidate Member States (the share is only 4 % for clothing) mostly to be processed locally and shipped back or further.

Table 13: Evolution of T/C exports in EU 15

**EXTRA-EU EXPORT GROWTH IN VALUE
1995-2001**

	% textile growth	% clothing growth
Austria	+ 46	+ 43
Belgium	+ 22	+ 33
Denmark	+ 108	+ 61
Finland	+ 57	+ 42
France	+ 56	+ 31
Germany	+ 16	+ 33
Greece	+ 121	+ 175
Ireland	+ 103	+ 185
Italy	+ 73	+ 89
Netherlands	+ 25	+ 19
Portugal	+ 91	- 10
Spain	+ 204	+ 84
Sweden	+ 66	+ 41
UK	+ 48	+ 44
EU-15	+ 47	+ 53

**EU EXPORTS BREAKDOWN
2001 - IN VALUE**

	Textiles	Clothing	T/C
Intra-EU 15	56 %	67 %	61 %
10 Candidates	10 %	4 %	7 %
Turkey	2 %	-	1 %
Extra-(EU 25 +Turkey)	32 %	29 %	31 %
TOTAL	55 billion Euros	50 billion Euros	105 billion Euros

Source : CITH

As a whole, textile exports represent 54 % of the industry's turnover which indicates that the sector positions itself in an international perspective, even though Europe makes the largest part of foreign sales.⁷

Similarly, clothing exports make up 65 % of the industry's turnover, a higher figure, but even more limited within the EU boundaries than textile for the time being.

These figures are European average values which recover **very strong contrasts** between the export performance of Member States.

In textiles the most extra-EU oriented exporting Member States certainly are

- Germany with 57 % of its exports being shipped out of the EU, 12 points of this percentage concerning the CEECs (candidate countries area), particularly Poland and the Czech Republic
- Sweden with 51 % of extra-EU exports, 21 points of it towards candidates, in particular Poland and Hungary
- Greece with 49 % extra-EU, 5 points towards candidates, namely Cyprus, Poland and the Czech Republic
- Italy with 49 % extra-EU, 7 points towards candidates, especially Poland and Hungary, which latter figure is lower than the EU average.

In the clothing sector, around the European average of 33 % (extra-EU 15 exports / total exports), one can highlight contrasts between

- Italy, which sells 48 % of its exports outside the EU
- or France, with a similar profile (41 % extra-EU)
- and Belgium and the Netherlands, whose trade is clearly EU-oriented (only 6 and 8 % extra-EU)
- but also Greece, with 9 % extra-EU exports, a figure which reveals, for such a production-oriented country, a deficit in worldwide export capabilities.

One will find comprehensive tables regarding European exports in the Statistical Appendix 1 (General data) at the end of the present report.

The figures shown in this chapter help appreciate the restructuring that has been going on combining a de-industrialisation process with an expansion of sales and exports based on a development of outward processing and imports. This restructuring process goes with a trend towards an increased **concentration** of the T/C industry -except in Italy- particularly in the clothing sector, as the average turnover per company has grown by 19 % over the 4 year span. This growth was paralleled with a slight decrease of employment figures per company. EURATEX's research demonstrates that the most significant concentration phenomenon is taking place in the sewing-thread sector, followed by the

⁷ The following analysis and data come from a comprehensive work done by Euratex (EU 25 Trade Balance, Main Outlets and Suppliers- 2002) based on Eurostat data (CITH)

knitting and the wool industries whereas in sector like cotton and linen individual companies' turnover are slightly decreasing.

Losses in employment and gains in turnover mathematically result in **productivity increases** (turnover per employee) : for textiles (excluding knitting), the EU increase was + 0.9 %, + 8.3 % for knitting and + 3.8 % for clothing between 1996 and 2000⁸. The largest increases for both sectors could be observed in Belgium and France. Italy remained roughly stable.

➤ **VALUE-ADDED AND INVESTMENT**

The industry has devoted considerable resources to maintain competitiveness. This is reported in an overall growth in **value added** pro worker and investment pro worker. Labour costs comparisons in the spinning and weaving industry are reported in the Statistical Appendix 1 (General data).

Companies that survive clearly do so through a combination of specialisation in high value added activities, investment and productivity increases. However de-industrialisation appears also in dramatic declines in performance. This is often a sign of imminent phasing out from production.

Great care is required when analysing these figures as some value changes are the consequence of many factors, some of them being positive, some others being extremely damaging. For example, growth in value added pro worker can be an indicator of upgrading or specialisation (market adjustment), delocalisation of parts of production or lower cost sourcing of inputs (sourcing adjustment) or investment in productivity enhancement (productive adjustment), or marginalisation of workers by using sweat shops, lower skilled workers, marginal workers (social adjustment). The assessment is that the figures confirm all of the above trends but in various but unknown proportions in each of the companies or countries. It is not possible to form definitive conclusions based on the various datasets.

In terms of value added pro employee, the average yearly growth over the period 1995-2001 has been at a level of 1% in textiles and 2.3% in clothing. What can be said is that this confirms that the European industry tends to be **upgrading** and **using resources more efficiently**. It also indicates that while more labour intensive work is delocalised, high value activities remain in the EU. It should also be noted that the growth is comparable for textiles and clothing, indicating some coherence in the evolutions of both sectors.

While most countries are at a level close to the EU average, some countries differ. In textiles growth in value added has only been substantially higher in the United Kingdom and other northern European countries such as Ireland, Denmark and Finland. It is much lower for Austria and Germany. In textiles main drivers of added value seem to be productivity oriented investments and upgrading. In clothing, Ireland and the UK score above average while Sweden scores far below average. In clothing the drivers are essentially delocalisation in combination with upgrading. In the CEECs evolution of value added has been far less positive, reflecting the dominance of subcontracting.

⁸ Source : EURATEX based on EUROSTAT

Investment levels have globally declined in the period after 1995, as can be seen on the table below. The productivity gain which was mentioned in the former section primarily lies in a reduction of labour and not in a development of **investment**, as the latter has been slightly deteriorating over the period, from 3.9 to 3.2 % of industry's sales. It is in the cotton sector that the investment increase has been strongest (+ 47 % from 1996 to 1999), thus reaching the textile average figures (4.4 % of sales invested).

In absolute terms investments are important in Italy (33% of overall TC investment in EU 15), Germany and France. The UK has low absolute investment levels, lower than Portugal and Spain. Spain investment levels are low however in relation to the size of the industry ; Portugal's industry invests relatively much in relation to the size of the industry. Belgium and the Netherlands have relatively high absolute investment levels, particularly in textiles. In all cases investment in textiles dominates. Italy is the only country with a high investment in the clothing industry. Investment levels have declined in absolute terms in all countries between 1995 and 2002 except Spain and the Netherlands. Investment in the clothing industry has declined in all countries. The decline in investment is strongest in Germany, the UK and France. Decline is small in Italy and Belgium

Table 14: Textile value-added in EU 15 and new members

TEXTILE VALUE-ADDED and VALUE-ADDED PER WORKER									
EU Member States	Textile value added basis price		Textile value added factor price				Value-added per worker		
	thousand euros		thousand euros				thousand euros		
	latest year known		1995	latest year known		YGR	1995	2001	YGR
Austria	1996	1 189 800	1 225 000	2001	833 600	-6%	45	42	-1.0%
Belgium	2000	1 964 600	1 861 100	2001	1 964 300	1%	40	45	1.9%
Denmark	2000	394 400	411 700	2001	396 000	-1%	35	46	4.6%
Finland			248 600	2001	271 500	1%	35	46	4.3%
France			4 597 100	2001	4 148 800	-2%	33	35	1.1%
Germany			5 607 400*	2001	5 274 200	-3%	41	39	-0.8%
Greece									
Ireland			197 200	2000	196 000	0%	20	28	5.4%
Italy			10 393 800	2001	10 946 400	1%	31	37	2.7%
Netherlands	1997	848 600	880 600	2001	922 200	1%	39	43	1.4%
Portugal	2001	1 390 000	1 403 900	2001	1 390 800	0%	11	14	3.7%
Spain			2 191 300	2001	3 025 800	6%	23	26	2.2%
Sweden			353 300	2001	370 400	1%	37	38	0.2%
Luxembourg	2001	168 900	233 200	2001	160 700	-6%	152	126	-3.0%
U.K.	2001	5 046 800	5 082 300 [^]	2001	4 910 800	-1%	26	39	6.8%
EU 15			35 746 400*	2001	35 331 900	-1%	32	34	1.0%
		latest year known	latest year previously known		2 001	YGR	1995	2001	YGR
Czech Republic	1999	428 400	2 000	427 600	524 400	23%		8	
Estonia	2001	74 000	1 996	22 100	73 700	27%		7	
Hungary			1 998	165 700	191 800	5%		6	
Lithuania	2001	102 500	1 995	61 200	97 500	8%		5	
Latvia			1 997	49 000	108 400	22%		10	
Poland			1 996	675 300	1 116 500	11%		9	
Slovenia	2001	206 700	1 995	159 400	182 000	2%			
Slovakia	2001	91 300	1 995	59 300	87 900	7%		5	
EU 25					37 751 800			29	
Bulgaria	2001		1 999	68 400	77 400	6%		2	
Romania	2001	7 630	1 997	282 300	289 500	1%		3	

Source: Eurostat (NACE 1: category 17 for textile and 18 for clothing).

* for year 1999, ^ for 1998, [^] for year 1996.

Table 15: Clothing value-added in EU 15 and new members

CLOTHING VALUE-ADDED and VALUE-ADDED PER WORKER									
EU Member States	Textile value added basis price		Textile value added factor price				Value-added per worker		
	thousand euros		thousand euros				thousand euros		
	latest year known		1995	latest year known		YGR	1995	2001	YGR
Austria	1996	416 700	439 700	2001	301 700	-6%	26	29	1.8%
Belgium	2000	377 100	510 900	2001	461 500	-2%	30	41	5.7%
Denmark	2000	197 900	275 400	2001	189 800	-6%	32	41	4.3%
Finland			211 000	2001	198 500	-1%	25	30	2.9%
France			3 447 100	2001	3 210 600	-1%	26	33	4.1%
Germany			3 117 500*	2001	2 683 500	-7%	36	36	0.1%
Greece									
Ireland			162 900	2000	140 200	-3%	14	32	14.5%
Italy			7 301 500	2001	8 107 100	2%	20	26	4.7%
Netherlands	1997	226 400	281 300	2001	198 800	-6%	22	24	1.4%
Portugal	2001	1 176 900	1 225 300	2001	1 176 700	-1%	9	9	0.8%
Spain			1 810 700	2001	2 471 900	5%	15	18	3.4%
Sweden			97 000	2001	89 000	-1%	32	25	-4.0%
Luxembourg	2001	600	2 300	2001	600	-20%	19	16	-2.2%
U.K.	2001	3 229 000	3 137 700	2001	3 166 100	0%	19	38	11.9%
EU 15			22 934 800	2001	22 603 600	-1%	22	25	2.3%
	latest year known		latest year previously known		2 001	YGR	1995	2001	YGR
Czech Republic	1999	235 300	2 000	267 900	244 300	-9%		4	
Estonia	2001	66 400	1 996	35 500	66 300	13%		5	
Hungary			1 998	258 500	324 000	8%		5	
Lithuania	2001	134 700	1 995	34 800	131 900	25%		3	
Latvia			1 997	38 300	68 300	16%		5	
Poland			1 996	813 500	1 401 200	11%		6	
Slovenia	2001	158 800	1 995	173 100	148 100	-3%			
Slovakia	2001	109 800	1 995	76 700	109 300	6%		4	
EU 25					25 192 500			19	
Bulgaria	2001	189 400	1 999	130 800	191 400	21%		2	
Romania	2001		1 997	375 300	707 700	17%		2	

Source: Eurostat (NACE 1: category 17 for textile and 18 for clothing).

* for year 1999, ^ for 1998, " for year 1996.

This overall decrease can be considered as one consequence of the decline in number of firms and employment. However if corrected by firm and by person employed investment levels⁹ have increased in the majority of countries. Investment levels differ widely between countries. It is partly the reflection of the sectoral composition of the industry, but also of discrepancies between the different factors of production and the size structure of the firms. The high investment levels in Belgium reflect the high share of the carpet industry. The higher investment levels in Germany reflect larger size of firms. Overall the higher investment levels in Northern countries are a reflection of high wages and good access to capital markets. Overall investment levels are much higher in textiles than in clothing - the textile ratio being roughly twice as high as the clothing one (2.2 %). Most indicators do also underpin the hypothesis that investment levels grow in textiles, while declining in clothing. The latter being a reflection of delocalisation of production.

On the whole investment levels pro firm and/or person employed are fairly high in Belgium, Germany and Austria, and for textiles in some French regions. They are much lower in Italy and Portugal and worryingly low in Spain. Investment levels are increasing in Germany, Belgium, Austria and Portugal, while declining in Italy and Spain. Investment levels in France are stable. The declining levels of investment in Italy and Spain are a source for concern. Decline is mainly due to the completion of investment projects in the South of Italy or peripheral regions of Spain. It is also due to a focus on business process redesign instead of large modernisation programmes.

Table 16: EU 15 Investment in T/C

INVESTMENT AS % OF TURNOVER

EU 15	1996	2000	change
Textile	4,7%	3,8%	-0,9
Knitting	6,1%	4,1%	-2,0
Woven clothing	2,4%	2,2%	-0,2
Total T/C	3,9%	3,2%	-0,7

Source : Euratex bulletin 5/2002

Investments are mainly modernisation investment, aimed at increasing productivity and only indirectly and to some extent increasing output. Moreover investment may aim at increasing flexibility, reducing throughput time, handling of smaller production batches or handling more variety in products. Investment strategies are thus highly linked to upgrading in quality and taking fuller benefit of proximity to markets by improving service and capacity for quick response to customers.

⁹ The following comments are based on Euratex analyses and graphs, as per Bulletin 5/2002.

➤ TRADE REGIMES : A DECADE OF LIBERALISATION

The liberalisation of textile trade within the framework of the ATC is not the only change in trade regime on behalf of the European Union. Quite to the contrary, the 1990s have been a very dynamic decade with a **large number of changes** in trade policy. These derive partly from the completion of the internal market, the accession of new members (end of transitory period for Spain and Portugal, as well as EFTA countries). Important is also the progressive integration of CEECs in preparation for accession, strengthening of preferential ties with Mediterranean countries, and last but not least improved access for LDC (i.e. by reform of the GSP regime). Finally bilateral improvements in quota levels have been granted to various countries (Vietnam, China, Sri Lanka, Pakistan), sometimes based on a logic of reciprocity sometimes on political or economical considerations.

The period under consideration has been so dense in trade regime changes that it is hardly possible to measure their impact other than in global terms or in terms of evolutions of trade between individual countries and the EU. The global impact on the EU certainly is an improved access into the Union and hence growing import levels. A second impact has been a **shift in the proportion of nearby sourcing** and far away sourcing. In 1990 around 90% of imports from developing countries came from Asia. In 2000 this share had dropped to 75%, the remaining coming from countries in transition in the Euro-Mediterranean zone. Besides more rapid liberalisation of PanEuroMed trading, both in quantitative restrictions and in tariffs, the continuous pressure from Asia have forced manufacturers to take better advantage of opportunities nearby. It is quite striking however that the LDCs have benefited to a very limited extent from improved access to the EU, with the exception of Bangladesh and Vietnam.

Although trade statistics only allow for a limited analysis of **trade creation and trade diversion**, some comments can be made. In the first place the growth of Pan-European trade is more a consequence of further delocalisation of production than of diversion of trade with the Far East. Only for **Turkey**, since 1995, the trade diversion hypothesis holds, with the explanation of retailers needs for smaller series and quick response.

The other major trade diversion is the disappearance of OPT with Asian countries to the benefit of nearby production countries. Within the Pan-European zone, the CEECs have benefited from some trade diversion at the expense of Northern African countries. Greece and Portugal have suffered from accession of EFTA countries to the EU and diversion to the CEECs.

In the period 1991-1995 Poland and Hungary have benefited from trade diversion from the former Yugoslavia. In most recent years Poland and Hungary have suffered from a reversed pattern and from cost-leadership of Romania and Bulgaria.

Last but not least non-Asian LDCs have hardly benefited from a reform of GSP and of the ACP rules of origin. These tools have little impact in comparison to the competitiveness of countries like China and India.

Overall the combined impact of trade regime changes is a **growing import level**, that matches increased competition between retailers and the pressures on manufacturers to delocalise production and opt for OPT. These pressures have been much stronger on clothing than on textiles. In textiles it is mainly apparel textiles that are concerned. As far as trade regime changes in the PanEuropean Mediterranean zone are concerned, they favour the use of EU fabrics. This does bring the partner countries in a position of dependence and make their position more vulnerable. The accession

countries have largely based their development on an OPT model which may be vulnerable to liberalisation and to accession. The coming years will also be dense in trade regime changes, which are of particular complexity in relation to the accession countries.

➤ OPT AND DELOCALISATION OF PRODUCTION

OPT and delocalisation of production cover a variety of processes through which one or several steps within the T/C manufacturing chain are shifted out of the EU (the processes are fairly similar for the USA) . Most frequently industrial steps such as spinning, weaving, dyeing and finishing and making-up are thus relocated. .

The former or/and next steps remain within the EU, as at least only the finished product is reimported into the Union. Outward Processing Trade refers to a specific trade regime with two major advantages : the reimported finished product is only liable to the customs duties corresponding to the non-EU added value ; the principal retains property on the materials thus temporarily exported. As duties are lowered and as subcontracting firms tend to become more reliable, both advantages lose attractiveness : this explains why the OPT tends to get blurred into unspecific delocalised production

OPT has become a **dominant feature in clothing production**. Over 60 % (Scheffer, 2002) of clothing manufacturing on behalf of EU firms is now carried out on an OPT or a quasi OPT basis. In the former case, fabrics are exported by the principal to a subcontractor or subsidiary to be assembled and then reimported as finished goods. In the case of quasi OPT, the subcontractor buys specific materials from a EU textile supplier with a guarantee of the principal, and in the end the final product is “classically” imported into the EU. Quasi OPT is recorded in the import/export statistics as separate and unrelated export and import transactions, while actual OPT is registered as such. . Growth in actual OPT has been a dominant feature of the industry in the period 1990-1997¹⁰. After 1997 quasi-OPT has developed considerably with the liberalisation of trade with the CEECs, Turkey and Northern Africa and with the advent of the Pan-European cumulation. OPT has stabilised since 1999 and globally imports from Asia have grown more rapidly than OPT.

OPT was already an established practice in the Northern European countries by the beginning of the 1990s (Scheffer, 1992). During the nineties OPT has expanded massively on behalf of first German, Belgian and French firms, later on behalf of Italian, British and Greek firms. It is only for Portuguese and Spanish firms that OPT is a recent practice. OPT is chiefly oriented towards the CEECs with subcontracting being the predominant system. When production is carried out in Northern Africa direct investment is more often the case.

Delocalisation of textile production has gone at a slower pace than delocalisation in clothing production. In 1992 it was only a marginal activity. The only substantial trade on behalf of textile manufacturers was the import of greige yarns and/or fabrics. Asia is a more popular origin than is the Pan-Euromediterranean zone. Relocation of manufacturing in order to lower costs of production has only emerged in the second half of the 1990s. The primary purpose of delocalisation in the beginning of the 1990s was to cut costs, mainly in spinning and weaving. Yarns and fabrics were always reimported for further processing into the EU. At the fabric stage the rationale for delocalisation is the need to be nearby clothing production, for cost reasons and just-in-time purposes. However while the Pan European Cumulation supports delocalisation, investment decisions are hampered by the very size of the PanEuroMed Zone, the fragmentation in countries and the scattering of the apparel industry

¹⁰ Source : Historic part of this chapter is based upon M.Scheffer 1992, 1994 and 2002.

(client). Investment in one country creates proximity to local producers but is a disadvantage to other production locations in the PanEuroMed. Zone.

The development of OPT is only partly linked to liberalisation of trade on the multilateral level. As growth of direct imports led to a pressure on prices OPT enabled manufacturers to compete with direct imports. It did however also increase price competition in the middle segment of the market. The shift to OPT and the downward reduction of prices forced also other companies to shift to OPT under competitive pressures. It has however enabled manufacturers to maintain design and marketing functions, and some manufacturing if they could manage the organisation of distant production. At an aggregate level OPT enabled an industry to maintain its economic activity. In the statistics this appears as declining production, and growing imports with stable or growing exports. When manufacturers failed to do so, company closures have resulted and the engagement of a country in clothing has declined, bringing declining production, growing imports but declining exports. However the development of OPT has not avoided the drastic restructuring in the end of the 1990s in countries that had already shifted to OPT, hence the important downsizing in the German clothing industry in 1998-2002.

OPT, as it favours the use of EU fabrics because of preferential origin rules has certainly benefited the EU textile industry. With the advent of the Pan-European Cumulation some relocation in the zone has become more attractive. Being much more capital intensive than its clothing counterpart, the textile production is less directly sensitive to trade liberalisation on a global level. However delocalisation of textile production is a response to growing costs of production vis-à-vis developing countries but even more to the relocation of clothing production. Relocation of production does generally concern more complex stages of production, for which sourcing/subcontracting is a more problematic option, such as more complex weaving and dyeing and finishing. Sourcing remains a dominant pattern in grey commodities.

1.3 A COMPETITIVE ANALYSIS PER SECTOR

➤ EXTERNAL COMPARISONS

The present analysis uses the same classifications as the ones used earlier in the present report to analyse EU export markets per product group.

As can be seen on the table below, the overall **textile balance** is quite positive and increasingly so, as the net surplus has been multiplied by 4 between 1995 and 2002. This successful development comes from a good performance in apparel fabrics and to a lesser extent in technical textiles and floor coverings. On the contrary, the upstream part of the textile chain and home textiles display an increasingly negative performance on the international markets.

Table 17: EU 15 Trade balance evolution 1995-2002 with major partners in million euros

Product groups	Total extra-EU			NAFTA		Japan		Greater China		India		PanEuroMed		Oth.Asia	
	95	02	02/95	95	02	95	02	95	02	95	02	95	02	95	02
Raw materials	-2 525	-2 060	465	-195	-166	-33	-71	-116	-183	6	13	-597	-6 020	-25	-241
Yarns, threads and fila	-980	-1 228	-248	89	110	-32	-75	72	114	-331	-429	-361	-469	-488	-591
Apparel fabrics	4 867	7 136	2 269	509	1 036	370	138	106	-308	-353	-336	4 457	7 350	-776	-998
Technical fabrics and fin it	677	1 248	571	-119	248	-39	-7	-133	-318	-23	-443	464	819	43	-41
Home textiles	-1 026	-2 473	-1 447	156	424	50	33	-301	-760	-270	-84	-311	-920	-358	-848
Woven garments	-11 089	-19 118	-8 029	899	1 735	1 003	1 001	-3 704	-7 012	-1 137	-1 336	-5 975	-9 555	-2 365	-4 269
Knitted garments	-6 347	-13 925	-7 578	195	603	422	354	-2 081	-3 637	-429	-883	-2 141	-5 260	-1 942	-4 651
Textile floor coverings	-192	113	305	95	251	89	49	-125	-59	-241	-226	403	276	-104	-83
Others	-29	57	86	10	-3	-11	-12	-16	-29	-83	-102	105	228	-42	-35
Total textile	792	3 213	2 421	545	1 901	393	57	-513	-1 541	-1 295	-1 607	4 159	1 264	-1 749	-2 838
Of which OPT	1 808	1 891	84	5	0	0	1	44	45	5	2	1 681	1 739	-56	-79
Total apparel (wo+ kn)	-17 436	-33 045	-15 608	1 094	2 339	1 425	1 355	-5 785	-10 648	-1 566	-2 218	-8 116	-14 815	-4 307	-8 921
Of which OPT	-3 694	-2 575	1 120	-3	-5	0	-1	-114	-119	-7	-9	-3 365	-2 169	173	230
			0												
Total	-16 645	-29 832	-13 187	1 639	4 240	1 819	1 411	-6 298	-12 190	-2 861	-3 825	-3 957	-13 550	-6 056	-11 758

As far as **competitiveness in apparel** is concerned the situation is not as favourable as the EU industry displays a major deficit. Moreover this deficit has doubled over the period considered. It is equally distributed between woven apparel and knitwear.

In terms of **bilateral trade**, textile balance with NAFTA has strongly improved while the one with Japan has somewhat deteriorated, showing a competitive gain to the benefit of the Japanese textile industry. Actually the EU appears extremely competitive for all processed products, be it for textile or for apparel in comparison with NAFTA, while it slightly deteriorates when compared to Japan. This loss of competitiveness to Japan is quite evenly distributed over the product groupings, which may suggest a structural phenomenon presumably based on an increase in Japan's home productivity combined with a closer integration of Chinese production resources.

Quite noticeably the area which accounts for the largest deficit in the T/C trade is not China but the PanEuroMed zone. The negative balance has been trebled over the period. The importance of OPT clearly stands out as this balance covers a surplus in textile and a huge deficit in clothing. However and worryingly so, the textile surplus is quite limited and seems to be melting away. This can be explained by two very different phenomena. On the one hand, Asian producers are increasingly competitive and aggressive and increasingly supply fabrics in the PanEuroMed area. On the other hand manufacturers and subcontractors in neighbouring countries are becoming so reliable that the guarantees offered by the OPT system become less necessary to their clients.

China accounts for 41 % of the EU T/C deficit and has doubled its own surplus over the 1995-2002 period. Apparel represent the essential part of it but the EU textile deficit is growing fast. While in 1995 China was still in need of EU apparel fabrics, the situation has now been reversed. The improvement of EU trade balance for yarns leads to the conclusion that China has successfully integrated one further step in production, as it now imports more yarns, to feed its own fabric production. The area of least competitiveness for the EU industry compared with China is woven apparel.

Trade with India and the rest of Asia has been deteriorating showing a lesser competitiveness of EU producers compared to their Asian counterparts. The competitive deficit for the EU is much less important in the case of India, which only significantly improved its performance in the area of technical textiles and of knitwear.

➤ INTERNAL COMPARISONS

• Segmentation of data

There are different ways to segment the industry as far as the treatment of statistics is concerned. A classic way to look at the industry is by stage of processing : fibres, yarns, fabrics (knitted or woven), end-products (knitted or woven). The distinction by stage of processing is logic when these stages can be characterised by different production locations different types of firms. In the case that processes are integrated, a distinction between stage of processing becomes less meaningful in terms of a socio-economic reality.

An approach by supply chain (filier) examines the industry by fibre family. The large families are cotton, wool and synthetics. Smaller families are linen and silk. However some synthetic and artificial fibres can be used in another production system or can be blended. This is why the notion of “system” is quite helpful to the analysis as it gives the closest approach to the industrial reality. Thus the cotton “system” encompasses also blends with synthetics and/or artificial fibres (e.g. polyester), while wool can also be blended with synthetic fibres (e.g. polyester). Therefore ATC categories such as 1 (cotton yarns) and 2 (cotton fabrics) do also contain blends with other fibres although cotton is the majority. Moreover certain fibres, as polyester can be processed as if they are cotton fibres (short staple fibre) a wool fibre (long staple) even if both products fall under the same category (cat 3).

As the European industry is increasingly focussed on specialties, and as products are increasingly “smart” and functional and use fibre mixes in order to achieve desired performances and appearance it is better to speak of certain fibre systems than of fibre supply chains. The following pages therefore distinguish between fibre systems, which are in general larger than the processing of the fibre itself.

It is also meaningful to categorise by end use and to look at the main destination markets. It is then common to categorise between clothing, home textiles and technical textiles. Within clothing a distinction can be made between various markets (formal/casual) and consumers (ladieswear/menswear). In home textiles one can distinguish between upholstery fabrics, furnishing fabrics, bed linen, bath linen, kitchen linen. In technical textiles one may distinguish between area of applications. Unfortunately neither the ATC categories, nor the Customs Harmonised System allow for a rigorous distinction between end uses. When fibres are clearly dedicated to one end use (which is never the case) or that there are distinctive visible features, as there sometimes are for fabrics, a good analysis is possible. Classification of goods is however production oriented by nature and tradition, thus a detailed analysis is not possible by end-markets. In this respect, one has to accept conclusions made by proxy. The present report has made use of a proxy for technical textiles (Categories 22,41,63), home textiles (9,20) and apparel textiles (Categories 2,3,9,35,37,50,63) even if categories overlap or products are excluded.

For analytical purposes, the following paragraphs focus on the more important activities¹¹ of the EU. A somewhat similar analysis, was very thoroughly conducted by EURATEX some years ago (F. Marchi). The present work takes a slightly different approach as it focuses on ATC categories.

¹¹ See methodological note at the end of the present chapter.

The detailed methodology used for the following analysis is described at the end of the present chapter. In short, the idea is to draw as much understanding as possible from a thorough examination of selected categories : this selection was based on the necessity to have “meaningful” categories (not “miscellaneous etc.) for which both production and trade data can be analysed. This limits the scope of the study, at least to some extent, but sharpens the conclusions one may find. It should also be noted that the overall evolution of the categories under scrutiny is not exactly the same as the comprehensive statistical dataset used earlier, but this does not bring significant differences in the conclusions one may draw from them. It is important to keep in mind that the measurements for each product or groups of products always concern performances relative to the EU average. The relative competitiveness may sometimes lead to very positive scores. One needs to keep in mind that the overall performance in production and imports of the industry in Europe is negative. It does not entail a comparison with other regions in the world as production data do not exist on the same basis and with the same accuracy. However, as import and export data are taken into consideration the external dimension is involved in the analysis.

The analysis brings forth two kinds of conclusions :

1. first it provides an objective measurement of the EU **industry competitiveness** and allows for a comparative analysis of the various categories and systems, (as explained above), in order to determine how competitive they presently are.
2. second it provides an analysis of the **factors** which explain and support the **competitiveness** of the EU T/C industry : among those factors the analysis tries to determine the respective impact of price differentiation, level of protection and demand dynamism. Those notions are explained later. Their definition and computation formula are presented in the methodological note. The purpose of this work is to determine to what extent the **competitiveness** of each category considered is sustainable in the longer term or whether the category is **vulnerable** to the coming liberalisation.

In explaining evolutions at EU level the study chooses to examine evolutions at product or product group level, in order to **derive logics** that are relevant for the entire union but also evolutions at the level of Member States as possibly national situations may have stronger incidence at EU level. The analysis is based on data 1995-2001, which covers the first stages of liberalisation. A word of caution is required as in 2002/2003 the turnaround of economic conjuncture deepens decline in production. Finally it should be noted that all results presented hereunder are shown in a comparative, i.e. relative way : indicators provided for textile categories are indices based on an average EU textile performance set as 100 ; all clothing indices are based on a 100 average EU clothing performance.

- **Competitive analysis**

To describe and measure competitiveness the present report chooses to use a set of two variables :

- industrial performance¹²
- competitive position¹³

The overall evolution of the categories under consideration has been a decline of production of 3 % per year between 1995 and 2001. Reduction in production in clothing has been stronger than in textiles (- 5 % compared to -1 %). Within textiles production of yarns¹⁴ (- 4 %/year) has declined while fabric¹⁵ production has increased (+ 2 %).

Typical home textile¹⁶ products have been stable. In the analysis per ATC categories technical textile¹⁷ products are mostly amalgamated with apparel textiles which forbids specific examination.

However **industrial performance** is globally better in products with chiefly a technical textile component, without having a major impact on the industry as a whole. Cotton products have grown slightly (+2 %/year) while production of artificial/synthetic products (- 4 %/year) and wool (- 2 %) declines.

Within clothing, decline in production is stronger in labour intensive products¹⁸ (more than 20 minutes machine time) than products with low labour¹⁹ intensity.

Competitive position measures how directly the local industry competes with imports or, in other terms, it measures the ability of the EU industry to differentiate through price or through non-price factors. Product quality and product positioning (e.g. through branding) contribute to price differentiation while service (quick response, ability to supply small orders) does not confer price differentiation.

Throughout the following pages a notion of price-sensitivity has been used : products which are considered as price-sensitive have been marked with a square dot (instead of diamond-shaped dot) in the graphs. The sensitivity has been established by looking at what happened to EU exports when import prices dropped. When exports did fall too, the category was judged sensitive.

A complicating factor is that in several categories exports exceed production. The explanation lays solely in re-exports, some involving designing and branding in the EU and in some instances after some processing (dyeing, printing). This is by no means a marginal phenomenon as it is a growing trend. This case concerns 4 clothing categories in 1995 but 9 in 2001. In textiles it concerns 1 category

¹² Industrial performance is derived from two sub-indicators : production performance and export performance over the 1995-2001 period.

¹³ Competitive position is derived from three sub-indicators : import penetration as well as price difference between imports and exports in level (year 2001) and in evolution (trend between 1995 and 2001). Competitive position is better when export price is higher than import price, and increasingly so and when import penetration is slower than export growth.

¹⁴ Categories 1,22,41,47,48

¹⁵ Categories 2,3,9,35,37,50,63

¹⁶ Categories 9,20

¹⁷ Categories 22,41,63

¹⁸ Categories 15,16,21,26,29,76

¹⁹ Categories 4,5,6,7,8,12,13,18,27,31,70

in 1995 but 3 in 2001. Even in categories where exports are below production levels, re-exports may represent an important but unknown share of exports. In many categories the same situation is likely to occur in the coming years in the light of current trends. The contribution to value added is difficult to measure as it depends on processing done or the level of branding. Gross margin differs widely between import and re-export of commodities (10-20%) and transactions concerning branded goods (40-50%). Part of re-exports may concern products for which some processing may occur, the most likely operation being printing and finishing of grey fabrics. Part of exports may also concern export for OPT of cut parts of clothing that are classified according to their end-product

Table 18: Competitive analysis of T/C industry: industrial performance

15 EU Total			1000 Euros	1000 Euros	Output	1000 Euros	1000 Euros	Exports	Sub-indicator	Sub-indicator	(1)	Indicator
			output	output	YGR	Exports	Exports	YGR	Output	Export	industrial	industrial
Category	unit	code	2001 value	1995 value	95-2001	2001 value	1995 value	95-2001	performance	performance	performance	performance
Cotton yarn	T	T	3 129 012	3 565 035	-2%	1 418 597	1 324 907	1%	-1%	-1%	-1%	99
Cotton fabrics	T	T	6 898 968	5 486 896	4%	7 055 828	5 320 569	5%	5%	3%	4%	104
Synth. fabrics	T	T	3 805 100	3 928 344	-1%	2 799 813	2 538 182	2%	1%	0%	0%	100
T-shirts	P	C	2 299 551	2 184 547	1%	4 464 880	2 622 755	9%	4%	2%	3%	103
Jerseys	P	C	6 878 729	9 896 934	-6%	6 724 571	4 542 878	7%	-3%	0%	-1%	99
Trousers	P	C	4 637 228	6 315 906	-5%	6 768 008	3 807 463	10%	-2%	3%	1%	101
Blouses	P	C	1 245 905	2 398 372	-10%	1 928 411	1 577 319	3%	-7%	-3%	-5%	95
Shirts	P	C	965 664	413 974	15%	1 400 422	30 300	89%	19%	83%	51%	151
Terry towel	T	T	682 779	694 906	0%	610 516	502 673	3%	1%	1%	1%	101
Stockings, socks	P	C	2 196 476	2 554 657	-2%	1 203 431	874 446	5%	1%	-1%	0%	100
Underwear	P	C	996 110	1 288 628	-4%	1 172 548	759 906	7%	-1%	1%	0%	100
Women's coats	P	C	1 753 955	2 445 884	-5%	1 860 202	1 587 418	3%	-2%	-4%	-3%	97
Men's suits	P	C	786 830	781 468	0%	1 093 515	728 916	7%	3%	0%	2%	102
Nightwear	T	C	454 417	615 706	-5%	380 963	341 145	2%	-2%	-5%	-3%	97
Bed & flax linen	T	T	1 491 616	1 389 078	1%	927 165	593 553	8%	2%	6%	4%	104
Parkas	P	C	598 591	750 495	-4%	1 496 404	948 924	8%	0%	1%	0%	100
Synth. yarn	T	T	3 097 651	3 546 056	-2%	1 276 933	1 124 838	2%	-1%	0%	0%	100
Dresses	P	C	1 748 358	2 404 726	-5%	780 491	1 009 650	-4%	-2%	-11%	-6%	94
Skirts	P	C	1 390 386	2 140 329	-7%	1 070 045	1 097 433	0%	-4%	-7%	-5%	95
Women's suits	P	C	1 299 200	1 309 380	0%	604 143	678 682	-2%	3%	-9%	-3%	97
Brassières	P	C	624 381	707 659	-2%	1 103 127	712 210	8%	1%	1%	1%	101
Synth wovens	T	T	3 600 360	3 266 133	2%	3 063 727	2 040 252	7%	3%	5%	4%	104
Artif. Staple fabrics	T	T	783 011	1 015 628	-4%	1 261 331	2 044 279	-8%	-3%	-10%	-6%	94
Synth. Fil. Yarn	T	T	2 455 486	4 394 218	-9%	2 510 356	3 298 544	-4%	-8%	-6%	-7%	93
Woolen yarn	T	T	1 676 237	1 919 822	-2%	369 209	273 794	5%	-1%	3%	1%	101
Worsted yarn	T	T	2 519 716	2 807 339	-2%	861 268	701 139	3%	-1%	1%	0%	100
Wool fabrics	T	T	4 934 773	5 978 096	-3%	3 441 139	3 102 975	2%	-2%	0%	-1%	99
Kn. Synth. Fabrics	T	T	4 552 019	4 687 008	-1%	1 162 517	862 598	6%	1%	4%	2%	102
Babies' garments	T	C	1 020 505	1 416 395	-5%	934 728	669 126	6%	-2%	-1%	-2%	98
Tights	P	C	1 659 358	1 771 581	-1%	701 260	623 682	2%	2%	-5%	-1%	99
Workwear	T	C	1 453 013	1 411 575	0%	606 567	421 930	6%	4%	-1%	2%	102
Corsets	P	C	1 968 475	958 075	13%	361 382	232 464	8%	16%	1%	8%	108
total			73 603 860	84 444 849	-2%	61 413 497	46 994 950	5%	0%	0%	0%	100
textile			39 626 729	42 678 558	-1%	26 758 399	23 728 303	2%	0%	0%	0%	100
clothing			33 977 131	41 766 291	-3%	34 655 098	23 266 647	7%	0%	0%	0%	100

Sources : Eurostat.

Unit : T (ton), P(1000 pieces or 1000 pairs), Code : textile (T) or clothing (C). YGR : yearly growth rate

(1) The performance of a textile category is assessed relative to EU global textile performance while that of a clothing category is assessed relative to EU global clothing performance.

FIG 1

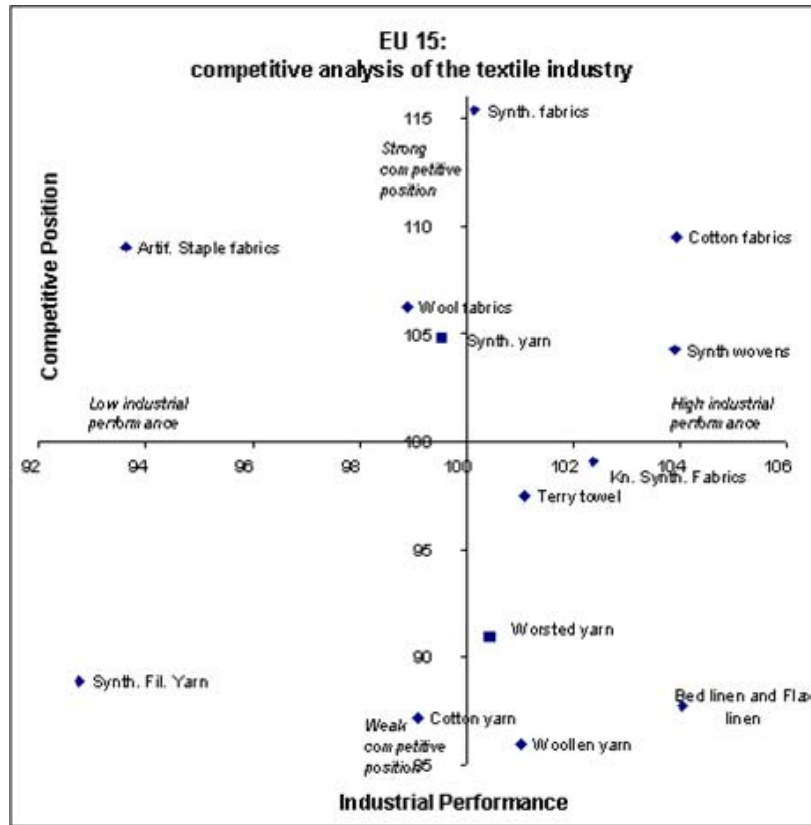
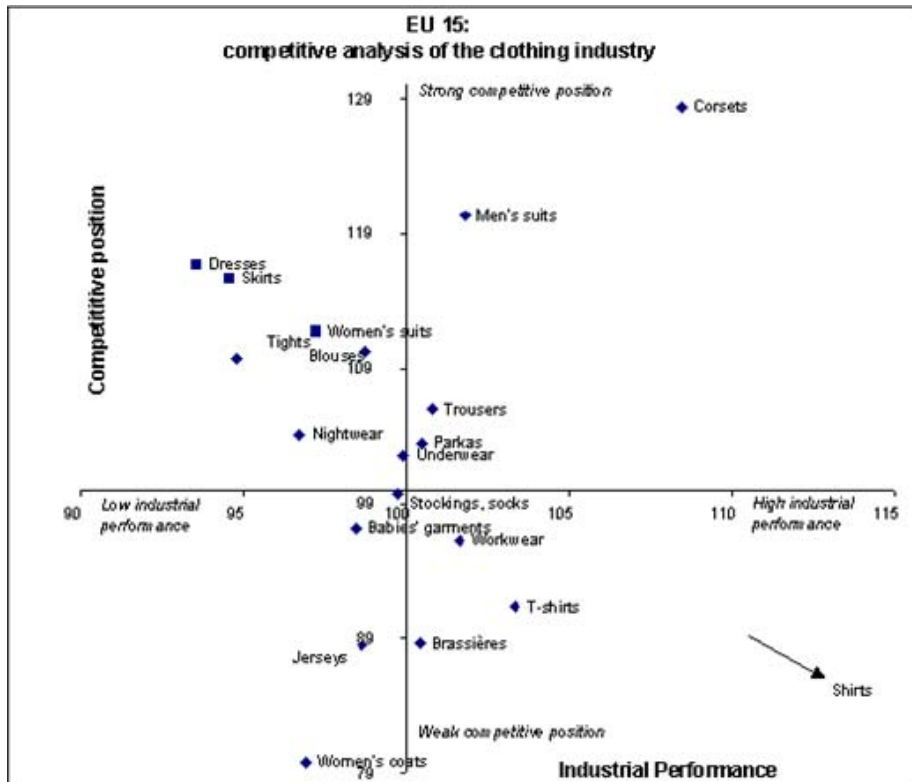


FIG 2



This indicator helps explain poor industrial performance in yarns and in clothing. Classic yarns are heavily hit by imports. Yarns offer little room for differentiation from imports especially in the large categories of cotton yarn and synthetic yarn. Differentiation does only appear at the level of complex yarns and in some yarns for technical textiles or requiring further processing, throwing or texturing. The good overall industrial performance of fabrics is closely linked to ability to differentiate.

In clothing there is no strong correlation between industrial performance and competitive position. European production performs fairly well in products with low competitive position, where EU manufacturers prices are not significantly higher than imports (e.g. T-Shirts, Shirts) but this is largely due to dynamism of the European market and to **differentiation based on services** provided.

In clothing price differentiation is small especially as production is largely delocalised and thus little different from imports. However in home textiles industrial performance is good even though competitive position is clearly below average.

- **Demand dynamism as a competitive factor**

Demand dynamism (Fig 3 and 4) measures the evolution of apparent consumption over the period. High dynamics indicate a significant market growth while low dynamics indicate a market growth below the European average. In textiles the market for home textiles is the most dynamic followed by fabrics. Dynamism for yarns is low. In clothing, demand dynamism is higher for knitted products than for woven products and higher for menswear than for ladieswear.

Textile has a fairly **good industrial performance** in markets with **low dynamism** (excl. cotton yarn). This is however to a large extent imputable to wool textiles which are globally positioned in lowly dynamic markets. Wool products clearly distinguish themselves through price differentiation. However more generally textile manufacturers shelter themselves from demand evolution and short-term ups and down : they benefit less from dynamic demand but do also suffer less from downward demand. One may conclude that textile manufacturers are specialised in stable market segments.

In **clothing**, demand dynamism is **strongly correlated** with industrial performance in so far as decline in production is lower in highly dynamic products and higher in less dynamic products. But here the same logic applies : in most less dynamic products production resists fairly well while in dynamic markets production lags behind demand. Downsizing has led to a lack of reactivity to demand of specific products. Imports do always benefit more from dynamics in demand than local production. This can be explained by a downsizing in the subcontracting sector which normally enables production to react quickly to demand.

Table 19: Performance and dynamism analysis of T/C industry: demand dynamism

15 EU Total				1000 Euros	1000 Euros	1000 Euros	EU Local demand	EU Local demand	Indicator
				EU Output	EU Exports	EU Imports	value (1)	value (1)	Demand dynamism
amf	Category	unit	code	2001 value	2001 value	2001 value	2001	1995	YGR 1995-2001
1	Cotton yarn	T	T	3 129 012	1 418 597	2 103 025	3 813 440	4 106 945	-1.2%
2	Cotton fabrics	T	T	6 898 968	7 055 828	4 989 180	4 832 320	4 445 265	1.4%
3	Synth. fabrics	T	T	3 805 100	2 799 813	1 900 569	2 905 856	3 308 990	-2.1%
4	T-shirts	P	C	2 299 551	4 464 880	8 417 831	6 252 502	3 976 429	7.8%
5	Jerseys	P	C	6 878 729	6 724 571	10 863 699	11 017 857	11 322 928	-0.5%
6	Trousers	P	C	4 637 228	6 768 008	13 190 399	11 059 619	8 777 494	3.9%
7	Blouses	P	C	1 245 905	1 928 411	3 387 929	2 705 423	3 632 553	-4.8%
8	Shirts	P	C	965 664	1 400 422	3 304 574	2 869 816	392 183	39.3%
9	Terry towel	T	T	682 779	610 516	980 053	1 052 316	893 056	2.8%
12	Stockings, socks	P	C	2 196 476	1 203 431	1 665 394	2 658 439	2 889 789	-1.4%
13	Underwear	P	C	996 110	1 172 548	2 310 238	2 133 800	1 816 933	2.7%
15	Women's coats	P	C	1 753 955	1 860 202	3 026 117	2 919 870	3 149 574	-1.3%
16	Men's suits	P	C	786 830	1 093 515	1 336 323	1 029 638	770 531	4.9%
18	Nightwear	T	C	454 417	380 963	941 574	1 015 028	1 018 541	-0.1%
20	Bed & flax linen	T	T	1 491 616	927 165	1 441 888	2 006 339	1 675 654	3.0%
21	Parkas	P	C	598 591	1 496 404	3 141 153	2 243 340	2 149 064	0.7%
22	Synth. yarn	T	T	3 097 651	1 276 933	1 329 207	3 149 925	3 624 294	-2.3%
26	Dresses	P	C	1 748 358	780 491	1 358 581	2 326 448	3 022 782	-4.3%
27	Skirts	P	C	1 390 386	1 070 045	1 786 912	2 107 253	2 593 825	-3.4%
29	Women's suits	P	C	1 299 200	604 143	756 040	1 451 097	1 386 560	0.8%
31	Brassières	P	C	624 381	1 103 127	1 905 535	1 426 789	960 220	6.8%
35	Synth wovens	T	T	3 600 360	3 063 727	2 690 941	3 227 574	3 143 503	0.4%
37	Artif. Staple fabrics	T	T	783 011	1 261 331	756 209	277 889	360 686	-4.3%
41	Synth. Fil. Yarn	T	T	2 455 486	2 510 356	3 985 016	3 930 146	4 181 531	-1.0%
47	Woolen yarn	T	T	1 676 237	369 209	227 794	1 534 822	1 819 062	-2.8%
48	Worsted yarn	T	T	2 519 716	861 268	658 775	2 317 223	2 693 489	-2.5%
50	Wool fabrics	T	T	4 934 773	3 441 139	1 251 356	2 744 990	4 224 636	-6.9%
63	Kn. Synth. Fabrics	T	T	4 552 019	1 162 517	686 023	4 075 525	4 420 915	-1.3%
68	Babies' garments	T	C	1 020 505	934 728	2 003 062	2 088 839	1 838 438	2.2%
70	Tights	P	C	1 659 358	701 260	535 028	1 493 126	1 719 675	-2.3%
76	Workwear	T	C	1 453 013	606 567	1 382 035	2 228 481	1 853 489	3.1%
86	Corsets	P	C	1 968 475	361 382	280 280	1 887 373	941 035	12.3%
	total			73 603 860	61 413 497	84 592 740	96 783 103	93 110 068	0.6%
	textile			39 626 729	26 758 399	23 000 036	35 868 366	38 898 025	-1.3%
	clothing			33 977 131	34 655 098	61 592 704	60 914 737	54 212 043	2.0%

Sources : Eurostat.

Unit : T (ton), P(1000 pieces or 1000 pairs), Code : textile (T) or clothing (C), YGR : yearly growth rate

(1) The performance of a textile category is assessed relative to EU global textile performance while that of a clothing category is assessed relative to EU global clothing performance.

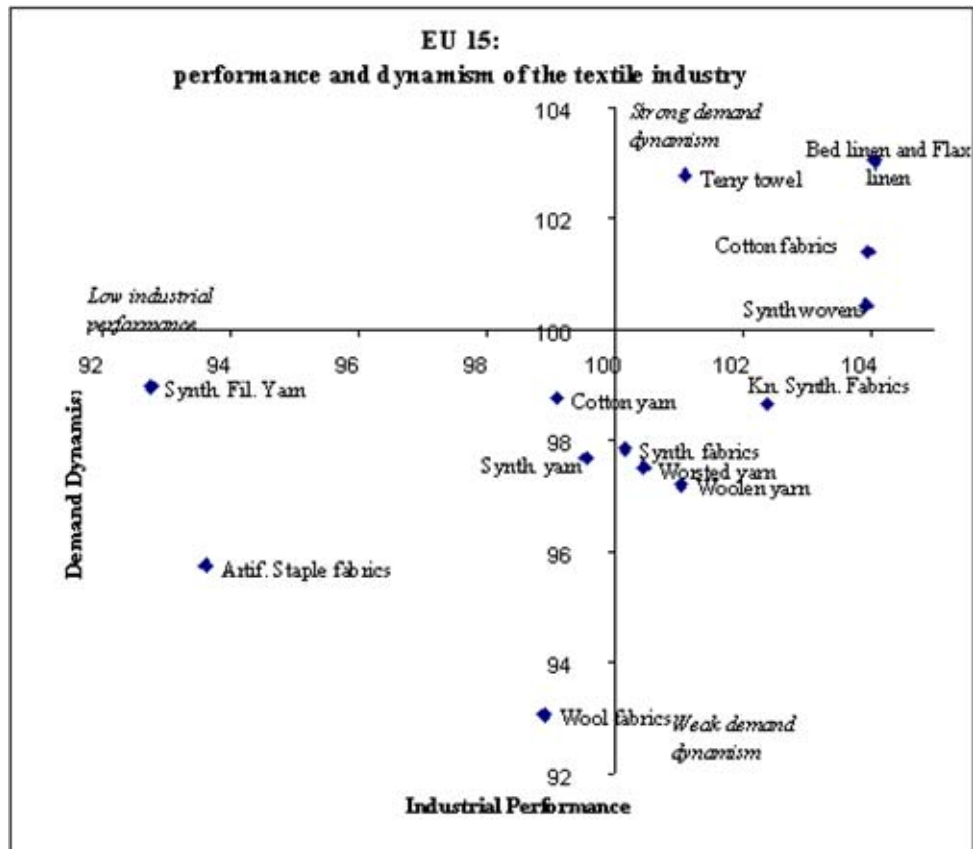
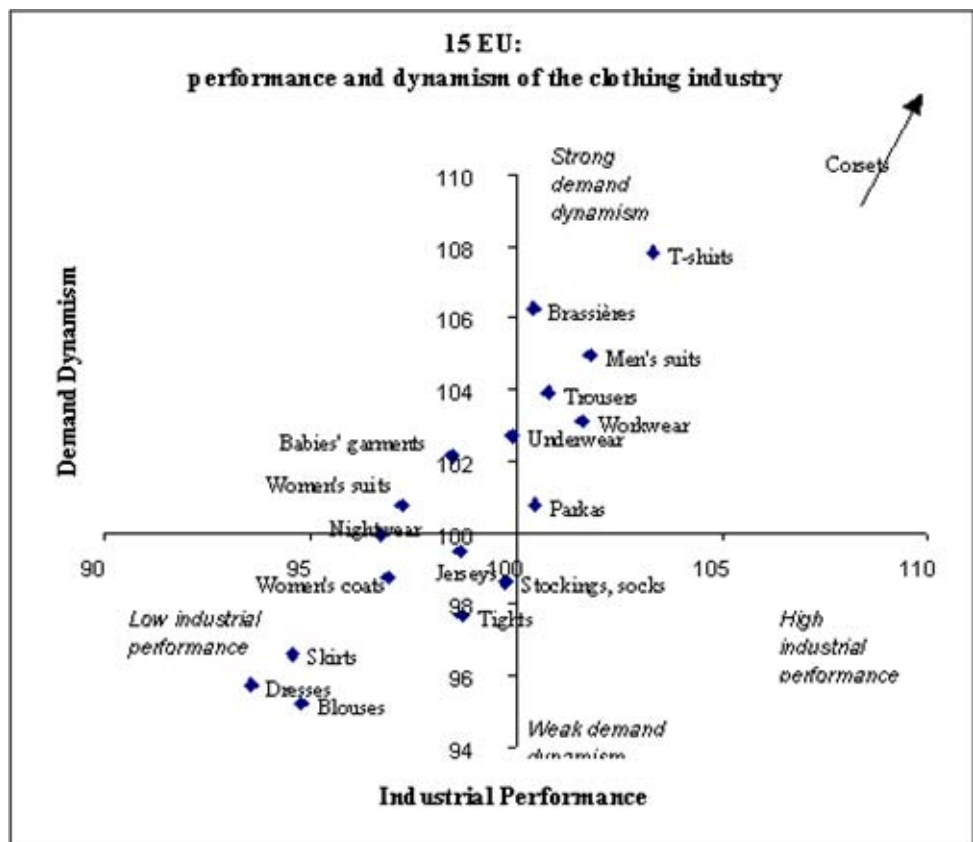


FIG 3,4



- **Protection as a competitive factor**

Protection intensity is measured in terms of tariff protection augmented with a tariff factor linked to protection through binding quota. The protection intensity does not take into account the quota growth since 1994 other than through increased or decreased “bindingness” of quota.

When one looks at the indices (Fig 5 and 6) it appears that the EU has performed fairly well in products with **little protection** (combination of tariffs/quota) such as cotton and synthetic fabrics (upper right quadrangle). The majority of products with low protection outperformed textile production as a whole. The European industry has not performed particularly well in protected products. The same is true for clothing where protection did not seem to confer any competitive advantage.

There does not appear to be any **correlation** between **industrial performance and protection intensity**. Production downsizing occurs in products with high protection (in terms of binding quota) as well as in products with low protection (without binding quota). Production remains stable in products with low protection but may decline strongly in products with high protection level.

It is especially for clothing products that there is no correlation between global performance and degree of protection.

Industrial performance has even been positive in products already liberalised in the period (tights, corsets, workwear). Industrial performance until 2001 was also positive for parkas, a category liberalised in 2002. Recent insights show that this performance must have eroded as a consequence of liberalisation and a surge of imports from China in 2002, even if EU production in 2001 is only 2% of apparent consumption. The relative neutrality of industrial performance to the degree of protection can also be explained by the fact that all products have experienced considerable growth in quota and that for all products major suppliers are free of quota (especially in the PanEuroMediterranean zone).

Protection intensity is measured based on strictly binding quotas, i.e. quotas for which the % Working Level Used (actually imported) is greater than 95%. The ratio of binding quotas over the extra-EU imports (in volume) for 2001 is assumed to correspond to an equivalent increase in conventional duties. As such, a textile category for which the conventional duty is 6 % and the ratio of binding quotas over the extra-EU imports is stable at 10% is considered in the study to benefit from a tariff equivalent total protection of 16%. This quota figure is furthermore mitigated by the change between 1995 and 2001 in the binding ratio computed as the share of quota binding at the 95% level in the extra EU imports. If it decreased by 20 %, this same figure is deducted from the quota tariff equivalent figure.

Table 20: Vulnerability analysis of T/C industry: protection

15 EU Total				units (K or P) 1 995	1 995	units (K or P) 2001	2 001	Evolution of relative weight of binding quotas 1995-2001	Conventional Duties	Indicator protection intensity (3)
mfa	category	unit	code	binding quota (1)	ratio (2)	binding quota (1)	ratio (2)			
1	Cotton yarn	T	T	68 131 916	23%	14 659 264	4%	19	4,37	8%
2	Cotton fabrics	T	T	117 425 656	34%	3 483 704	1%	33	8,40	9%
3	Synth. fabrics	T	T	84 297 479	49%	68 470 145	41%	8	8,60	46%
4	T-shirts	P	C	132 831 392	23%	197 215 415	11%	12	12,07	22%
5	Jerseys	P	C	183 511 418	64%	231 491 302	25%	39	12,40	27%
6	Trousers	P	C	97 558 813	36%	139 406 988	14%	22	12,40	23%
7	Blouses	P	C	112 387 708	46%	20 411 067	4%	42	12,50	15%
8	Shirts	P	C	79 260 698	27%	79 902 410	20%	7	12,00	31%
9	Terry towel	T	T	18 065 989	46%	18 921 822	20%	26	8,40	23%
12	Stockings, socks	P	C	260 090 902	37%	28 887 169	2%	35	11,60	13%
13	Underwear	P	C	513 330 823	69%	531 276 109	39%	30	12,00	40%
15	Women's coats	P	C	161 547	0%	18 178 761	17%	-17	12,40	32%
16	Men's suits	P	C	0	0%	0	0%	0	12,40	12%
18	Nightwear	T	C	0	0%	944 479	2%	-2	12,18	14%
20	Bed & flax linen	T	T	39 251 588	64%	42 803 549	31%	33	12,00	33%
21	Parkas	P	C	49 973 145	41%	36 263 278	28%	13	12,40	37%
22	Synth. yarn	T	T	0	0%	0	0%	0	5,00	5%
26	Dresses	P	C	29 624 840	28%	26 841 044	23%	5	12,40	34%
27	Skirts	P	C	15 403 092	45%	0	0%	45	12,40	12%
29	Women's suits	P	C	154 748	1%	12 815 556	39%	-38	12,40	66%
31	Brassières	P	C	74 377 490	62%	86 774 742	24%	38	6,50	21%
35	Synth wovens	T	T	30 257 214	99%	9 550 418	5%	94	8,60	9%
37	Artif. Staple fabrics	T	T	0	0%	0	0%	0	8,60	9%
41	Synth. Fil. Yarn	T	T	0	0%	0	0%	0	5,00	5%
47	Woolen yarn	T	T	0	0%	864 463	30%	-30	3,84	43%
48	Worsted yarn	T	T	0	0%	0	0%	0	3,84	4%
50	Wool fabrics	T	T	164 993	10%	0	0%	10	9,35	9%
63	Kn. Synth. Fabrics	T	T	0	0%	0	0%	0	6,50	7%
68	Babies' garments	T	C	218 968	1%	0	0%	1	12,30	12%
70	Tights	P	C	0	0%	0	0%	0	12,00	12%
76	Workwear	T	C	6 237 744	49%	0	0%	49	12,40	12%
86	Corsets	P	C	0	0%	0	0%	0	6,50	7%
	total			1 912 718 163	32%	1 569 161 685	14%	18	10,78	22%
	textile			357 594 835	27%	158 753 365	8%	19	7,00	13%
	clothing			1 555 123 328	33%	1 410 408 320	16%	18	12,08	25%

Sources : Sigl, Eurostat, Euratex. Unit : T (ton), P(1000 pieces or 1000 pairs), Code : textile (T) or clothing (C). YGR : yearly growth rate

(1) quota binding : value of quota for which the filling rate (licensed volume/working level volume of the quota) is greater than 95%

(2) ratio of binding quota volume over extra EU imports in volume

(3) formula of Indicator of Protection Intensity : duties+((95% quotas)*(1+(1-variation of share of binding quota in extra EU imports 1995-2001))).

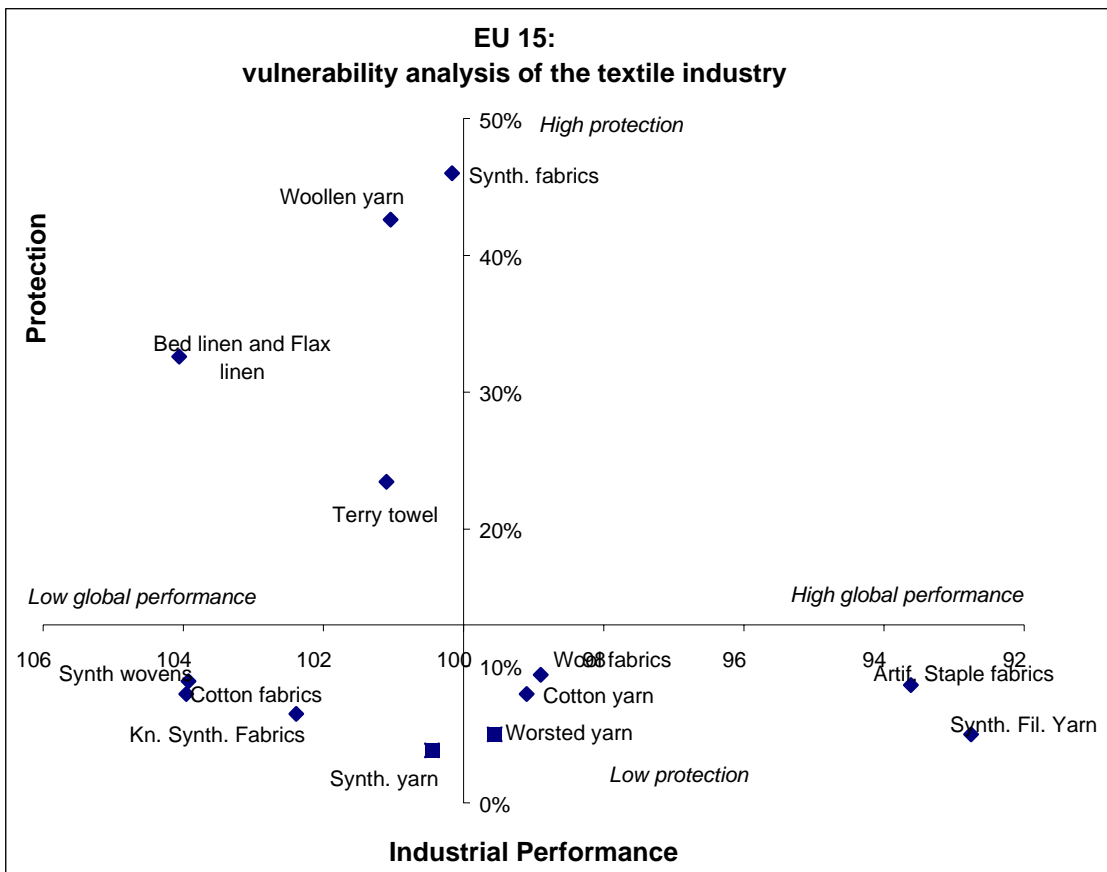
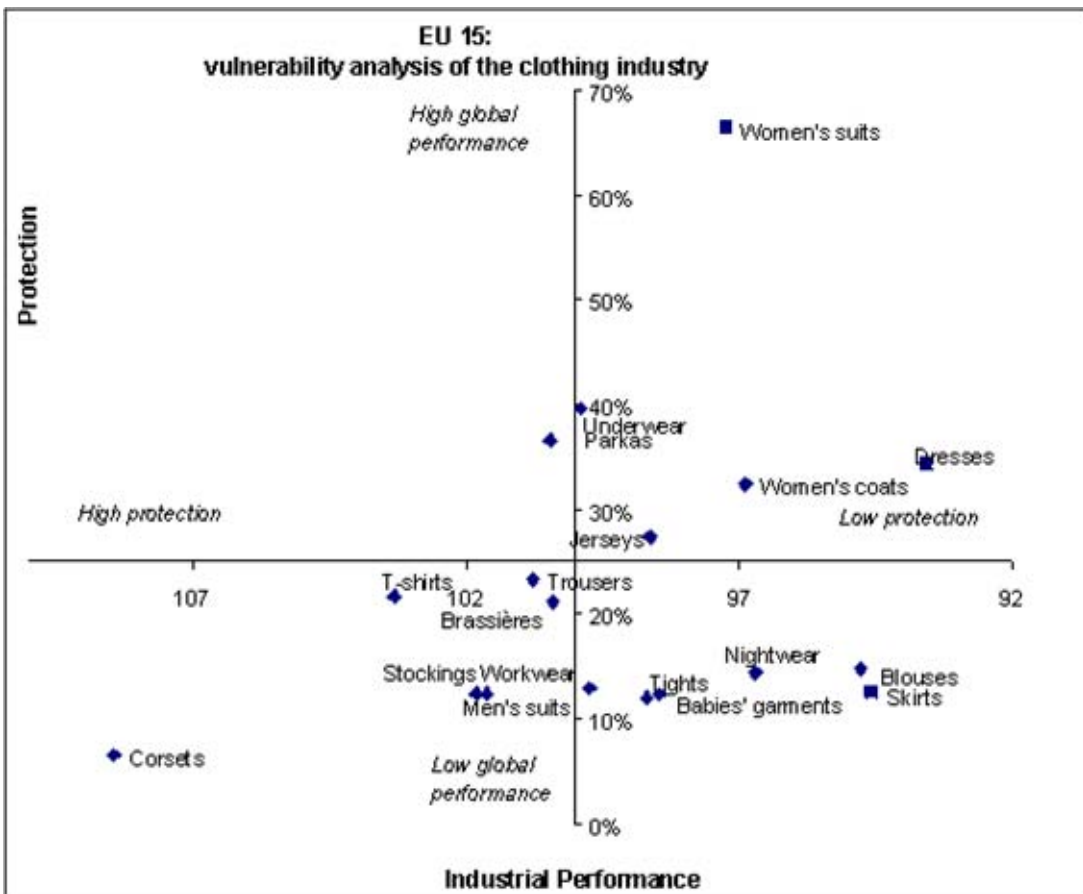


FIG 5,6



- **Logic by system**²⁰

The **cotton system** is highly dynamic with growth in imports, production and exports. The cotton sector is highly import oriented with a major and growing inflow of cotton yarns and (grey) cotton fabrics. However both intra-EU and extra-EU trade are important, with in all products, but yarns, a positive trade balance. The cotton industry must therefore be characterised as a transformation industry. An important element to explain that import and production of fabrics grows is the growth in finishing grey fabrics. This occurs either through dyeing and finishing but also through printing and coating. Fabrics can be processed into apparel, in the EU and through OPT, as well as into home textiles and technical textiles.

The **transformative nature** of the cotton industry clearly differentiates European products from imports, as mainly commodity yarns and fabrics are imported while differentiated products (fabric systems) are made through various finishing methods. Dynamism of local demand is an important factor explaining a globally positive output. It is also important to bear in mind that that the cotton fabric sector covers a widening range of application with demand dynamism in home textiles (often printed) and technical textiles (often coated) while cotton fabrics do also contain complex blends in which cotton is only one of the elements.

The **wool system** is still largely a vertically integrated European system. Imports of wool are transformed into yarns which in turn are the input for fabrics, carpets and knitwear. Yarns are still predominantly produced for fabrics although carpets are a growing outlet (especially for the UK). Fabrics are partly processed into the clothing in the EU and partly exported under OPT arrangements. Clothing is the main destination for woollen fabrics although in some countries upholstery fabric is of growing significance. Imports of fabrics are limited and direct imports of woollen clothing is also limited. The dominant dynamic in the wool system is therefore not import penetration but low dynamism of demand.

The **synthetic system** is similar to the cotton system with a high dynamism but with distinct features. The production of all yarn types declines with the exception of typical technical yarns (HT polyester, Aramides). However this growth does not compensate for important declines in more generic commodity yarns (acrylics and cellulosic) that do globally decrease by 10 %. Declining production of yarns is not compensated by growing imports of yarns, but by increased imports of fabrics. Even growth in import of fabrics does not cover the decline of fabric production. It is rather more imports at apparel level that leads to an erosion of the whole chain. The erosion of apparel type fabrics is only partly compensated by technical textiles (especially in synthetic filament fabrics and in PP/PE large wovens). Technical textile production has either high barriers of entry, or is largely made up of high volume/low margin products. It is only for few firms a valid diversification.

While competition intensity explains much of restructuring, low demand dynamism in European strongholds such as tailored men and ladieswear is also an important factor.

²⁰ Notion of systems explained in the beginning of the present chapter : see section Segmentation of data

The clothing system is partly in the prolongation of the textile industry a transformative sector based on a combination of EU production and OPT. It has partly become an import system with EU production substituted by extra-EU imports based on non-EU textiles. Within clothing the EU is now specialised in the production of short cycle items : clothing requiring less than 20 minutes machining time. It is mainly the production of labour intensive items that has declined. This correlates highly with a fair amount of resistance in the production of knitted clothing compared to woven clothing.

- **The Candidate Countries**

The selected Central and Eastern European countries accessing to the Union are analysed on a separate data set (only exports and imports) as production data is not available on a comparable and reliable basis. As other insights enable to conclude that 80 to 90 % of production in the CEECs is export oriented, trade data is a good indicator of strategy, evolution and vulnerability.

All selected countries are strongly engaged in textile and clothing. They do all have a more or less balanced trade and are already highly internationalised and integrated into the Union. More than 70 % of their trade is with the EU. For the sake of comparison their textile and clothing industry is already **more integrated into the EU** than Portugal and Greece were at the moment of EU accession and still more than Spain was in 2001.

Their **integration** is visible in three stages. In the first place they have developed a substantial yarn export especially to the EU. This growth in export partly mirrors the declining production and growing yarn input of the Union. In the second place most CEECs are important importers of EU fabrics both for OPT and for local demand. Finally all countries are important exporters of apparel to the EU, often based on EU fabrics. In all countries but the Czech Republic clothing is more important than textiles.

It is important to notice that export growth since 1995 (except for the Baltic States) is below double digit. For Poland it is even negative. This is in stark contrast with the period until 1995 when growth was over 10 % a year. This means that **liberalisation of trade** which occurred after 1995 did not create a surge of trade. Imports of clothing have even stabilized or declined, reflecting a low demand dynamism. The importance of trade flows compared to production confirms a position wherein CEECs import low cost items from Asia and high value items from the EU while its exports concern commodity yarns and mid-market clothing.

This shows that the candidate countries are already **exposed to imports**. It demonstrates also a high degree of specialisation but also a vulnerability to outside decision makers.

Globally one can speak of a Middle-European model as most countries have similar structures. Differences between the candidate countries are gradual and with some niches. The Czech Republic is slightly stronger in textiles than in clothing and has a sizeable technical textile industry. It has also been a major destination of investments in spinning and weaving from German companies.

Table 21: Trade competitiveness analysis of new member states

New Member States : 3 Baltic Countries, Poland, Czech Republic, Hungary			VALUE	VALUE	Exports	VALUE	VALUE	Imports
			Exports	Exports	YGR	imports	imports	YGR
code	category	content	1995	2001	1995-2001	1995	2001	1995-2001
1	Cotton yarn	5205+5206	116 961	210 231	10%	138 516	264 168	11%
2	Cotton fabrics	5208-12	947 343	922 141	0%	947 532	983 610	1%
3	Synth Staple fabrics	5512-15	472 101	466 983	0%	480 594	532 600	2%
22/23	Synth Staple yarn	5509+5510	116 860	188 456	8%	108 952	187 374	9%
35/37	Synth Fil Fabrics	5407-08	695 359	692 588	0%	544 092	680 500	4%
41	Synth Fil yarn	5402-03	354 373	597 950	9%	374 016	644 093	9%
47	Wool yarn	5107	93 137	163 130	10%	83 982	160 173	11%
48	Worsted yarn	5106	9 137	28 119	21%	5 376	26 488	30%
50	Wool fabrics	5111-12	506 292	405 874	-4%	404 928	391 196	-1%
118	Linn fab	5309	141 188	134 933	-1%	132 377	136 851	1%
4	T-shirts	6109	310 785	463 327	7%	195 786	434 023	14%
5	Jerseys	6110	421 988	654 690	8%	324 063	649 453	12%
	Global Apparel Men	6201+6203	1 285 501	1 365 697	1%	1 139 451	1 256 159	2%
	Global Apparel Women	6202+6204	1 435 901	1 568 816	1%	1 514 391	1 622 444	1%
7	Blouses	6206	414 488	333 717	-4%	445 232	329 578	-5%
8	Shirts	6205	388 133	249 783	-7%	279 429	205 321	-5%
20	Bed and Table linen	6302	267 457	389 566	6%	259 280	339 393	5%
Total of all sh6 categories			13 767 132	16 163 251	3%	13 078 964	16 001 377	3%
Textile (from 1 to 118 above)			3 230 759	3 684 730	2%	3 220 365	4 007 053	4%
Clothing (from 4 to 20 above)			4 524 253	5 025 596	2%	4 157 632	4 836 371	3%

(1) Extra EU corresponds to extra EU (15)

Source : Comtrade (United Nations)

Table 22: Competitive analysis textile categories of new member states

New Member States :			Export	Export	Import	Import	1995	2001
3 Baltic Countries, Poland, Czech Republic, Hungary.			Unit value	Unit value	Unit value	Unit value	Price Differentiation	
code	category	content	1995	2001	1995	2001	Unit Value export/Unit Value import	
1	Cotton yarn	5205+5206	4.46	3.10	3.90	3.23	1.14	0.96
2	Cotton fabrics	5208-12	4.39	6.00	7.13	6.68	0.62	0.90
3	Synth Staple fabrics	5512-15	13.40	7.35	8.73	8.14	1.53	0.90
22/23	Synth Staple yarn	5509+5510	4.47	3.90	4.37	3.65	1.02	1.07
35/37	Synth Fil Fabrics	5407-08	13.19	4.28	9.05	5.86	1.46	0.73
41	Synth Fil yarn	5402-03	3.69	2.93	3.87	2.74	0.95	1.07
47	Wool yarn	5107	11.48	8.68	11.35	8.57	1.01	1.01
48	Worsted yarn	5106	7.61	6.27	5.61	6.24	1.36	1.01
50	Wool fabrics	5111-12	22.64	14.13	21.78	16.12	1.04	0.88
118	Linn fab	5309	13.53	10.64	9.97	11.88	1.36	0.90
4	T-shirts	6109	0.00	0.00	0.08	0.03	0.04	0.13
5	Jerseys	6110	0.04	0.02	0.21	0.17	0.18	0.13
	Global Apparel Men	6201+6203	0.03	0.04	0.91	0.35	0.03	0.11
	Global Apparel Women	6202+6204	0.06	0.08	1.31	0.18	0.05	0.46
7	Blouses	6206	0.06	0.10	1.10	0.09	0.05	1.20
8	Shirts	6205	0.01	0.01	0.33	0.17	0.03	0.04
20	Bed and Table linen	6302	0.03	0.01	1.95	2.15	0.02	0.00

Source : Comtrade (United Nations)

Poland has already achieved a ceiling after having benefited from the surge of OPT in the first half of the 1990s. Privatisation has been long and has lacked transparency. Textile production has not benefited as much from integration into the EU.

Textile production in **Hungary** was already downsized in the beginning of the 1990's. It is now somehow picking up under the influence in foreign investors. However the performance of Hungary is largely based on OPT. As Hungary sees its position eroding in OPT it shifts its focus to short cycle items.

Baltics have a good overall performance, with a later growth of OPT than the other countries. Baltic countries have specific niche positioning which is linked to the specialisation in the former USSR and often to one single company. Estonia has a strong position in cotton yarn and fabrics, Lithuania in linen.

Most candidate countries have a level of protection similar to the EU. They do also combine this with an already high level of extra-EU imports. However **Poland** has still a much higher tariff protection for most products, while Latvia and Lithuania have a higher protection on some products. One will find in the next sub-section a detailed review of Customs Tariffs applied by candidate Member States.

Between 1995 and 2001, T/C total exports of the new Member States (the three Baltic States, Poland, Hungary and Czech republic) increased by 17%. The situation varies however greatly depending on the category of products as shown in the figures 7 and 8. Three different groups of T/C products can be distinguished in the analysis of New Member States' trade competitiveness.

Products of the spinning sector (worsted, cotton, woollen, synthetic staple and synthetic filament yarns) are the most dynamic. They are characterised by a high export performance (exports yearly growth rates over 5%). On average, yarns exports have risen by 70% between 1995 and 2001. Their share of total T/C exports climbed from 5 to 7.3%. The trade competitiveness of the spinning sector is further confirmed by a unit value ratio over one. For all yarn products, average export prices are higher than average import prices. This price differentiation would be consistent with finishing know how of the new Member States.

The knitwear industry (T-shirt and jerseys) also appears to be trade competitive, despite the deterioration of the trade balance. The performance of exports is high but lower than imports penetration of the market.

Products of the weaving industry as well as men and women apparel have entered into a stagnation phase with yearly growth rates around 0 for both imports and exports. The share of fabrics in total T/C exports declined from 39.8% to 34.4% between 1995 and 2001. Export prices are furthermore lower than import prices. Some apparel categories appear in sharp decline both in terms of exports and imports, such as shirts and blouses.

Outlook

Most CEECs will face a further downsizing if they are not able to shift from OPT to direct exports. However the weak capital base of most candidate countries limits such a development. Countries with a strong fibre and yarn base may benefit from the increased sourcing of inputs by the EU industry. One may expect that they will suffer from liberalisation as their preferential access to the EU will be eroded. In the same time the protection of their domestic market will be lessened. From all candidate countries Poland and Hungary are the most vulnerable. The Baltic States benefit from a relative cost advantage and the Czech Republic has a more competitive textile base.

- **Note on Customs duties in candidate countries**

"Tariffs applied in the countries under review for the products of HS Chapters 50 to 63 can be found on line in <http://mkaccdb.eu.int> and other national web sites quoted in this document".

POLAND

1. Applied tariffs for EU imports of T/C products into Poland

EU products of chapters 50 to 63 imported into Poland **duty free**.

2. Applied tariffs for non EU imports of T/C products into Poland

Imports from EFTA countries : duty free. Certain imports from developing countries (GSP) eligible for preferential treatment. Imports from Israel eligible for preferential treatment. Certain imports from Bulgaria, the Czech Republic, Estonia, the Faeroe Islands, Hungary, Latvia, Lithuania, Romania, Slovakia, Slovenia and Turkey duty free.

Poland being an important producer of natural fibres, the structure of applied tariffs is characterised by **high tariffs** for textile and clothing products made out of natural fibres, in particular **flax**. In addition, tariffs applied for **impregnated fabrics** (up to 25%) and for **special woven fabrics** (up to 30%) are (with India) the highest among the suppliers under review.

- **Raw materials** : from 0% (raw silk, wool, cotton) up to 15% (raw flax). **Synthetic fibres** are charged with a 4 to 8% duty.
- **Yarns** : from 0% (wool) up to 20% (ramie).
- **Fabrics** : from 0 to 30%. Tariff peaks for some impregnated fabrics (25%) and special woven fabrics (30%).
- **Carpets** : uniform duty of 15%.
- **Apparel** : uniform 18% duty.
- **Made ups** : from 18% to 30%.

Product	Silk (chapter 50)	Wool (chapter 51)	Cotton (chapter 52)	Synthetic (chapters 54-55)	Flex (chapter 53)
Raw materials	0 – 5%	0 – 3%	0%	0 – 12%	0- 15%
Yarns	9%	0 – 9%	6-9%	0 – 12%	6 - 20%
Fabrics	12%	12%	12%	9 %	0 - 20%

Product (all types)	
Carpets (chapter 57)	15%
Special woven fabrics (chapter 58)	9 – 30%
Impregnated fabrics (chapter 59)	9 – 25%
Knitted fabrics (chapter 60)	9%
Apparel (chapters 61-62)	18%
Made ups (chapter 63)	18% - 30%

3. Additional import taxes

VAT : 22% on duty paid value.

CZECH REPUBLIC

1. Applied tariffs for EU imports of T/C products into the Czech Republic

EU products of chapters 50 to 63 imported into the Czech Republic **duty free**.

2. Applied tariffs for non EU imports of T/C products into the Czech Republic

Imports from EFTA countries duty free. Certain imports from developing countries (GSP) eligible for preferential treatment. Imports from other CEFTA countries ²¹ duty free. Free trade agreements with Croatia, Estonia, Israel, Latvia, Lithuania and Turkey (preferential treatment). Bilateral Customs Union with the Slovak Republic.

The structure of applied tariffs is characterised by lower tariffs for fabrics, carpets and apparel than those applied by the other suppliers under review (except Turkey). For man-made fibres and yarns, applied tariffs remain above the average. Applied Customs duties in 2003 are as follows :

- **Raw materials :** from 0% to 15.2% (ex : synthetic filament). Raw jute :10% duty.
- **Yarns :** from 0% (silk, wool) up to 16.8 % (sewing thread of man made fibre).
- **Fabrics :** from 0% (some synthetics) to 10.1%.
- **Carpets :** from 3.6% to 12.6%.
- **Apparel :** from 2 to 13.2%.
- **Made-ups :** from 3.6 to 29.4%.

Product	Silk (chapter 50)	Wool (chapter51)	Cotton (chapter 52)	Synthetic (chapters 54-55)	Flax/Others (chapter 53)
Raw materials	0%	0%	0 – 2.5%	0 – 15.2%	0 %-10%
Yarns	0.8% - 4.3%	0 – 4.7%	1.7 – 6.2%	0 – 16.8%	1.3 – 6.8%
Fabrics	3.3 – 4.3%	2.7- 6.2%	4.2 – 10.1%	0 – 7.6%	2.6 – 10.1%

Product (all types)	
Carpets (chapter 57)	3.6 – 12.6%
Special woven fabrics (chapter 58)	0 – 10.1%
Impregnated fabrics (chapter 59)	0 – 9.2%
Knitted fabrics (chapter 60)	4.7– 7.6%
Apparel (chapters 61-62)	2 – 13.2%
Made ups (chapter 63)	0 – 29.4%

3. Additional import taxes

VAT: 22 % on duty paid value.

²¹ Czech Republic, Hungary, Poland, Slovenia, Slovak Republic and Romania

HUNGARY

1. Applied tariffs for EU imports into Hungary of T/C products

EU products of chapters 50 to 63 imported into Hungary **duty free**

2. Applied tariffs for non EU imports into Hungary of T/C products

Imports from EFTA countries duty free. Certain imports from developing countries (GSP) eligible for preferential treatment. Imports from other CEFTA duty free. Free trade agreements with Israel, Latvia, Lithuania, Turkey and Federal Republic of Yugoslavia.

The structure of applied tariffs is characterised by high tariffs for special woven fabrics (up to 20%). Other products are subject to a lower level of protection, compared to other suppliers under review, in particular for carpets, knitted fabrics, impregnated fabrics or apparel. Applied Customs duties for products of chapters 50 to 63 are as follows :

- **Raw materials :** from 0% up to 7%. Tariff peaks for ramie and some synthetic.
- **Yarns :** from 0% (silk, natural) to 8.5%.
- **Fabrics :** from 0% (some cotton, natural) to 20% (special fabrics (5807909001))
- **Carpets :** from 0 to 8.5%.
- **Apparel products :** from 3% (e.g. some babies' garments) to 13%. Most products from chapter 62 charged with 10%, while most of products of chapter 61 charged with 13% duty. The 3% duty is applicable only for part of children stockings and socks.
- **Made-ups :** from 3 – 12.1%

Product	Silk (chapter 50)	Wool (chapter 51)	Cotton (chapter 52)	Synthetic (chapters 54-55)	Flax/others (chapter 53)
Raw materials	3 – 6%	3 - 5%	0 – 3%	0 – 7%	0 – 5%
Yarns	0- 7%	6 – 7.7%	5 – 8%	0 – 8.5%	0 – 8.5%
Fabrics	7%	7 – 10%	0 – 10%	7 – 10%	7.5 – 10%

Product (all types)	
Carpets (chapter 57)	0 – 8.5%
Special woven fabrics (chapter 58)	7 – 20%
Impregnated fabrics (chapter 59)	7 – 13%
Knitted fabrics (chapter 60)	7 – 13%
Apparel (chapters 61-62)	3 – 13%
Made ups (chapter 63)	3 – 12.1%

3. Additional import taxes

VAT : 25% on duty paid value. 12% VAT applied for ex 6115 and ex. 6117.80/90.

SLOVAK REPUBLIC

1. Imports into the Slovak Republic of EU T/C products

EU products of chapters 50 to 63 imported into the Slovak Republic **duty free**.

2. Imports into the Slovak Republic of non EUT/C products

Imports from EFTA countries duty free. Imports from other CEFTA countries duty free. Free trade agreements with Estonia, Israel, Latvia, Lithuania and Turkey (preferential treatment). Preferential treatment for developing and least developed countries. Customs Union with the Czech Republic.

Applied Customs duties for products of chapters 50 to 63 are as follows :

- **Raw materials :** from 0% up to 15.2% (for synthetic filament tow (5501909000) or synthetic staple fibre – 5503400000). Raw jute : 10%.
- **Yarns :** from to 16.8% (5508209000 sewing thread of artificial staple fibres).
- **Fabrics :** from 0 to 10.1% Most woven fabrics of synthetic staple fibres : 3.9%.
- **Carpets :** from 3.6 to 12.6 %.
- **Apparel :** from 2 to 13.2%.
- **Made-ups :** from 0% to 29.4% (only 3 positions at 29.3% floor and cleaning cloths) and 4 at 0% (6309 0000 00, 6310).

Product	Silk (chapter 50)	Wool (chapter 51)	Cotton (chapter 52)	Synthetic (chapters 54-55)	Flax/others (chapter 53)
Raw materials	0%	0%	0 – 2.5%	0 – 15.2%	0 - 10%
Yarns	0.8 – 4.3%	0 – 4.7%	1.7 – 6.2%	0 – 16.8%	0 – 6.8%
Fabrics	3.3 – 4.3%	2.7 – 6.2%	4.2 – 10.1%	0 – 7.6%	2.6 – 10.1%

Product (all types)	
Carpets (chapter 57)	3.6 – 12.6%
Special woven fabrics (chapter 58)	0 – 10.1%
Impregnated fabrics (chapter 59)	0 – 9.2%
Knitted fabrics (chapter 60)	4.7 – 7.6%
Apparel (chapters 61-62)	2 – 13.2%
Made ups (chapter 63)	0 – 29.4%

3. Additional import taxes

VAT : 20 % on duty paid value.

SLOVENIA

1. Imports into Slovenia of EU T/C products

EU products of chapters 50 to 63 imported into Slovenia **duty free**.

2. Imports into Slovenia of non EU T/C products

Imports from other CEFTA countries duty free. Free trade agreements with EFTA, Bosnia-Herzegovina, Estonia, Israel, Latvia, Lithuania, FYR Macedonia and Turkey (preferential treatment).

The structure of applied tariffs is rather similar than those of other CEEC's countries under review, with a special emphasis on wool fabrics and apparel (higher level of protection).

Applied Customs duties for products of chapters 50 to 63 are as follows :

- **Raw materials** : from 0% up to 8%(only synthetics staple fibres : e.g.5506901000);
- **Yarns** : from 0% to 12%.
- **Fabrics** : from 0 to 15%.
- **Carpets** : from 0 to 14%.
- **Apparel** : for knitted articles of apparel from 8% (autonomous rate for 6117 8090 00) to 21% (6203 2100 00). Most products : uniform duty of 18%.For non knitted products (chapter 62) : from 17% to 22% (only 6205 1000 00).
- **Made-ups** : from 0% (autonomous rate for some positions, such as 6305 3281 00) to 18% (for most of the products of chapter 63).

Product	Silk (chapter 50)	Wool (chapter51)	Cotton (chapter 52)	Synthetic (chapters 54-55)	Flax/others (chapter 53)
Raw materials	0 – 4%	0 - 3%	0 - 2%	0 – 8%	0%
Yarns	3 – 7%	4 – 7%	0- 12%	0 – 12%	0 – 6%
Fabrics	0 – 8%	0 – 17%	0 – 12%	0 – 15%	0 – 14%

Product (all types)	
Carpets (chapter 57)	0 – 14%
Special woven fabrics (chapter 58)	0 - 15%
Impregnated fabrics (chapter 59)	0 – 14%
Knitted fabrics (chapter 60)	0 – 12%
Apparel (chapters 61-62)	8 – 22%
Made ups (chapter 63)	0 – 18%

3. Additional import taxes

VAT : 20 % on duty paid value

LATVIA

1. Imports into Latvia of EU T/C products

EU products of chapters 50 to 63 imported into Latvia **duty free**

2. Imports into Latvia of non EU T/C products

Latvia has signed free trade agreements with the Czech Republic, Estonia, Hungary, Lithuania, Poland, Slovakia, Slovenia, Turkey, Ukraine and EFTA countries (preferential treatment).

Latvia applies **low tariffs**, in particular for raw materials, yarns and carpets (0%) and for made ups (0 – 3%). For fabrics also, applied duties are kept at a lowest level compared with other suppliers, even if higher for natural fibres, some special woven and some knitted fabrics (up to 15%). Tariffs for apparel (in particular non knitted) are lower than those applied by other suppliers.

Applied Customs duties for products of chapters 50 to 63 are as follows :

- **Raw materials** : from 0% up to 10% (true hemp, raw jute).
- **Yarns** : from 0 to 10%.
- **Fabrics** : for most silk, wool, cotton, synthetic fabrics : 0%.
Some cotton fabrics : up to 12%.(5112). In addition, fabrics out of natural fibres, some special woven fabrics (5802, 5803, 5804) and knitted fabrics are subject to a 15% duty.
- **Carpets** : 0%.
- **Apparel** : 0 % to 15% for knitted products. From 3% to 15% for non knitted.
- **Made-ups** : from 0% to 3%.

Product	Silk (chapter 50)	Wool (chapter51)	Cotton (chapter 52)	Synthetic (chapters 54-55)	Flax/others (chapter 53)
Raw materials	0%	0%	0%	0 - 3%	0 - 10%
Yarns	0%	0%	0%	0 - 3%	10%
Fabrics	0%	0%	0 - 15%	0 – 3%	0 – 15%

Product (all types)	
Carpets (chapter 57)	0%
Special woven fabrics (chapter 58)	0 – 15%
Impregnated fabrics (chapter 59)	0 – 3%
Knitted fabrics (chapter 60)	0 – 15%
Apparel (chapters 61-62)	0 – 15%
Made ups (chapter 63)	0 – 3%

3. Additional import taxes

VAT : 18 % on duty paid value

LITHUANIA

1. Imports into Lithuania of EU T/C products

EU products of chapters 50 to 63 imported into Lithuania **duty free**.

2. Imports into Lithuania of non EU T/C products

Free trade agreements with EFTA, the Czech Republic, Estonia, Hungary, Latvia, Poland, Slovakia, Slovenia, Turkey and Ukraine. Free trade agreements with Romania and Bulgaria signed but not ratified.

The structure of applied tariffs is characterised by **low applied tariffs** for raw materials (except flax), yarns and, to a lesser extent, for silk, wool and synthetic fabrics (chapters 50, 51, 52, 54, 54). For flax fabrics, impregnated fabrics and knitted fabrics, applied duties are more similar to other suppliers under review. Same for apparel and made ups. Tariff peaks for flax raw and fabrics. Nevertheless, applied tariffs for carpets are higher than those applied by neighbouring suppliers.

- **Raw materials :** for silk, wool cotton, natural, except flax : 0%. For flax raw : 30%.
- **Yarns :** from. 0 to 8.3%
- **Fabrics :** from 0% to 14% (some special woven and impregnated fabrics).
- **Carpets :** from 20.8 to 23.6%
- **Apparel products :** most products at 15%, except 0611 59310 00 at 0%.
- **Made-ups :** 0 – 14.2%

Product	Silk (chapter 50)	Wool (chapter51)	Cotton (chapter 52)	Synthetic (chapters54-55)	Flax /others (chapter 53)
Raw materials	0%	0%	0%	0 %	0 – 30%
Yarns	0%	0%	0%	0 - 8.3%	0%
Fabrics	0 – 14%	13.7 – 14%	0 – 14%	0 – 14%	0 – 14%

Product (all types)	
Carpets (chapter 57)	20.8 – 23.6%
Special woven fabrics (chapter 58)	0 – 10%
Impregnated fabrics (chapter 59)	0 – 10%
Knitted fabrics (chapter 60)	13.3 – 14%
Apparel (chapters 61- 62)	0 – 15%
Made ups (chapter 63)	0 – 14.2%

3. Additional import taxes

VAT : 18% on duty paid value with the following exceptions 5208.11.10.0 and 5208.21.10.0, which are exempted from VAT. Stamp duty – variable fee between 30 and 100 Lithuanian Lit.

ESTONIA

1. Imports into Estonia of T/C products

T/C products imported **duty free** (MFN and EU).

2. Additional taxes

VAT : 18% on duty paid value.

Customs clearance fee – State fee of 100 Estonian Kronas per import declaration.

CYPRUS

1. Imports into Cyprus of EU T/C products

EU products of chapters 50 to 63 imported into Cyprus **duty free**.

2. Imports into Cyprus of non EU T/C products

The structure of applied tariffs is characterised by rather low applied duties for raw materials and yarns, except for flax raw (8%). Applied duties for fabrics and carpets are also below the average level of other suppliers under review (except Turkey).

Applied Customs duties for products of chapters 50 to 63 are as follows :

- **Raw materials :** from 0 up to 8% (raw flax)
- **Yarns :** from 0 to 5.8%.
- **Fabrics :** from 3 to 9.8%.
- **Carpets :** from 3.7 to 9.2%
- **Apparel products :** from 8 to 12.6%
- **Made-ups :** from 0 (only 3605101000) to 12.4%. The majority of products are subject to 12.4% duty.

Product	Silk (chapter 50)	Wool (chapter 51)	Cotton (chapter 52)	Synthetic (chapters 54-55)	Flax/others (chapter 53)
Raw materials	0%	0 – 2%	0%	4.6 – 5.2%	0-8%
Yarns	2.9 – 5.2%	3.2 – 5.3%	4– 5.8%	3.8 – 5.8%	0 – 5.2%
Fabrics	3 – 7.5%	7.2 – 9.8%	8.4%	8.6%	4 – 9.2%

Product (all types)	
Carpets (chapter 57)	3.7 – 9.2%
Special woven fabrics (chapter 58)	5 - 9.4%
Impregnated fabrics (chapter 59)	4 – 8.8%
Knitted fabrics (chapter 60)	6.5 - 8.8%
Apparel (chapters 61-62)	8 – 12.6%
Made ups (chapter 63)	0 – 12.4%

3. Additional import taxes

VAT : 15% on duty paid value.

MALTA

1. Imports into Malta of EU T/C products

EU products of chapters 50 to 63 imported into Malta **duty free**.

2. Imports into Malta of non EU T/C products

The structure of applied tariffs is characterised by rather low applied duties for raw materials and yarns. Nevertheless, high level of protection for wool fabrics.

Applied Customs duties for products of chapters 50 to 63 are as follows :

- **Raw materials :** from 0% up to 5% (synthetics)
- **Yarns :** from. 0% (wool) to 9% (synthetics).
- **Fabrics :** from 3 to 17% (tariff peak for wool fabrics).
- **Carpets :** from 4 to 14%.
- **Apparel :** from 6.3% to 14 % (majority of products charged with 14%).
- **Made-ups :** from 2% (only for 6305101010 and 6305109000) to 14%. Only 4 positions being duty free (6310)

Product	Silk (chapter 50)	Wool (chapter51)	Cotton (chapter 52)	Synthetic (chapters 54-55)	Flax/others (chapter 53)
Raw materials	0%	0%	0%	4.7 – 5%	0%
Yarns	2.9 – 6.2%	0 - 6.5%	2.5 – 9%	2.5 – 9%	0 – 4.9%
Fabrics	3 – 7.5%	7.2 – 17%	10%	11%	4 - 14%

Product (all types)	
Carpets (chapter 57)	4 – 14%
Special woven fabrics (chapter 58)	5 – 15%
Impregnated fabrics (chapter 59)	4.4 – 14%
Knitted fabrics (chapter 60)	6.5 – 12%
Apparel (chapters 61-62)	6.3 - 14%
Made ups (chapter 63)	0 – 14%

3. Additional import taxes

VAT : 15% on duty paid value.

- **Methodological note (internal analysis)**

Selection of relevant T/C categories

The above analysis is based upon two different datasets : a dataset on the trade volumes and values of EU countries for 1995 and 2001 (source : EUROSTAT) and a dataset on output volume from 1995 and 2001 in the EU-15 Member States (source : EURATEX). While the trade dataset covers a total of 137 textile and clothing ATC categories, the output dataset only considers 53 categories for which output figures are available for either in 1995 or 2001. This reduced sample of 53 categories covers 69 % of the total exports of the EU in 2001.

The selection of representative textile and clothing categories has been made on basis of the importance in terms of output and export values²². The twenty most important categories in terms of EU exports and output have been retained as well as categories that appear among the 10 most important categories in terms of output for specific EU countries. Moreover, 4 categories with binding quotas were added to this list : Men's jackets, Panties, Women's suits and Babies' garment.

A total of 32 categories is thus obtained : 13 textile and 19 clothing categories. This selection covers 89 % of the output of the 53 categories (90 and 87 % of the textile and clothing output respectively) and 85 % of the exports of the 53 categories (86 and 85 % of the textile and clothing output respectively) in 2001.

The coverage of the reduced sample can be considered quite satisfactory since it includes almost all thirty major categories from the original global dataset of exports (137 categories).

Units and indicators

Output in volume (pieces or tons) is valorised using unit export values computed through the comparison of total export in value (1000 Euros) and volume (pieces or tons) specifically for each countries and each year (1995 and 2001). Adjustments have been made for the shirt category in 1995. Export unit values for Greece and Spain are found to be abnormally low while those of Portugal and Finland are found to be abnormally high. The unit values of 2001 were then adjusted for the EU average evolution between 1995-2001 to compute the adjusted unit value for 1995. The same method was applied for Jerseys in Denmark for 2001, Gloves and Parkas in Greece in 2001, Women's coats in France, Gloves in Italy for 2001, T-shirts in England in 2001, Knitted. Trousers in Denmark in 2001, Artificial Yarn in Sweden in 2001, Other knitted Clothing in Greece in 2001. On the other hand, Continuous Artificial fabrics in Greece in 1995, Swimwear (equal to Finland's price) , Flax yarn and Flax fabrics in Austria 1995, bed Linen in Spain in 2001 and Jerseys in 2001 for UK and Portugal were kept equal to their values in 1995. Brassieres in Italy in 2001.

²² The present research focuses on the impact of 2005 liberalisation on the EU T/C industry i.e. on the stakes within the EU. Therefore the importance of existing imports has not been used as a primary selection criterion. However all categories with highly-filled quotas (above 80%) have been included in the analysis.

No output volume is reported for Knitted Synthetic. Fabrics (category 63 and 65) in 1995 : 1996 data was used instead. No output volume is reported for Flax Fabrics (category 117) in 2001 : 2000 data was used instead.

Output values often appear very low casting doubts on the reliability of these data. Putting trade figures into perspective using output values therefore appears hardly feasible since exports rates turn out very high and hardly interpretable. As such in the analysis of vulnerability, it was decided to concentrate on growth rates between 1995 and 2001 rather than on the level values.

The objective measurement of the EU T/C **industry competitiveness** and the analysis of the **factors** which explain and support it rely on the computation of four indicators.

To describe and measure the EU T/C industry competitiveness the present report chooses to use a set of two indicators :

- industrial performance
- competitive position

The investigation of potential explanatory factors of the T/C competitiveness and therefore of potential sources of vulnerability is conducted based on two indicators of protection intensity and local demand dynamism.

The two indicators of competitiveness for T/C categories by EU countries are computed as arithmetic difference from the EU average for textile or for clothing. The indicator of competitiveness of each T/C category is assessed as following :

Indicator of competitiveness of a textile category= competitiveness of that category – average competitiveness of all textile categories (base 100).

Indicator of competitiveness of a clothing category= competitiveness of that category – average competitiveness of all clothing categories (base=100).

The EU average values for textile and clothing are deducted separately from these indicators thus providing values that are directly interpretable. Values are expressed as indices, with 100 being the EU average for the sector (textile or clothing). A 101 value indicates that the category competitiveness lies above the EU average of its sector (textile or clothing) by one percentage point, while a 99 value indicates that the category competitiveness lies behind the EU average of its sector (textile or clothing) by one percentage point.

Industrial performance

It is computed as the arithmetic mean of two sub-indicators : output performance and export performance.

Output performance is assessed based on the yearly growth rate (YGR) of output value between 1995 and 2001. Export performance is assessed based on the yearly growth rate (YGR) of total exports value between 1995 and 2001. Let t denote a textile category and c denote a clothing category while T denotes the total EU textile industry and C the total EU clothing industry.

The indicator of industrial performance of a textile category t is computed as follow :
 $100*(1+[(YGR\ exports\ t - YGR\ exports\ T) + (YGR\ output\ t - YGR\ output\ T)]/2)$

The indicator of industrial performance of a clothing category c is computed as follow :
 $100*(1+[(YGR\ exports\ c - YGR\ exports\ C) + (YGR\ output\ c - YGR\ output\ C)]/2)$

Competitive position

This indicator is computed as the arithmetic mean of three sub-indicators : a sub-indicator of import penetration (IP), a sub-indicator of price competitive position level (PCPlevel) and a sub-indicator of price competitive position evolution (PCPEvolution).

Import penetration is measured as the difference between the average yearly growth rate of total imports value (intra and extra-EU together) and the average yearly growth of output between 1995 and 2001.

Price competitive position level is calculated as the ratio of the unit value of intra-EU exports on the unit value of extra-EU import in 2001. Price competitive position evolution is computed as the yearly growth rate of the price competitive position level between 1995 and 2001.

A greater import penetration increase (in a country, for a given T/C category with respect to the EU average) corresponds to greater vulnerability to competition, while a higher level and increase in unit value differential indicates that the country has a strong specialisation and increases it in higher quality items that do not directly compete with imports.

Let t denote a textile category and c denote a clothing category while T denote the total textile and C the total clothing industry. The sub-indicator of import penetration (IP) of a textile category t is computed as :

$$IP\ t = (YGR\ imports\ t - YGR\ output\ t) - (YGR\ imports\ T - YGR\ output\ T)$$

The sub-indicator of price competitive position level (PCPlevel) of a textile category t is computed as :

$$PCPlevel\ t = -1 + \frac{\frac{Value\ intra\ exports\ t}{Volume\ intra\ exports\ t}}{\frac{Value\ extra\ imports\ t}{Volume\ extra\ imports\ t}} + \frac{\frac{Value\ intra\ exports\ T}{Volume\ intra\ exports\ T}}{\frac{Value\ extra\ imports\ T}{Volume\ extra\ imports\ T}}$$

The sub-indicator of price competitive position level (PCPEvolution) of a textile category t is computed as :

$$PCPEvolution\ t = YGR\ PCPlevel\ t - YGR\ PCPlevel\ T$$

The same logic applies for sub-indicators of a clothing category c.

A strong competitive position corresponds to a high value and greater increase of the unit value ratio as well as a low import performance.

The indicator of competitive position of a textile category t is computed as :

$$100*(1+[-IP_t + PCP_{level_t} + PCP_{evolution_t}]/3)$$

The investigation of potential explanatory factors of the T/C competitiveness relies on two indicators of protection intensity and local demand dynamism.

Protection intensity

The global indicator of protection intensity of T/C categories in Europe integrates on the one hand data on conventional duties as a fair representation of the tariff protection and on the other hand, the level and evolution of quotas binding intensity. Relying on conventional duties corresponds to taking the maximum protection level since Preferential Duties or G.S.P. Duties apply to most supplying countries partners. However conventional duties provide a useful and reliable data set to differentiate protection levels between ATC categories.

The study defines strictly binding quotas as quotas for which the % Working Level Used (i.e. actually imported) is greater than 95 %. The ratio of binding quotas over the extra-EU imports (in volume) for 2001 is assumed to correspond to an equivalent increase in conventional duties. As such, a textile category for which the conventional duty is 6 % and the ratio of binding quotas over the extra-EU imports is stable at 10 % is considered in the study to benefit from a tariff equivalent total protection of 16 %. Information on quotas is taken from SIGL (EU Commission – DG Trade) website while information on tariffs comes from EURATEX. This quota figure is furthermore mitigated by the change between 1995 and 2001 in the binding ratio computed as the share of quota binding at the 95% level in the extra EU imports. If it decreased by 20 %, this same figure is deducted from the quota tariff equivalent figure.

The indicator of protection intensity is computed as
conventional duties + [(binding quotas/extra-EU imports) * (1-point difference in share of binding quotas/extra-EU imports)]

Demand dynamism

The demand dynamism of T/C categories in Europe is computed as the yearly growth rate between 1995 and 2001 of the EU local demand computed. EU local demand is measured as Total Output - Total Exports + Total Imports.

A higher growth rate corresponds to a greater potential for the local industry.

Price sensitivity

A T/C category is considered to be price sensitive in a given country when a decrease in the unit value of imports between 1995 and 2001 is associated with a decrease in the value of total exports. The analysis therefore compares the growth rate of UV of imports and exports value and considers the category is price sensitive whenever a decrease in both cases can be observed.

Graphs for EU T/C industry

Six graphs are used to summarise the major indicators at the EU level. The analysis is made separately for textile and clothing categories so that there are three graphs for each sector. They aim at highlighting the “stars” and Achilles’ heels” of the EU T/C industry.

The first graph corresponds to the **competitive analysis**. The second explores the relationship between **performance and demand dynamism** while the last one investigates the potential source of **vulnerability related to protection**. Their reading logics are similar.

One should note that square - instead of diamond - shaped dots indicate that the segment is found to be price - sensitive.

These graphs feature **four quadrants** :

-the upper right quadrant always reflects a favourable situation : where a strong industrial position is combined with either a high competitive position, or dynamic demand or low protection. Categories that locate in this quadrant can be considered as **“stars”** in the sense that they appear to be more competitive than the EU average and seem to be less vulnerable to the coming liberalisation than the EU average.

-the lower left quadrant on the opposite corresponds to a fairly poor situation, combining low industrial performance with weak competitive position, weak demand or high protection.. Categories that locate in this quadrant can be considered as **“Achilles’ heels”** in the sense that they fail to be as competitive as the EU average and should be more jeopardized by increased competition than the EU average.

-the other two quadrants correspond to intermediate situations between these two previous extreme scenarios.

Graphs for new Member States

The same analysis as for existing EU Member States could not be carried as exactly similar data are not available. Three graphs are thus used to summarise the major indicators of the new Member States. The three Baltic states, Poland, Czech republic and Hungary are here selected as representative of the new Member States.

The analysis is performed on 17 T/C categories that are defined based on the SH4 nomenclature of Comtrade (UN) dataset.

Textile categories

Cotton Yarn - 5205+5206

Cotton Fabrics - 5208+09+10+11+12

Synthetic Staple Fabrics - 5512+13+14+15

Synthetic Staple Yarn - 5509+5510

Synthetic Filament Fabrics - 5407+5408

Synthetic Filament Yarn - 5402+5403

Wool Yarn, - 5107

Worsted Yarn - 5106

Wool Fabrics - 5111+5112

Linen Fabrics - 5309

Clothing and made-up categories

T-Shirts 6109

Jerseys 6110

Apparel Men 6201+6203

Apparel Women 6202+6204

Blouses 6206

Shirts 6205

Bed & Table Linen 6302

The analysis focuses on two different graphs. The first one summarises the trade competitiveness analysis, the second reports on the competitive analysis. Their reading logics are similar to that of the graphs on the EU 15.

The first graph encompasses textile and clothing categories while the two others only cover textile categories due to lack of data on clothing unit values.

These basic graphs allow to highlight the “stars” and Achilles’ heels” of the new Member States’ T/C industry.

The trade competitiveness analysis is made by plotting the import value yearly growth rate between 1995 and 2001 on the vertical axis and export value yearly growth rate between 1995 and 2001 on the horizontal axis. Import and Export values correspond to the sum values of the Baltic States, Poland, Czech republic and Hungary.

The dotted line corresponds to a 45° sort of neutral line for which the import value yearly growth rate between 1995 and 2001 is equal to the export value yearly growth rate between 1995 and 2001.

Categories that are located below the dotted line and above the horizontal axis as well as those above the dotted line and below the horizontal axis can be considered as export performing : for these categories the yearly growth rate of the value of exports outperformed that of the value of imports. In the opposite case, the export performance is lower than the import penetration growth.

The competitive analysis is made by plotting the unit value ratio in 2001 on the vertical axis and the ratio of yearly growth rate of export value over the yearly growth rate of import value between 1995 and 2001. Following the same logic as in the analysis of EU 15 industry competitiveness, a higher unit value ratio indicates a greater differentiation between imports and exports. As a consequence, a positive unit value differential indicates that the country' specialisation is in higher quality items. A strong competitive position corresponds to a high unit value ratio and a greater increase of the exports than imports.

This graph features **four quadrants** :

-the **higher right quadrant** corresponds to high and favourable differentiation of products in the competitive analysis (unit value ratio above 1 in 2001) in the price competition analysis and greater export value increase than import value increase over the same period. Textile categories that locate in this quadrant can be considered as “stars” in the sense that they appear to be competitive and do not seem to be vulnerable.

-the **lower left quadrant** on the opposite corresponds to low and unfavourable differentiation of products (unit value ratio below 1 in 2001) in the price competition analysis and to lower export value increase than import value increase over the same period in the competitive analysis. Textile categories that locate in this quadrant can be considered as “Achilles’ heels” in the sense that they fail to be competitive and should be jeopardized by increased competition.

-the **other two quadrants** correspond to intermediate situations between these two previous extreme scenarios.

➤ **BINDING QUOTAS**

This section is based on Eurostat and SIGL statistics. The analysis is focused upon the importer (EU) side. Chapter 3 of the present report focuses on third countries. Comments and conclusion based on the tables hereunder regarding them are thus provided in Chapter 3.

- **Pressure on volumes**

In 2002 the filling rates of **34 ATC categories** were around or **above an 80% level** for at least one third country. This level can be considered as the sign of an effective quota constraint.²³ The global filling rates²⁴ displayed in the table below significantly vary from one category to another, demonstrating that the overall pressure can be very different between them.

In textile extremely high rates can be found for synthetic yarns, flax fabrics, workwear and gauze, and all of them have strongly increased since 1995.

In woven apparel the pressure is not as hard except for trousers and to a lesser extent for bras even though pressure on the latter seems to weaken.

In knitwear rates are somewhat evenly high with particular peaks for jerseys, underwear, and coats.

²³ Based on two elements: EPPA-CEPS study analysed in the fourth chapter of the present report ; evidence regarding price drops collected and examined in the same chapter : when quotas above this level are dismantled the impact on import volumes and prices is extremely important, whereas below this level the removal almost passes unnoticed.

²⁴ Total licensed volumes divided by total working levels of quotas.

Table 23: Allocation of binding quotas of EU 15

BINDING (1) QUOTAS : BINDING RATES SITUATION IN 2002 FOR THE EU (filling rate)

Product groups	Categories w. binding quotas	Units	Global filling rate %		China (mainland)		Hong Kong		India		Pakistan		South Korea		Turkey (3)		Other partners 2002
			1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	
			Yarns, threads and filaments	1 23 41	kg kg kg	40 57 0	51 76 94	56 13 n.a.	3 1 n.a.	n.a. n.a. n.a.	n.a. n.a. n.a.	100 86 n.a.	96 91 n.a.	100 n.a. n.a.	97 n.a. n.a.	100 n.a. n.a.	
Apparel fabrics	2 2A 3 3A 35 117	kg kg kg kg kg kg	68 45 76 49 99 43	62 60 71 30 70 93	100 69 100 100 n.a. n.a.	99 96 99 95 n.a. n.a.	15 14 0 0 n.a. n.a.	17 19 0 0 n.a. n.a.	100 66 100 37 n.a. n.a.	70 76 38 41 n.a. n.a.	100 71 99 n.a. n.a. n.a.	88 86 97 n.a. n.a. n.a.	26 41 19 95 100 n.a.	21 72 16 87 93 n.a.	70 n.a. n.a. n.a. n.a. n.a.	n.a. n.a. n.a. n.a. n.a. n.a.	Belarus (from 100% to 90%), Indonesia (from 91% to 92%), Indonesia (from 41% to 84%), Taiwan (from 63% to 76%), Indonesia (from 78% to 84%), Thailand (from 93% to 87%), Taiwan (from 100% to 88%), Vietnam (from 0% to 79%), Belarus (from 86% to 98%)
Technical fabrics and items	76 97 163	kg kg kg	62 46 93	82 44 99	97 32 93	n.a. 66 99	n.a. n.a. n.a.	n.a. n.a. n.a.	n.a. n.a. n.a.	n.a. n.a. n.a.	n.a. n.a. n.a.	n.a. n.a. n.a.	n.a. 27 n.a.	n.a. 46 n.a.	n.a. n.a. n.a.	n.a. n.a. n.a.	North Korea (from 2% to 100%), Vietnam (from 55% to 80%), Vietnam (from 70% to 92%)
Home textiles	9 20 39	P kg kg	73 73 54	79 76 60	56 n.a. n.a.	97 98 n.a.	n.a. n.a. 1	n.a. n.a. 0	100 99 100	60 62 83	94 98 71	100 100 57	0 n.a. n.a.	11 n.a. n.a.	n.a. 57 n.a.	n.a. n.a. n.a.	Belarus (from 26% to 88%) Vietnam (from 91% to 91%)
Woven garments	6 7 8 15 16 21 26 29 31	P P P P P P P P P	73 79 68 40 18 70 70 58 88	91 66 63 47 69 70 46 61 81	100 99 99 65 15 100 100 60 100	98 97 98 96 89 n.a. 96 94 99	97 93 86 n.a. 3 100 77 9 82	91 87 53 n.a. 0 n.a. 54 14 97	99 96 100 66 n.a. n.a. 100 94 n.a.	95 98 98 18 n.a. n.a. 92 36 n.a.	77 62 96 n.a. n.a. n.a. 79 n.a. n.a.	100 n.a. 37 n.a. 3 n.a. 9 n.a. 4	14 10 21 2 2 n.a. 12 5 1	93 37 24 6 2 n.a. 21 5 1	87 99 82 n.a. n.a. n.a. 65 n.a. n.a.	n.a. n.a. n.a. n.a. n.a. n.a. n.a. n.a. n.a.	Belarus (from 39% to 88%), Serbia and Montenegro (from n.a. to 99%), Indonesia (from 74% to 100%), Macao (from 91% to 99%), Malaysia (from 50% to 84%), North Korea (from 24% to 83%), Philippines (from 48% to 97%), Taiwan (from 43% to 100%), Thailand (from 77% to 97%), Vietnam (from 88% to 100%), Belarus (from 89% to 76%), Serbia and Montenegro (from n.a. to 80%), Macao (from 95% to 84%), Vietnam (from 95% to 96%), Serbia and Montenegro (from n.a. to 75%), Vietnam (from 96% to 99%), Belarus (from 75% to 85%), Serbia and Montenegro (from n.a. to 94%), Macao (from 22% to 92%), Vietnam (from 99% to 96%), Serbia and Montenegro (from n.a. to 91%), Vietnam (from 97% to 75%), Macao (from 100% to 85%), Vietnam (from 98% to 91%), Vietnam (from 100% to 89%)

BINDING (1) QUOTAS : BINDING RATES SITUATION IN 2002 FOR THE EU (filling rate)																		
Product groups	Categories w. binding quotas	Units	Global filling rate %		China (mainland)		Hong Kong		India		Pakistan		South Korea		Turkey (3)		Other partners 2002	
			1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002		
			Woven garments	68	kg	59	76	64	n.a.	51	n.a.	n.a.	n.a.	n.a.	n.a.	34		n.a.
78	kg	67		61	100	98	37	19	n.a.	n.a.	n.a.	n.a.	9	17	n.a.	n.a.	Vietnam (from 99% to 94%)	
161	kg	39		58	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	Vietnam (from 72% to 92%)	
Knitted garments	4	P	76	80	99	98	73	86	99	98	94	87	54	52	91	n.a.	Indonesia (from 100% to 79%), Macao (from 76% to 83%), Vietnam (from 88% to 97%) Serbia and Montenegro (from n.a. to 86%), Indonesia (from 100% to 98%), Macao (from 100% to 99%), Malaysia (from 86% to 97%), North Korea (from 100% to 85%), Philippines (from 99% to 84%), Taiwan (from 57% to 100%), Thailand (from 75% to 100%), Vietnam (from 55% to 98%)	
	5	P	77	95	100	99	100	100	100	99	84	95	46	95	n.a.	n.a.		
	12	P	69	56	69	96	24	12	n.a.	n.a.	n.a.	n.a.	66	68	98	n.a.		
	13	P	85	91	100	97	42	100	n.a.	n.a.	n.a.	n.a.	27	66	93	n.a.		
	18	P	52	86	94	n.a.	17	n.a.	n.a.	n.a.	56	n.a.	1	n.a.	78	n.a.		Vietnam (from 18% to 90%)
	28	P	62	46	61	74	n.a.	n.a.	n.a.	n.a.	n.a.	21	72	64	n.a.	n.a.		
	73	P	49	75	100	n.a.	46	n.a.	n.a.	n.a.	n.a.	n.a.	1	n.a.	n.a.	n.a.		Belarus (from 48 to 94%), Vietnam (from 98% to 80%)
	83	kg	50	91	43	96	57	94	n.a.	n.a.	n.a.	n.a.	51	77	95	n.a.		Macao (76%), North Korea(100%), Vietnam(90%)

Source : Eurostat (1) Binding quotas : all quotas for which at least one trading partner has been licensed import volumes corresponding to 80% or more of the working level of the quota in 2002. (2) Total volumes from partners with binding rates above 80% divided by total working level for all partners (3) Quota free trade due to Customs union. n.a. means non applicable.

BINDING (1) QUOTAS : BINDING RATES SITUATION IN 2002 FOR THE EU (quota volume)

Product groups	Categories w. binding quotas	Units 1000	Chin.a. (mainland)		Hong Kong		India		Pakistan		South Korea		Turkey (3)		Other partners 2002
			1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	
Yarns, threads and filaments	1	kg	3 051	4 153	n.a.	n.a.	36 927	49 251	15 612	22 257	917	907	100 318	n.a.	Indonesia (from 14.369 to 23.620) Vietnam (from 503 to 843)
	23	kg	5 794	2 038	n.a.	n.a.	12 966	26 722	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
	41	kg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Apparel fabrics	2	kg	27 177	31 351	14 726	14 021	54 813	73 629	33 049	45 188	5 889	6 215	39 284	n.a.	Belarus (from 2.605 to 3.830), Indonesia (from 19.354 to 30.078) Indonesia (from 7.394 to 10.928), Taiwan (from 408 to 520) Indonesia (from 15.217 to 25.293), Thailand (from 25.117 to 30.046)
	2A	kg	4 223	3 906	12 638	12 033	12 379	27 632	7 295	14 837	1 003	1 119	n.a.	n.a.	
	3	kg	6 177	6 581	12 090	11 540	23 378	21 689	42 196	68 796	4 979	5 092	n.a.	n.a.	
	3A	kg	846	819	8 116	7 746	4 207	7 156	n.a.	n.a.	784	937	n.a.	n.a.	
	35	kg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6 196	10 701	n.a.	n.a.	
Technical fabrics and items	76	kg	6 408	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	North Korea (from 65 to 120), Vietnam (from 835 to 1.282) Vietnam (from 81 to 249)
	97	kg	1 758	2 584	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1 270	2 252	n.a.	n.a.	
	163	kg	3 652	6 206	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Home textiles	9	P	6 060	6 182	n.a.	n.a.	9 081	13 135	6 331	15 383	656	1 573	n.a.	n.a.	Belarus (from 184 to 285) Vietnam (from 169 to 220)
	20	kg	n.a.	10 637	n.a.	n.a.	15 162	25 346	23 929	55 889	n.a.	n.a.	12 853	n.a.	
	39	kg	n.a.	n.a.	1 744	1 812	3 043	8 183	8 342 590	16 702	n.a.	n.a.	n.a.	n.a.	
Woven garments	6	P	24 592	27 770	61 494	68 064	7 460	17 972	25 788	53 616	5 647	7 410	27 802	n.a.	Belarus (from 258 to 820), Serbia and Montenegro (from n.a. to 419), Indonesia (from 9.630 to 19.844), Macao (from 13.461 to 15.172), Malaysia (from 7.085 to 14.454), North Korea (from 144 to 216), Philippines (from 7.981 to 14.405), Taiwan (from 5.377 to 6.292), Thailand (from 7.929 to 14.155), Vietnam (from 2.577 to 6.055)
	7	P	12 084	13 090	37 820	39 518	57 722	82 501	6 717	n.a.	9 555	10 292	28 953	n.a.	
	8	P	15 828	18 462	56 520	49 579	51 031	54 442	5 186	7 457	31 534	31 388	24 824	n.a.	
	15	P	15 414	18 021	n.a.	n.a.	1 279	8 465	n.a.	n.a.	8 211	11 004	n.a.	n.a.	
															Belarus (from 282 to 725), Serbia and Montenegro (from n.a. to 241), Macao (from 282 to 6.086), Vietnam (from 1.276 to 3.558)
															Serbia and Montenegro (from n.a. to 1.066), Vietnam (from 7.932 to 14.551)
															Belarus (from 201 to 963), Serbia and Montenegro (from n.a. to 308), Macao (from 435 to 651), Vietnam (from 162 to 620)

BINDING (1) QUOTAS : BINDING RATES SITUATION IN 2002 FOR THE EU (quota volume)

Product groups	Categories w. binding quotas	Units 1000	Chin.a. (mainland)		Hong Kong		India		Pakistan		South Korea		Turkey (3)		Other partners 2002	
			1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002		
Woven garments	16	P	15 426	18 045	2 879	3 030	n.a.	n.a.	n.a.	n.a.	981	1 194	n.a.	n.a.	Serbia & Montenegro (from n.a. to 230) Vietnam (from 8.959 to 21.128) Macao (from 1.217 to 1.396) Vietnam (from 158 to 434) Vietnam (from 1.194 to 5.172) Vietnam (from 225 to 522) Vietnam (from 483 to 1.489) Vietnam (from 172 to 257)	
	21	P	18 769	n.a.	19 764	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
	26	P	6 443	5 734	11 601	11 688	21 993	24 771	7 153	28 500	2 826	3 120	30 404	n.a.		
	29	P	10 853	13 781	3 327	3 825	4 800	13 102	n.a.	n.a.	568	761	n.a.	n.a.		
	31	P	65 468	8 492	25 407	31 095	n.a.	n.a.	n.a.	n.a.	5 950	7 599	n.a.	n.a.		
	68	kg	17 131	n.a.	3 189	n.a.	n.a.	n.a.	n.a.	n.a.	1 287	n.a.	n.a.	n.a.		
	78	kg	28 883	32 741	11 448	13 225	n.a.	n.a.	n.a.	n.a.	5 873	8 252	n.a.	n.a.		
	161	kg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Knitted garments	4	P	73 447	82 723	46 196	48 667	59 865	108 165	23 936	44 420	14 241	18 797	112 784	n.a.	Indonesia (from 31.936 to 43.738), Macao (from 10.827 to 16.059), Vietnam (from 4.196 to 10.397) Serbia & Montenegro (from n.a. to 794), Indonesia (from 29.610 to 54.913), Macao (from 13.390 to 14.079), Malaysia (from 4.700 to 11.217), North Korea (from 52 to 185), Philippines (from 8.707 to 13.933), Taiwan (from 20.743 to 22.773), Thailand (from 16.031 to 31.460), Vietnam (from 1.704 to 4.236)	
	5	P	25 700	25 658	37 043	38 072	22 313	51 118	6 254	12 724	33 634	37 681	n.a.	n.a.		
	12	P	27 926	36 045	14 936	18 323	n.a.	n.a.	n.a.	n.a.	173 320	246 786	264 677	n.a.		
	13	P	514 883	553 896	107 199	116 351	n.a.	n.a.	n.a.	n.a.	14 440	16 740	56 049	n.a.		
	18	P	5 593	n.a.	8 456	n.a.	n.a.	n.a.	12 541	n.a.	1 474	n.a.	8 734	n.a.		
	28	P	60 013	84 560	n.a.	n.a.	n.a.	n.a.	n.a.	96 359	938	1 402	n.a.	n.a.		
	73	P	6 318	n.a.	2 574	n.a.	n.a.	n.a.	n.a.	n.a.	906	n.a.	n.a.	n.a.		
	83	kg	7 149	10 036	573	675	n.a.	n.a.	n.a.	n.a.	345	515	2 589	n.a.		
																Belarus (from 123 to 272), Vietnam (from 327 to 1.257)
																Macao (from 377 to 393), North Korea (from 33.5 to 54), Vietnam (from 145 to 496)

Source : Eurostat and SIGL ; n.a. means non available

(1) Binding quotas : all quotas for which at least one trading partner has been licensed import volumes corresponding to 80% or more of the working level of the quota in 2002.

(2) Total volumes from partners with binding rates above 80% divided by total working level for all partners.

(3) Quota free trade due to Customs union.

- **Pressure on prices**

Focusing upon the large quotas in volumes per categories and on those of them which are binding, one can get a picture in perspective of the price competition which goes on between the major suppliers of the EU and the EU industry itself.

The various product categories can be divided into four types, according to the price positioning of the EU industry vs. imports. This positioning is measured by the ratio of prices that appears in the sixth column of the table. It corresponds to the ratio of the average unit value of total EU export on the average unit value of extra-EU import. The unit values are computed as the ratios of trade values over trade quantities (either in volume or in complementary units depending on the ATC category) taken from Eurostat.

- Products from the **EU are cheaper than imports** : the only case concerns tights and stockings, for which Asian producers, with the exception of Pakistan and China, command much higher prices than the EU industry
- **Undifferentiated products** for which import price is equal to export price : (1 to 1.2 price ratio in the above tables). In this situation one can find cotton and synthetic yarns, and nets
- More **differentiated items**, for which export price is 1.2 to 1.5 times higher than import price such as artificial yarns, terry towels but also T-shirts and ladies' blouses.
- Products **highly differentiated in price** : (ratio above 1.5). in textile, this is the case for all apparel fabrics, workwear and gauze in the industrial sector, bed and table linen, all categories of woven apparel except blouses and for knitted clothing, jerseys, underwear, pants and jackets. Among them the highest price premium concerns women's suits (2.9 ratio) and knitted jerseys (3.7) and pants (3.5). For all those categories the EU industry has successfully implemented a strategy of high value positioning and built an industrial and / or marketing superiority over foreign competition.

Conclusions of this analysis detailed by major third countries are given in chapter 3.

For the purposes of the analysis of the following tables, it has been generally considered that :

- low competitiveness corresponds to an industrial performance below the 100 index (as per section : "internal comparisons")
- high pressure corresponds to a global (total world) filling rate above 50% (as per section : binding quotas)
- high price pressure corresponds to a export / import price ratio below 1.5 (as per section : binding quotas)

Table 24: Import prices of EU 15 by partners**BINDING (1) QUOTAS : EU IMPORT PRICE SITUATION IN 2002 (euros by Kg)**

Product groups	Categories w. binding quotas	Extra EU import price Euro/ Kg(2)	China (Mainland)	Hong Kong	India	Pakis-tan	South Korea	Turkey (3)	Other partners	EU total export price Euro/ Kg	ratio export/import price
Yarns, threads and filaments	1	3,0	5,8	6,0	3,7	2,3	3,8	2,5	3,04	3,0	1,0
	23	2,6	2,3	19,8	2,2	n.a.	1,3	4,5	2,88	3,6	1,4
	41	3,1	2,1	17,7	1,6	5,0	2,4	2,5	3,43	3,6	1,2
Apparel fabrics	2	4,9	4,8	6,3	3,8	3,4	12,8	7,2	4,99	10,4	2,1
	2A	7,2	7,3	6,3	5,1	4,3	13,6	8,6	7,53	11,7	1,6
	3	4,3	3,8	7,5	3,8	2,8	7,2	12,0	4,78	11,0	2,6
	3A	7,6	5,7	13,5	6,2	3,3	7,2	12,2	9,51	12,4	1,6
	35	4,5	4,5	8,9	10,8	3,6	12,9	12,0	7,65	12,5	2,7
	117	9,6	11,0	8,9	24,9	n.a.	9,1	15,4	9,47	23,0	2,4
Technical fabrics and items	76	12,9	8,4	13,5	7,9	6,7	15,2	17,9	14,74	22,0	1,7
	97	5,2	5,3	6,9	3,9	12,3	2,8	0,8	5,88	5,1	1,0
	163	7,9	8,9	44,4	6,0	15,8	8,0	6,5	6,91	13,1	1,7
Home textiles	9	6,2	6,5	9,1	4,7	4,5	6,7	7,0	6,73	9,3	1,5
	20	6,6	12,8	7,6	5,5	5,8	2,9	7,9	6,35	10,2	1,6
	39	7,6	13,3	12,9	7,4	3,7	18,3	7,4	7,89	13,0	1,7
Woven garments	6	15,9	8,2	15,4	10,9	9,8	15,7	21,0	16,42	26,0	1,6
	7	20,6	12,4	23,5	23,2	8,6	19,2	29,2	19,91	26,6	1,3
	8	16,9	13,9	19,9	15,0	8,0	16,3	29,2	16,49	30,6	1,8
	15	21,4	12,6	24,5	17,8	10,2	18,6	23,5	25,78	41,1	1,9
	16	28,1	12,7	12,3	13,6	12,0	11,5	44,0	36,79	74,5	2,7
	26	22,0	23,4	20,6	20,3	11,3	21,9	24,1	22,19	45,4	2,1
	29	20,4	19,0	20,2	17,3	7,9	14,0	23,3	24,08	59,2	2,9
	31	49,8	42,9	42,1	78,5	27,4	54,3	31,6	55,16	93,1	1,9
	78	21,9	22,6	26,8	13,5	11,3	17,8	20,4	22,77	37,1	1,7
	161	11,6	6,8	13,4	41,2	13,7	76,7	29,2	31,54	74,7	6,4
Knitted garments	4	13,4	13,4	16,9	14,5	8,7	17,5	17,9	11,85	17,8	1,3
	5	14,6	20,4	15,8	7,4	10,0	16,0	18,0	14,23	53,7	3,7
	12	13,4	12,6	17,2	12,5	6,3	15,9	11,2	21,39	6,3	0,5
	13	17,9	16,3	17,4	10,3	6,5	9,5	14,0	29,63	40,2	2,2
	28	13,3	9,4	18,2	11,5	7,8	18,2	15,7	15,70	46,0	3,5
	73	14,8	3,1	33,1	34,4	10,3	39,8	15,1	16,09	5,3	0,4
	83	17,9	15,0	n.a.	12,8	10,8	16,9	21,0	23,23	37,5	2,1

(1) Binding quotas : all quotas for which at least one trading partner has been licensed import volumes corresponding to 80% or more of the working level of the quota in 2002

(2) Average price of Extra-EU imports ; (3) Quota free trade due to Customs union

(3) Quota free trade due to Customs union

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Source : Eurostat

Table 25: Consolidated Conclusions on the Competitiveness and Vulnerability of the Various Sectors

The findings of the preceding sections can be summarised in the following table.

Product groups	Categories w. binding quotas	Unit	Industrial performance	Global Filling rate	Ratio total export/extra EU import Price 2002	EU 15 Output value 2001 1000 euros	binding quota/output 2002	Share of bound countries in total quota 2002	Cons. degree of vulnerability
Yarns, threads and filaments	1	tons	99	51	1,0	3 129 012	9%	India (24%), Pakistan (11%)	High
	23	tons	na	76	1,4	618 869	19%	India (55%), Indonesia (45%)	Medium
	41	tons	93	94	1,2	2 455 486	0%	Vietnam (100%)	High
Apparel Fabrics	2	tons	104	62	2,1	6 898 968	16%	Belarus (2%), Indonesia (11%), Pakistan (17%), China (13%)	Low
	2A		na	60	1,6	na	na	China (6%), India (34%), Indonesia (15%), Pakistan (21%),	Medium
	3	tons	100	71	2,6	3 805 100	31%	China (5%), Indonesia (15%), Pakistan (49%), Thailand (15%)	Low
	3A		na	30	1,6	na	na	China (6%), South Korea (6%)	Low
	35	tons	104	70	2,7	3 600 360	7%	South Korea (32%), Taiwan (26%), Vietnam (2%)	Low
	117		na	93	2,4	na	na	Belarus (7%)	Medium
Technical fabrics and Items	76	tons	102	82	1,7	1 453 013	2%	North Korea (10%), Vietnam (90%)	Medium
	97		na	44	1,0	na	na	Vietnam (5%)	Medium
	163		na	99	1,7	na	na	China (100%)	Medium
Home textiles	9	tons	101	79	1,5	682 779	31%	Pakistan (42%), China (17%)	High
	20	tons	104	76	1,6	1 491 616	46%	Pakistan (67%), Belarus (0.3%) China (10%) for 20/39	Medium
	39	tons	na	60	1,7	614 114	15%	India (42%), Vietnam (1%)	Low
Woven Garments	6	1000 pces	101	91	1,6	4 637 228	84%	Bangladesh (28%), Hong Kong (13%), Pakistan (11%), China (6%)	Medium
	7	1000 pces	95	66	1,3	1 245 905	119%	Hongkong (17%), India (41%), Sri Lanka (6%), China (6%)	High
	8	1000 pces	151	63	1,8	965 664	125%	Bangladesh (38%), India (19%), Vietnam (5%), China (6%)	Low
	15	1000 pces	97	47	1,9	1 753 955	51%	China (55%), Belarus (3%), Macao and Vietnam (2%)	Low
	16	1000 pces	102	69	2,7	786 830	155%	China (85%), Serbia (1%)	Low
	26	1000 pces	94	70	2,1	1 748 358	38%	India (46%), China (11%)	Medium
	29	1000 pces	97	46	2,9	1 299 200	43%	China (67%), Vietnam (2%)	Low
	31	1000 pces	101	76	1,9	580 551	95%	China (64%), Hong Kong (21%), Vietnam (4%)	Low
	78	tons	na	61	1,7	545 421	241%	China (83%), Vietnam (4%)	Medium
	161		na	58	6,4	na	na	Vietnam (100%)	Low
Knitted garments	4	1000 pces	103	80	1,3	2 299 551	63%	India (11%), Pakistan HK (4%), China (8%), Vietnam Macao (1%)	Medium
	5	1000 pces	99	56	3,7	6 828 138	65%	Cambodia, HK, S. Korea (10%), India (12%), Indonesia (13%), China (6%)	Low
	12	1000 pairs	100	91	0,5	2 196 476	2%	China (15%)	High
	13	1000 pces	100	86	2,2	996 110	96%	China (77%), Hong Kong (17%)	Medium
	28	1000 pces	na	46	3,5	268 308	0%	China (70%)	Low
	73	1000 pces	99	75	0,4	448 145	3%	Vietnam (78%), Belarus (20%)	High
	83	tons	na	91	2,1	844 626	69%	China (75%), Vietnam (3%), Hong Kong (5%)	Medium

The “internal” competitiveness analysis provides evaluations of the present performances : the industrial performance indicator.

The analysis of the binding quotas sheds light on the potential increased competition for each category.

The above table summarises the various dimensions of EU vulnerability per ATC category. Besides the indicator of industrial performance, global quota constraint and price differentiation, the table reports an indicator of the strategic importance of the category (i.e. its output value in 2001) as well as the relative size of binding quotas in 2002 (sum of quotas whose filling rate²⁵ is higher than 80%) in terms of the 2001 EU output volume. This ratio can be considered as the share of EU output that could be jeopardised if quotas abolition results in a surge of import volume from the countries for which the constraint was effective²⁶. The next column displays the specific share of bound countries (whose filling rate is above 80%) in the total quota of the category in 2002. Categories that are the most vulnerable are those for which, besides high binding quotas, little price differentiation of EU products and already weak industrial performance, it appears that the ratio of binding quota on EU output is high and for which the share of Chinese quota in total quota is large. This last hypothesis relates to the identification in the simulation of China as the absolute winner in quota dismantling. Moreover, the expected impact on production will be all the greater as the EU maintains a high level of output in this category.

The most vulnerable sector appears to be the clothing industry. Greater loss will affect knitwear for which the competitive pressure of imports from constrained sources is higher, and to some extent trousers and blouses. The high ratios of binding quotas to EU output indicate the magnitude of output that will be in jeopardy. For categories for which the ratio is above 100% (blouses, shirts, men’s suits, other woven clothing), the doubling of import volume for previously constrained countries could virtually entirely displace the existing output that takes place in the EU. Great danger is expected for blouses as price differentiation and industrial performance are low in conjunction with great external pressure.

As long as one focuses on the competitive pressure of Chinese products, clothing categories can be distinguished into two types. A first specification corresponds to categories for which **China’s weight** in the total quota has been **kept artificially low** (trousers, blouses, shirts, dresses, T-shirts, jerseys, socks). When this feature occurs in conjunction with high pressure from other suppliers, i.e. when filling rates of other countries are high, then liberalisation will induce the intensification of competition among all competitors. For categories such as trousers, blouses, shirts and jerseys, China will therefore have to fight over market shares. On the contrary, for categories such as T-shirts and socks, China turns out to be quite under-served in terms of quota volume, not only because its weight remains under 15% but also because other traditional suppliers such as India and South Korea are not able to fill up their own quotas. One might expect, as a consequence, that liberalisation could induce

²⁵ Total licensed volumes divided by total working levels of quotas.

²⁶ This hypothesis is quite reasonable as a doubling of export volumes is in line with the outcomes of past liberalisation. The ratio of aggregate binding quota on EU output corresponds to the share of EU production that will face additional competition from previously effectively constrained suppliers following a doubling of their export volume.

great output disruption as Chinese goods finally get access to the previously heavily restrained market. Greater vulnerability is evident for socks due to Chinese price competitiveness.

A second specification corresponds to **categories for which China dominates the total EU quota volume** (women's coats, men's and women's suits, brassieres, other woven clothing, underwear, knitted trousers, other knitted clothing). For these categories, China clearly represents the major threat for EU producers.

For those two types of products perspectives for EU production depend on whether it enters into direct competition with Chinese imports and to what extent. While great price differences exist between EU and Chinese products for trousers, women's coats, men's and women's suits, jerseys and knitted trousers (with price ratios of 3.2, 3.3, 5.9, 3.1, 2.5 and 4.9 respectively), more direct confrontation will occur for T-shirts and socks (price ratios of 1.33 and 0.5 respectively). The relatively high output value of these two products (over 4.4 billions Euros) that the EU has maintained so far can be expected to undergo a sharp reduction.

Among textile products, greater disruption of production will occur for **home textiles** under the pressure of Chinese imports that enter directly into competition with EU output. In 2001, filling rates for quotas allocated to China in these categories are above 95%. Little price differentiation is found between EU exports and EU imports from China, as indicated by price ratios (extra EU exports to EU imports from China) of 0.79 for bed and flax linen, 0.98 for table linen and 1.44 for terry towel. Apparel fabrics, especially cotton fabrics and synthetic fabrics, should also be affected though to a more limited extent due to existing greater price differentiation between EU and Chinese products (price ratios reach 2.2 and 2.9 respectively) and to the lower share of China in total quota. Chinese goods for the aggregate category (bed and table linen) account for only 10% of the total quota, well behind Pakistani products that are not only heavily constrained but also cheaper than Chinese goods. Up to 38% of the EU output for category 20/39 may be disrupted should a doubling of the import volumes from Pakistan, India and China occur.

As far as **yarns** are concerned, the only three categories for which the EU maintains protection do not fall under the pressure of Chinese products, as filling rates for China remain under 1%. They enter into direct competition however with goods from Pakistan and above all from India for cotton yarn and artificial yarns as they are characterised by low price differentiation. The impact on artificial yarn could be quite high as a doubling of import volume could disrupt one fifth of EU total output as underlined by the ratio of bound quotas on output of 19% in 2002. Disruption of the EU cotton yarn industry due to the inflow of Indian goods could occur as EU output is still high in 2001 for this category and industrial performance is below average. Vietnam is the only country for which quota still applies on synthetic filament yarn as this category has been liberalised for all WTO members in 2002.

Despite the high output value of **apparel fabrics** that has been maintained so far in the EU (output for the three categories of cotton fabrics, synthetic fabrics and synthetic wovens), less disruption is likely to take place for these categories as their industrial performance and price differentiation are greater. Price differentiation for synthetic fabrics largely reduces the risk that the doubling of Pakistan's imports volume that could logically result from the quota dismantling would displace 15% of the EU's production. It appears that EU synthetic fabrics are higher end (and or more finished) products as their extra-EU export unit price is four times higher than imports from Pakistan. South Korea will turn out

to be the most threatening competitor for cotton fabrics other than bleached and unbleached and synthetic wovens as Korean prices are just slightly higher than the unit price of extra EU exports (the ratio is 0.87 and 0.98 respectively).

Among **technical fabrics**, direct competition from Chinese goods could affect EU output of gauze. For this category, vulnerability arises from a price differentiation which is not very high (the ratio of extra EU export price over import price from China equals 1.47 in 2002) in a context of intensive pressure as China is the only country left under quota. As far as workwear is concerned, the worst may be behind us, as quotas for all suppliers except Vietnam have been dismantled at the end of 2001.

- **Concluding remarks**

The analyses which are presented in these pages provide some insight upon the competitive situation and perspectives for each important ATC category of T/C products when liberalisation takes place. However these **product categories cannot –by far– be taken as homogeneous** gatherings of similar products with similar competitive features, made by similar producers with similar services etc. This diversity of situation within one category is not possible to grasp in such a consolidated analysis. This is why a good deal of caution has to be used when one tries to apply those general considerations to the situation of one particular producer, product or market.

Within these limits some conclusions can be drawn from the above tables and analyses :

- Some categories seem to be **well prepared** to weather the 2005 shock : this is the case for apparel fabrics in general (especially for cotton and synthetic - discontinuous and continuous - fabrics), for table linen, and in woven apparel, for shirts, tailored clothing (men's and women's suits, women's coats), for bras and in knits, for jerseys and trousers.
- At the other end, categories like cotton and synthetic filament yarns, as well as hosiery products, terry towels and blouses are a **source of concern** as they seem much more vulnerable, be it due a lacking in intrinsic competitiveness or to a high pressure from foreign suppliers.
- Between these extremes many products display mitigated performance levels and vulnerability to the coming shock. As such, EU producers who are positioned on these products do not have per se a significant advantage or disadvantage in comparison with the rest of the EU industry. For them the post-2005 horizon will largely depend on changes in market and industrial factors which are analysed further in the report, as well as on their own specific competitive strength.

2 – HOW THE EU INDUSTRY WORKS : DISTRICT ANALYSIS

Summary

Strategies at work

Regions are either apparel oriented, oriented on a fibre system or oriented towards niche markets in home or technical textiles. As it is expected that the cotton chain and apparel will be hit harder (see above chapter), regions with these production systems are likely to be more severely affected by liberalisation. Regions specialised in home textiles (e.g. Flanders) or in technical textiles (e.g. Nordrhein-Westphalen) will be affected less. However, diversification is not an option for maintaining present levels of activity. While technical textiles and home textiles will survive, they will soften the impact but will not absorb loss of activities in the apparel supply chain.

***The position in the supply chain** is a major factor in evaluating the likely impact. Regions which have many retailers' design HQ., branded manufacturers and logistic functions are less affected than regions which do business predominantly "co-contracting" and subcontracting. For this reason the southern regions and those in accession countries are more vulnerable, especially as they have fewer strategic options and less visibility on the market.*

***The dominant trend in the industry** – partly in reaction to increased imports – has been delocalisation of production. This trend has almost run its course in clothing but is still developing in textiles. Another option has been upgrading, specialisation in niches. While this option differentiates EU production from imports it makes the industry more vulnerable to downturns in demand. It also requires a long term commitment and costly restructuring of assets. Moreover specialisation requires an active export policy in order to maintain volumes.*

Competitive analysis

Successful regions mostly have a combination of great creative or innovative know how, a powerful commercial drive (export oriented), and technological advantage. They often mix commercial emulation within a district with efficient sharing of training and research infrastructures.

Peripheral location is a major weakness especially if combined with little commercial dynamism and insufficient market insight. For more advanced regions the skill shortage and inflexibility in assets and human capital is a barrier to upgrading and specialisation.

Companies do not display much confidence in promising strategies as many companies see an end to the possibilities of upgrading. New materials are not yet seen as a possible breakthrough. Branding, or integration into retailing, is seen more as an opportunity than developing extra-EU exports.

***Social issues.** In strong regions the restructuring mainly involves an "upskilling" of work and changes in functions and responsibilities. A social pact involving training and flexibility is therefore an important asset. In weaker regions the perspective of redeployment in-company is limited, and opportunities should come from other industries. Prospects are bleak in rural areas and regions with more than 10% textile employment.*

*However, **female employment** is predominant in clothing, but also important in textiles in candidate countries. This has some positive consequences as possibilities for re-employment are often better for women than men.*

The largest textile regions represent more than 20.000 employees. In several of them textile and clothing represent more than 5 % of industrial manufacturing jobs The largest textile regions and the regions where textiles represents a large share of employment are likely to experience greater negative impact not only because of the size of the sector in those regions but also because of the specialisation in more vulnerable products.

2.1 EU COMPETITIVE POSITION AS A SYSTEM : KEY LINKS AND SUCCESS FACTORS WITHIN THE CHAINS

➤ DISTRICT SELECTION

The objective of the regional analysis is to study the possible impact of 2005 liberalisation at the regional level. Regions were selected because of their significant size or because of their possible representativity for the EU industry at large. Five of the 11 selected regions rank amongst the 10 top regions in the industry in the EU in terms of employment. All regions fit in the top quarter of regions in the EU. Eight regions rank first in their country. Only one region selected scores less than 25% in the national T/C industry employment. The share of the industry in the regional manufacturing employment varies from dominant (Northern Portugal) to substantial (6 regions) while in four regions the industry represents less than 5% of employment.

Table 26: Importance of regions selected

EU ranking	Region	Regional employment 1999				
		Manufacg	Textile	Apparel	T/C	% of manufg
	Portugal Norte	515 947	85 887	116 320	202 207	39,2%
2	Lombardia	1 256 206	117 286	58 590	175 876	14,0%
3	Catalonia	658 799	58 096	41 109	99 205	15,1%
7	NW & Yorkshire	na	na	na	55 000	Ca. 10%
8	NR-Westfalen	1 423 764	37 418	16 223	53 641	3,8%
11	Flanders district	261 172	38 165	7 842	46 007	17,6%
17	Severocesky	na	na	na	33 000	Ca. 10%.
21	Ouest P.d.Loire	522 428	7 670	18 556	26 226	5,0%
27	Macedonia (GR)	na	na	na	21 000	Ca. 5%.
28	East Hungary	na	na	na	20 000	Ca. 10%.
42	Randstad W.NL	315 342	4 040	4 252	8 292	2,6%

National ranking	Region	National employment 1999		
		T/C	% of region	Position
1	Portugal Norte	260 300	77,7%	Dominant
1	Lombardia	644 600	27,3%	Dominant
1	Catalonia	249 200	39,8%	Dominant
1	NW & Yorkshire	200 000	27,5%	Representative
1	NR-Westfalen	192 600	27,9%	Representative
1	Flanders district	58 300	78,9%	Dominant
1	Severocesky	60 000	55,0%	Dominant
5	Ouest P.d.Loire	228 000	11,5%	Specific
1	Macedonia (GR)	45 000	46,7%	Dominant
1	East Hungary	55 000	36,4%	Representative
3	Randstad W.NL	31 100	26,7%	Specific

Source : Eurostat

The research focused on the current structure of the industry, its strategy of adaptation or retrenchment in the period 1995-2002 and the outlook for the coming decade. Moreover the regional analysis assists in understanding the social impact of restructuring. The regions covered do not necessarily cover the entire industry, as some specific segments and positioning were more relevant to the analysis :

- ▶ **Portugal : North** : clothing industry
- ▶ **Czech Rep. : Severocesky** : home textiles and apparel textiles
- ▶ **France : Choletais - Pays de Loire** : luxury clothing subcontractors
- ▶ **Germany : Nordrhein-Westphalen** : technical textiles
- ▶ **Hungary : South-East** : clothing subcontractors
- ▶ **Italy : Lombardy** : cotton textile industry
- ▶ **Belgium : Flanders** : home textiles and apparel textiles
- ▶ **Spain : Catalonia** : home textiles and apparel textiles
- ▶ **Greece : Macedonia** : clothing subcontractors
- ▶ **Netherlands : Randstad** : suppliers to large retailers
- ▶ **U.K. North-West and West Yorkshire** : suppliers to large retailers

The research is based on desk research and interviews. It must be said that the overall quality of statistics is uneven and incomplete. Employment data differ in definition between regions. We have therefore included for all regions the Eurostat figures for 1999 for comparative purposes. Within each section (district analysis) statistics on employment trends are however derived from data given by trade associations. There are not data on investment for all regions and also not for each year. Some conclusions are based on data for 1996 and 1999. There are no reliable data on profitability. The only available data concerns publicly listed companies, but these are rarely linked to only one region. Further elements are therefore given by field research in each of the regions. In each of the regions 5 to 10 interviews have been done with key persons and companies in order to determine the position of the regions in the supply chain, their key strengths and weaknesses and their outlook. It should be noted that a significant lower response was recorded for Nordrhein-Westphalen and Northern England. This is partly due to similar surveys carried out on the same theme on behalf of regional/national authorities in 2002.

Some of these countries/regions can be seen as exemplary for a broader evolution of the EU industry.

The Netherlands are typical for a region that has already phased out garment production in the 1970s and 1980s and is thus exemplary for evolutions occurred in most Northern EU countries in the same period and for France, Germany and UK clothing industry in the 1990's.

Belgium is typical for a high cost region where textile production has oriented towards high value/ high productivity production of specialised products, including a major shift to technical textiles. It can thus be considered typical for most of the industry in Northern Europe and also a possible example of successful retrenchment and adaptation.

The German, UK and French regions are probably exemplary for the important adjustments already occurred in the EU textile and clothing industries. Technical textiles are seen as important alternatives and resistance occurs in certain niches. The Italian region is a case on its own as the Italian industry is

by far the largest in Europe and possibly atypical, however this regions does also experience adaptation and some downsizing .

The Spanish, Portuguese and Greek regions are typical for regions that have adjusted to accession to the EU and to increased competition of CEECs and Turkey. They had to integrate in the Union while specialising their production.

The Czech and Hungarian regions are cases of regions that will be integrated into the EU in the near future after having experienced major adjustment and restructuring. They are likely to experience further development or downsizing.

➤ **CONSOLIDATED ANALYSIS**

While looking at districts to examine the competitiveness and evolution of the EU industry, one of the first observations to be made is that many districts have **a lot in common**. Indeed the industry is so integrated at the European level – both in inputs and in sales, that districts have become somehow an outdated reality : most districts are highly integrated in the European Union. This shows that besides the increased competition from outside the EU, increased competition within the EU is also a major dynamic factor in the industry.

The core questions facing the regions can be summarised as follows :

1. How vulnerable are regions towards liberalisation?
2. Have companies in the regions anticipated liberalisation?
3. What are the strengths and weaknesses of regions in adjusting to liberalisation?
4. What is the attitude of companies in the region towards liberalisation?
5. What is the role of regional institutions in the adjustment process?

In all districts, export performance is high while imports of inputs from inside or outside the EU is also important. The Spanish and Greek regions are probably the only regions with a strong integration of the pipe-line at the regional level. These regions are more the exception than the rule. Greece has, as only country in the EU a strong cotton base, while Spain has the background of a relatively closed economy. Other regions are quite exemplary of national cases, like Nordrhein-Westphalen and Lombardy or North England. Evolutions in these regions are typical for the evolutions of the country as a whole.

Anticipation to liberalisation is typical to most developed and highly integrated regions in the Union. Anticipation can be expressed in specialisation combined with growing exports (niche-market leadership) or in (partial)-delocalisation of production. The Belgian, Dutch, German and Italian regions have strongly anticipated liberalisation. However these regions have a long history of restructuring. The English, French and Greek regions have taken most of the brunt of restructuring over the last years, having escaped major declines during the 1970s and 1980s because of specific comparative advantage among other local factors. Sooner or later, all those regions have voluntarily, through market forces or because of external pressures adapted considerably.

On the other hand, the Spanish and Portuguese regions have been able to resist fairly well, but have not anticipated liberalisation. From the analysis of the EU competitiveness in the preceding chapter, one may wonder if they have other advantages than cost advantages and have capitalised on this advantage to upgrade their industries. Similarly the regions in the candidate countries are expecting major changes in the coming years after having had a fairly stable evolution after the adjustment following collapse of the planned economy. They have relied heavily on OPT but have not engaged in shifting to another business model.

Adjustment or anticipation does involve a mix of **market and production adaptations**. The Italian and French regions have gone the road of changes in market mix as they specialised in high end products. The German and Belgian companies have shifted to technical textiles and have favoured industrial restructuring by increasing productivity and flexibility. The Greek region has shifted to maximise value from cotton production and reduce the dependency on CMT operations. The Dutch have been the first to delocalise production and this policy has eventually allowed to market position. Delocalisation of labour intensive functions is a key trend in most regions. Sourcing of commodity inputs (yarns, grey fabrics) also appears as a consistent trend.

The comparison of regions shows that adjustment sooner or later occurs. Those regions that have already engaged in a **restructuring process** have a more realistic approach and have also developed a strategy of adjustment. The success in implementing a strategy of upgrading, specialisation, delocalisation and industrial re-engineering is then essential. These are risky and difficult processes requiring financial means, managerial vision and tools and - at least to some extent - a shared strategy with workers and other relevant stakeholders. The institutional framework is essential in enabling the transformation that most often implies employment-losses.

All regions have seen considerable restructuring, either as a part of a long term gradual decline or as an accelerating trend. Decline is often more pronounced in employment than in production or exports. Most regions have even been able to maintain their exports / turnover ratio with declining production and/or employment. The industry is thus becoming a transformative industry with an important trading component. Industry and trade are not distinct realities any longer, as most often industrial companies develop trading activities or actually become trading companies.

This **trading nature** is linked to the transformative nature of the industry. Inputs are often subcontracted or made to specification, exports are products targeted at specific clients or markets. **Product development** is thus a key competence of a successful industry. This competence goes along the understanding of industrialisation and manufacturing. The Randstad case shows that it is difficult to maintain a trading activity without knowledge of products and production. Creativity requires industrial knowledge. The Lombardian case demonstrates the vitality of an industry that is highly performing in exports, active in sourcing while combining design and fashion skills and engineering skills. So, even a transformative industry is an industry. Flanders is also the case of a region that is highly internationalised while maintaining an industrial base.

Investment and productivity are important elements of competitiveness as they enable the industry to control costs and to improve its performance. Investment levels differ widely within the European

Union. In textiles they range from €1000 /worker to €20 000 /worker²⁷. In clothing investment is at a lower level ranging from €500 /worker to €3 000 /worker. The following table considers that investment for textile above €7 000 /worker and in clothing over €2 000 /worker is relatively high. It considers it to be low when below respectively €3 500 /worker or €1 000/worker. Growing investment and productivity is often linked to growing production but declining employment and will lead also to further productivity increases. Decline of investment is often linked to de-industrialisation and will cause a stagnation of productivity in the longer run. However the transition to delocalisation does not imply necessarily a decline in investment or productivity. It is also possible to achieve productivity gains through organisational methods.

Flanders shows a clear commitment to the industry with high investment levels (almost €10.000/head which are growing and a high and growing productivity level. It is somehow the reflection of the high share of carpet manufacturing but also of a strong focus on productivity increases. All other regions selected score much lower and worryingly often with declining levels of investment and stable levels of productivity. However it must be said that even regions with lower labour costs and hence a lower incentive to invest perform well in terms of investment, such as Portugal. The relatively low level of investment in Catalonia is preoccupying.

In clothing investments are much lower with only Pays de Loire showing a fairly high level. Portugal and Macedonia perform well with also growing productivity levels. The other regions see a stagnant performance associated with declining investment levels. This is a clear indication of deindustrialisation.

Textile Regions	Inv.Level 1999	Trend 96/99	Productivity 1999	Trend 96/99
Flanders	High	Growing	High	Growing
Lombardy	Medium	Declining	High	Growing
NR-W	Medium	Growing	High	Stable
Portugal Norte	Medium	Stable	Medium	Growing
Catalonia	Low	Stable	Medium	Growing
NW&Yorkshire	Low	Declining	Medium	Stable
Severocesky	Low	Declining	Low	Growing

Clothing Regions

Pays de la Loire	High	Growing	High	Growing
Portugal Norte	Medium	Growing	Medium	Growing
Macedonia	Medium	Growing	Medium	Growing
Randstad W.NL	Low	Stable	High	Stable
NW-Yorkshire	Low	Declining	Medium	Stable
East.Hungary	Low	Stable	Low	Stable

²⁷ This analysis and the following table are based on Eurostat data. These data are extremely irregular (years missing, districts missing etc) and need to be selectively edited, and interpreted. This is why they are not presented as raw figures but commented on in the following lines.

Most regions are in a trajectory of change as they come from a solid industrial, process or product led background but have to develop into **market oriented activities** be it fashion, customer service or consumer focus. Regions where companies are able to carry this transformation succeed in maintaining added value with slow decline in employment. Regions that are unable to make the transition will sooner or later collapse. The **ability to restructure** is visible in Flanders, Macedonia and Lombardy and is less evident in Catalonia or Portugal. So besides industrial investment, commercial redeployment through upgrading and or specialisation is important.

The Macedonian region has increased its specialisation in knitted cotton products while using nearby Bulgaria as a production base for labour intensive processes. Greek firms show a dynamic market approach and are fairly positive in outlook. They have anticipated liberalisation by following a market driven restructuring process.

After having endured the negative impact of accession in 1990-1995, Catalonia has benefited from increased integration in the EU : exports have grown although they are little differentiated in products and price level. Catalonia has already endured the negative impact of accession in 1990-1995, the positive impact came afterwards. The adaptation process in Catalonia is a more industrial adaptation through increased productivity and quality, not through an upgrading and branding of its products. Market led restructuring, with a mix of specialisation, development of exports and controlled subcontracting and imports still has to take place. In the UK restructuring has been postponed and has been very painful in terms of company failures and job-losses.

The **accession countries** are in more dire straits. One may say that they are already exposed to international competition. Both Eastern Hungary and Northern Czech firms are highly internationalised which is possibly a positive indicator. However OPT is a large part of exports as well as commodity items such as basic yarns and fabrics. They are thus highly dependent on outside decision making and their competitiveness is chiefly based on manufacturing quality and attractive price. Their capital base and business model allows **little redeployment** also because they have little grip on the local market. The Hungarian and Czech regions are highly vulnerable to liberalisation, not because of that process per se, but in combination with other low cost countries nearby and the legacy of the planned economy.

Within textiles three major **sectors of resistance** can be found, sectors where there is still growth in production and employment : carpets, technical textiles ; or sectors where market evolutions are less affected by global competition than by demand dynamism : the wool pipeline and some sections in home textiles. These sectors offer a cushion for the restructuring process as they offer possibilities of diversification for other segments of the industry. They do also allow for the deployment of supplying sectors (fibre industry) or associated industries (mechanics/machinery) and they enable to maintain institutions for the industry (technical centres, education, associations).

However those specific sectors have a **specific regional base** as a large part of the carpet industry is based in Flanders and the wool industry is now concentrated for 60 % in Italy. In Flanders the carpet industry does mainly support textiles by strengthening training and research institutions in the textile cluster. However in Italy both Prato and Biella suffer a more severe restructuring than the textile system as a whole. Their major contribution is forging the image of a innovative and qualitative

industry. While they provide a cushion they do not save the other segments of the industry. The UK is the only case where production of wool and worsted yarns has resisted, as carpets became an output instead of apparel. But this impact is limited to one small section of the industry.

Technical textiles are more spread over the entire Union (although with a concentration in Germany, France, UK and the Benelux. However the technical textile industry has its barriers of entry in terms of technology, product development, organisation of production and financial model. While some sections of technical textiles require specific knowledge and advanced product development, and create products in low volumes with high margins, others rely on highly engineered production processes for high volume/low margin production. Some transfers from home or apparel textiles to technical textiles are technically easy to make, however market entry barriers are often high. It is not easy to achieve continuity and good margins as a newcomer in technical textiles. Only few firms survive the transition and many do so with a substantial loss in employment.

One should analyse what are the key conditions, strengths and weaknesses of a regional industry to adapt. It is foremost the ability **to pre-empt forced restructuring** by defining a long term strategy and being able to free capital resources to develop marketing and exports strategies to delocalise production and to invest in productivity increases. This requires from companies available capital, which lacks in Eastern Europe and will to free capital which does sometime lack in the Western European regions.

The district is therefore mainly **a reality in terms of labour market**. Even at that level a note of realism is required. The restructuring of production has been so strong over time that in most districts textile represents already a declining share of employment. In many regions, the textile and clothing industry operates in labour markets with relative low unemployment. Moreover in most regions the rate of restructuring is slower than the replacement rate of labour. Job loss is then for 50 % to 70 % absorbed by other textile companies. However the possibilities of redeployment are clearly linked to the economic context. While regions as Lombardy, Flanders, NRW have a diversified economic structure the re-employment possibilities depend on the speed of restructuring of the industry and the overall economic situation. Redeployment is only possible if job loss/year is below 10% of employment and provided that other industries are not affected by an economic down-cycle. However in the Southern regions of Europe and in regions with a substantially higher unemployment (Eastern Germany, CEEC) redeployment will be more difficult or at least much slower.

Three remarks should be made. In the first place there are in each region remote textile towns with little employment alternatives. Alternatives imply considerable mobility on behalf of redundant employees. In the second place this mobility is even more of a limitation for female workers. The consequence of job loss are thus especially severe in regions were women are main income earners (e.g. in many CEECs). In the third place alternative employment requires considerable retraining as it involves other skills. Redeployment may imply initially a considerable decline in income, especially for technically skilled workers, who are relatively well paid in the textile industry. It should be noted that alternative employment can be found in other industries (operators) but very often also in services (transport, cleaning, administrative positions).

The district is also **a reality in terms of institutions and economic context**. Relevant institutions are a national or regional development, trade associations and labour unions, a training and research

infrastructure. Most companies see restructuring as a market led process that has to occur in a context that many entrepreneurs see as adverse. Restructuring requires often a pre-emptive downsizing but also retraining of personnel. It often implies to abandon certain activities and to engage in new ones, which puts pressure on relations with social partners. It often requires outside help in the financial sphere and in knowledge. In face of the complex challenges industrialists are facing, many feel little help from governments, regions, trade associations or labour unions. They feel constrained by a strict social and regulatory framework. They do also sometimes remain attached to interventionist policies, while many public authorities expect more of the endogenous organisational power of industry associations.

This can be interpreted as a reaction to **uncertainty** on behalf of companies, a lack of visibility in the changes to expect after 2005 and possibly a lack of mobilisation on behalf of the various actors. There is here a clear difference between the older Member States and the newer and candidate Member States. A better understanding of the challenges, more debate amongst social partners and a more pro-active policy can be perceived in Belgium, Germany, Italy, France and the Netherlands as well as in Greece and in the U.K. In these countries measures are often soft measures in the areas of technology, training, export promotion etc... In these countries associations have become more service oriented and pro-active.

There is already more uncertainty in Spain and Portugal. This is more on the implementation of adjustment than on the vision. Regions in both countries seem to have used Retex budgets fairly effectively in upgrading the support infrastructure for companies. In the candidate countries there is in the industry a low level of awareness and no real debate on the complex set of transformations, accession and liberalisation, in view of the specific structure of the industry in candidate countries. In these countries the fairly difficult starting point is worsened by a **lack of vision** on roads of readjustment and a lack of coordinated efforts.

2.2 DETAILED ANALYSIS OF THE VARIOUS SYSTEMS AT WORK

➤ THE CLOTHING INDUSTRY IN THE PORTO AREA (PORTUGAL)

At a glance :

<i>Employment :</i>	<i>127 000 (70% of regional manufacturing employment)</i>
<i>Main categories :</i>	<i>Menswear : 6, 8</i> <i>Knitwear : 4, 5</i>
<i>Place in supply chain :</i>	<i>Subcontractors, private label manufacturers</i>
<i>Dominant trend :</i>	<i>Development of local market, delocalisation</i>
<i>Strengths</i>	<i>Technical expertise, especially in fine knitwear, linkages to QR Spanish retailers</i>
<i>Weaknesses :</i>	<i>Lack of brands, lack of commercial dynamism, financial weakness</i>
<i>Opportunities :</i>	<i>Delocalisation, branding</i>
<i>Social consequences :</i>	<i>Little re-employment opportunities except in specific places</i>
<i>Gender dimension :</i>	<i>Important, majority of employment is female</i>

▶ *Key developments*

The Portuguese clothing industry has always been very concentrated in the North of the country, around the cities of Braga, Porto and Barcelhos. It is made up of numerous small businesses and subcontractors of less than 20 employees and a number of more important companies, some of which having an integrated distribution network. Having specialised skills in fine-gauge knitwear, certain companies in the region are on their way to becoming the European reference in sportswear. Portugal has the cheapest labour costs in the European Union, but the cost per standard minute is still 40% more expensive than in Morocco. (KSA 1999)

▶ *Outlook for 2005*

The Portuguese textile and clothing industry does not expect any drastic change from 2005. The present positioning on men's tailored clothing and on highly creative/ quality knitted sportswear makes the industry more vulnerable to the development of neighbouring European countries (Northern Africa and Eastern Europe) than to increased competition from quota constrained countries.

▶ *Employment*

The clothing industry represents up to 70% of all employment in the North, that traditionally was an agricultural region. In the year 2000, the clothing and textile industry represented 15% of the added value of the country's whole processing industry. Other industrial activities (automobile, electronic etc..) are being developed around Lisbon. It is to be feared that eventual restructuring will result in a rise in unemployment in this area, which today already has a fractionally higher rate than the rest of the country (~ 6%).

In 2001, the clothing industry represented more than 8000 businesses, more than 1500 of which had more than 20 employees, i.e. 127 000 jobs (a 13% decrease compared to 1998) added to 350 companies (19 000 jobs) in the knitwear.

► ***Company structure and sales***

Generally the companies are family owned and operate independently and not as networks.

Small businesses of less than 20 employees are often subcontractors working either for local or Spanish contractors. An important number of companies have developed their own brand, sold principally on the national market through the network of multi-brand retailers, which still is an important retail channel in Portugal (36% of sales in 2000, more than 22 000 shops in 1997). Some integrate their distribution by a network of franchisees or fully-owned branches, like in familywear : Mac Moda, in menswear : Sacor, Decenio, in womenswear : Ana Sousa, Lanidor or in childrenswear : Petit Patapon...

The average turnover for the largest companies varies between 10 and 30 million Euros. Only the Grupo Maconde (men's ready-to-wear) has a turnover higher than 130 million Euros, the second Portuguese knitwear manufacturing company being Confetil SA with a 39 million Euros turnover in 2001.

Portugal's entry into the EU in the 80s favoured the delocalisation of Northern European production units to Portugal (Netherlands, Finland, France...) and the creation of joint ventures. Most of these brands closed their units in the late 90s to set up facilities in other European countries with more attractive costs.

Specialised in men's ready-to-wear and knitted sportswear (eg. Grupo Maconde) companies manufacture knitted separates (T shirt, top...) sweatpants and knitted suits, and in menswear : trousers, jackets, shirts... Some companies are renowned for their skills in up-market uniform production.

► ***External trade***

With 88% of all exports, the European Union is the first market for Portugal. However only 1% of these goods are exported under Portuguese brands. Well-known European and American sports brands have clothing destined for the European market manufactured in Portugal. It is estimated that the Spanish Group Inditex (Zara) alone represents 27 % of all Portuguese exports to Spain in textile and clothing. H&M buys more than 70 million Euros worth of knitwear each year from Portugal.

Portugal has its own supply of cotton yarn and quality wool-based fabric (in the country's central region). Nevertheless, in 2001, 1 479 million Euros worth of textiles have been imported, mainly from Spain, Italy, Germany and France.

► ***Non business support***

High quality training and expertise are offered to companies (University of Minho, CITEVE). They also get support from well-know technical (CITEVE) and economic (CENESTAP) research centres as well as dynamic associations (ANIVÉC/APIV, APIM/APT). Trade shows, organised in Porto and Lisbon (Portugal de Moda, Mod'Tissimo), as well as Fashion shows presenting Portuguese brands and designers give evidence of the industry's desire to fight for its future in clothing and textile.

Various European support programmes from the 90s (Retex..) have significantly helped companies improve their productivity, their equipment and to develop staff training.

► **Competitive analysis**

The most important competitors in men's tailored clothing are Italy and Germany, and in Eastern Europe : Slovenia, Croatia, the Czech Republic, Poland... . Morocco is a powerful competitor for shirts and Turkey for sportswear.

▪ **Strengths**

Well deserved reputation for knitted sportswear (design, industrialisation, making-up, fabric sourcing).

Experience in private labels.

High skilled labour (tailored clothing...)

Strong and competitive textile industry especially in cotton yarn, shirt fabric, wool fabric and knit fabric.

▪ **Weaknesses**

High labour costs.

The limited size of the domestic market and large presence of Spanish retail chains making it difficult to test and develop new brands and new retail concepts.

Lack of linkagess between apparel and fabric/yarn local manufacturers. Little sensitivity to the success factor it might represent.

▪ **Opportunities**

Develop delocalisation to Morocco.

Develop partnerships with Spanish brands to become their privileged manufacturing base.

Benefit from the development of the textile ranges of major global sports brands on the European continent.

▪ **Threats**

Increased competition from Eastern Europe in menswear.

Concentration of the distribution

► **Performance of the industry**

Portugal remains a major apparel producing country in the EU, thanks to its low labour costs and to a well known expertise in sportswear and tailored clothing.

In order to remain competitive and maintain its market shares from PanEuroMediterranean competitors, the industry has to counterbalance its rising labour costs : increased focus upon product design and development and upon production control ; relocation of production to neighbouring areas (Morocco etc.).

The Portuguese industry has many assets to successfully meet this challenge, in particular a competitive and innovative fabric local supply, a good knowledge of EU market demands and the development of creative know how in the country.

Liberalisation Impact.

Northern Portugal has to watch the impact of liberalisation closely but it has still possibilities of anticipation and reaction. The impact may be limited provided that the industry reacts and continues to invest. Portugal is highly dependent on outside decision makers regarding buying. While the internal competitiveness has improved, the dependency has not improved. This makes Portugal vulnerable in cotton products and in volume goods. Cotton apparel textiles (Cat 6 and 8) are vulnerable to liberalisation and with them upstream textile categories 1 and 2. Knitwear and home textiles are less vulnerable.

➤ **THE TEXTILE INDUSTRY IN THE SEVEROCESKY KRAJ (CZECH REPUBLIC)**

At a glance :

<i>Employment :</i>	<i>33.000 (10% of regional manufacturing employment)</i>
<i>Main categories :</i>	<i>Cotton System : 1,2,3, 20</i> <i>Synthetic System : 22, 34,35, 41</i>
<i>Place in supply chain :</i>	<i>Co-makers, suppliers of basic commodities</i>
<i>Dominant trend :</i>	<i>Downsizing, retrenchment in technical textiles</i>
<i>Strengths</i>	<i>Technical expertise, proximity to core EU regions</i>
<i>Weaknesses :</i>	<i>Lack of commercial dynamism, financial weakness</i>
<i>Opportunities :</i>	<i>Inward investment of EU firms</i>
<i>Social consequences :</i>	<i>Little re-employment opportunities except in specific places (e.g. automotive)</i>
<i>Gender dimension :</i>	<i>Important, majority of employment is female</i>

▶ ***Key developments***

The Czech textile industry has a long tradition and experience in textiles. The textile industry is more important than the clothing industry; this in contrary to other CEEC countries. The share of textiles to clothing is three to one. Technical textiles is fairly important with a share 14% in total textile and clothing production. The textile industry in the Czech Republic has seen massive restructuring since the end of the planned economy in 1989. As a consequence employment in the t/c industry declined by almost 60% between 1990 and 1995. The Czech textile industry is export oriented, with a large and significant part of total production destined for the German market. OPT is very important for clothing, foreign investment for textiles. The Czech and German textile industries are highly interrelated.

▶ ***Outlook on 2005***

Restructuring of production and decline of OPT will continue but will partly be compensated by foreign investment in textile production. There will be a continuing decrease of employees in manufacturing and an increase in labour productivity. More rapid growth is expected in (foreign owned) companies with 100 and more employees especially if linked to further processing in the EU-15. Product diversification and quick reaction to customer needs is seen as necessary but demanding considerable business process redesign. A high share of standard production dominates the Czech textile industry, and the industry is highly sensitive to lower cost suppliers. Transformation of the industry is hampered by a weak capital base and the legacy of a planned economy.

▶ ***Employment***

The textiles industry employs around 60.000 people in the whole Czech Republic, a share of 5% in manufacturing. From 1990 till 1995, the employment declined by 60% due to privatisation, closure and restructuring. Employment has also decreased after 1995 but the trend has slowed down. Productivity increases explain also reduction in employment. More than 80% of the employees are women, most of them in production (80%). The percentage of non production workers in total employees is sharply increasing. The percentage of women employed is decreasing faster than overall employment. Alternative employment is rare as the textile industry is predominantly established in textile valleys and rural areas. It is also in these areas where the unemployment level is already high

(average more than 15%). Transport problems and social barriers make it difficult for women and low skilled people to attain a job in another region or within a different industry. Redeployment is only feasible in larger urban centres or in the “Skoda” district where automotive suppliers provide alternative industrial employment.

► *Activities*

The industry has a share of 3% in output of the manufacturing industry. All sections of the textile industry are represented from spinning to weaving and finishing. The focus in North-East Bohemia is on the cotton sector. In the Liberec region the wool sector is more established. The strongest sectors are spinning and yarn dyed or plain weaving. The most significant growth in output is in the cotton (e.g. Tiba, Perla) and bedlinen (e.g. Mileta) sectors. A strong decline of output is recorded in the wool industry. Income development was favourably influenced by year-on-year increase of cotton yarns and cotton fabrics’ production mainly. It is also in these sectors that foreign investment is most developed (e.g. Schoeller in spinning, Hof and Sioen in weaving). The industry is mainly made up of larger companies, until recently grouped under a few holdings.

Good prospects for product groups are in industrial textiles, special fabrics and textiles for the automotive and construction industry. Prospects for apparel textiles are less good, except if there is substantial foreign involvement in capital, technology and marketing. In the production process, most spinning and weaving activities for commodity products will disappear. Most labour intensive activities will shift to cheaper Eastern European countries (e.g. making up of bedlinen or yarn dyed patterned weaving). It is especially in standard articles made of cotton or in classic cotton blends that an increased competition from third countries, can be expected, specially after abolishment of all quotas in 2005. Most companies follow a diversification strategy in products and processes to remain competitive.

Inward processing is very important. The Czech textile industry is very dependent on EU and especially German companies. Profitable enterprises are especially firms backed or owned by foreign capital. Companies with 100 and more employees are focused on co-operations with foreign customers and the sales of products on foreign markets.

The costs in the textile industry are continuously increasing; the largest year-on-year increase of total cost was 11% in 2001. This can be largely imputed to labour costs. Productivity development has been substantial as well as investment. Total investments in the textile industry increased year on year by 7% since 1995. They were, however, insufficient to upgrade significantly the industry and were mere replacement and productivity oriented investments. However when production is not carried out on an OPT basis, Czech companies are highly dependent on imported inputs (representing 76% of all inputs). The production base is adapting very slowly to changes in procuring material inputs. The overwhelming part of raw materials is imported, as Czech resources of textile raw materials are very limited.

► ***Company structure and business network***

Enterprises with more than 250 employees are in the majority (66%). Most employment and turnover comes from former state owned firms. Some of them are regrouped in a single holding structure (e.g. Veba) others are owned by investment funds. They are not in control to make important business decision and are not able to attract funds or capital on their own. Changes are likely to occur as firms are trying to get out of the holdings through management buy out. There are few family or entrepreneur owned companies because of the specific historical context. The number of foreign owned companies is increasing (e.g. Schoeller).

The restructuring of industry and banking is not completed yet. Low investment activity and lack of strategic management can be explained from a high indebtedness of the industry and limited resources. An important role is also played by the non-transparent and not yet finalised ownership relations. Many firms being owned by investment funds are seen more as a cash cow or a property development than as an industrial project. It is very difficult to get financial loans because of the restructuring of the banking sector and because of the difficulties the industry has in making transparent business plans and to provide guaranties for granting of more advantageous long term credits.

Local business networks are little developed. There are few business linkages between regional firms as there are more dependent and working for foreign companies and clients. Although there are developments to further integrate the Czech and German business network (and institutions), it did not really benefit the Czech industry so far.

► ***External trade of the area***

The textile industry represents 5.5% of total exports. Changes in the production are reflecting the domestic as well as abroad demands and competitiveness. The change in market orientation towards advanced countries of Western Europe was reflected in retreat from some commodities (from synthetic knitwear and fabrics with a high share of synthetic fibres). The export of textile products has been continuously growing (by 9.5% in 2001). Imports have been constantly increasing as well. Foreign trade balance expressively increased by 60% over the period 1995-2001.

The largest share in foreign trade with textile products was with EU countries. Direct exports into EU countries reached almost €1,52 billion in 2001 and its share in total exports amounted to 72%. The second most important export area are the CEEC, representing a share of 12.4%. By far the most important trade partner is Germany (60%), followed by Italy, Slovakia, Poland and Austria. Most imported products come from Germany (43%) and Italy (10%). Import from EU countries increased substantially as they do provide an important input for higher value items. Imports from Asia are rapidly increasing, especially in basic commodity inputs. Most important export groups are cotton yarns and fabrics, glassfibre fabrics and home textiles (bed and table). Technical textiles are becoming more important.

► ***Non business support***

There is no special governmental support or policy for the textile industry in the Czech Republic. The general view is that the government has no clear vision for the industry and is not supporting the industry in an effective way.

The Czech industry is in general positive towards associations, but in practice they have only limited influence and few effective institutions do exist. Only 70 of total 700 textile related companies are member of the Czech textile association ATOK. Like the government, ATOK lacks a clear vision and strategy. This makes it more difficult for the industry to follow a strategy, or to make investments. Knowledge and education is becoming increasingly important. Although basic knowledge of textile processes and product development is available, there is a lack of more sophisticated knowledge. Most knowledge is acquired from Western stake/ and shareholders. Education and training institutions lack the financial possibilities to invest in modern educational tools, approaches and methods. Furthermore there is a distance between institutions and company interests, as companies do need more company specific knowledge. For this reason the government is supporting and stimulating innovation and programmes of industrial R&D, but the positive effects are insufficient so far. Czech knowledge institutions (like the textile university in Liberec) are also involved in cooperation and exchanges with mainly German institutes.

► ***Liberalisation so far***

A large part of the Czech textile industry has seen serious restructuring due to privatisation in the early nineties. Nowadays, the Czech industry has to face liberalisation effects in general (WTO, 2005), access requirements and liberalisations demands from the EU. Many companies feel that they are not ready to join the EU, and are afraid that this new competition will have severe consequences for their business, even though the region is already involved in a free trade area with the EU. Much commodity production is still taking place within the Czech Republic, and is expected to suffer after 2005.

► ***Competitive analysis***

For its most sophisticated products, the industry faces the biggest competition from Germany and other advanced countries. To attain superior quality and services, some companies prefer to vertically integrate more production stages in one plant. As a consequence there is no place anymore to subcontract activities into the Czech Republic unless brought under direct ownership. Other (OPT) operations are also being threatened to shift to third (CEEC) countries because of much lower wages.

▪ **Strengths**

- Relative low wages in comparison to EU level
- Proximity and good relationships with the German market
- Long tradition and experience in technical textiles
- Good educated workforce for basic textile activities
- Already involved in a free trade agreement with the EU

▪ **Weaknesses**

- Logistics and implementation of information and communication technologies is low
- Present level of technical education and vocational training does not respond to the needs of products and process restructuring.
- Weak entrepreneurial working mentality/ motivation of especially the older generations
- Wages and costs are increasing very fast (hard to catch up the productivity level)
- High dependency on foreign companies and decision making.
- Lack of (international and long term) vision and strategy of the government, association and companies

- Lack of a large and sophisticated domestic market
- Low productivity in comparison with EU competitors (38% compared to the German level)
- Weak capital base and lack of strategic investors and creditors.

- **Opportunities**

- Still objective (of EU companies) to lower cost in the future due to globalisation : Czech textile industry offers good quality for relative low wages
- The interest of Western companies to enter higher forms of partnership relations with Czech textile manufacturers and to relocate capital
- New markets : especially Eastern Europe and Russia
- Accession to the EU : transaction cost and formalities will disappear : better economic law/regulative business environment
- Membership of the EU will improve the Czech image in third markets

- **Threats**

- Accession to the EU may result in stringent and costly requirements on safety and health protection at work in Czech firms.
- Competition from other Eastern Europe countries where costs are even lower (Bulgaria, Romania, Belarus, Ukraine etc.) and from Asia
- Increased competition from China
- The appreciation of the Czech Crown against the Euro might worsen the competitive position.

► ***Performance of the textile industry***

Compared to other former socialist countries the Czech industry is further in its restructuring process. This does not automatically mean that the Czech industry *is* competitive. Most successful and competitive companies are foreign owned and therefore very dependent on foreign business decisions and strategies. The competitive part of the industry is very small, and most of the industry has disappeared or will disappear in the near future. High unemployment is the consequence and there are hardly any substitute industries where those people can be employed in the near future. The social impact is severe in an already poorly economic performing area.

The textile industry suffers from a negative image, especially amongst young potential workers. Few are motivated to work in this industry or are willing to take a textile related education. The image makes it more difficult to get financial loans or to attract (foreign) investments. Especially smaller companies are not able and used to involve in marketing and commercial activities to improve their image and to make the company more transparent.

The estimated profitability level is close to zero or negative. The industry expects no structural improvement in the short term. Restructuring is likely to continue with closures of the over-indebted and not profitable firms. Till that time, a lot of companies remain very dependent on financial institutions and foreign companies for their future.

Liberalisation impact

The region is highly vulnerable to liberalisation but is also likely to benefit from investments from EU firms in basic materials. Mainly the cotton system is vulnerable. Employment losses in synthetics will be compensated by jobs generated by investments from EU firms. Within specific categories (1,2,9,20) it is mainly labour intensive products that are vulnerable. It is possible that printing activities will expand and compensate for job losses at the weaving stage.

➤ **THE LUXURY CLOTHING SUB-CONTRACTORS IN CHOLET/PAYS DE LOIRE AREA, FRANCE**

At a glance :

<i>Employment :</i>	<i>20.800 (10% of regional manufacturing employment)</i>
<i>Main categories :</i>	<i>Ladieswear : 15, 26,27</i> <i>Childrenwear : 4,5,6,7,8,67</i>
<i>Place in supply chain :</i>	<i>Subcontractors, co-makers</i>
<i>Dominant trend :</i>	<i>Specialisation in high-end products, organisation of OPT</i>
<i>Strengths</i>	<i>Entrepreneurial flexibility, technical skill, collective organisation :</i>
<i>Weaknesses :</i>	<i>Fragmentation of production, strong focus on French clients</i>
<i>Opportunities :</i>	<i>Control OPT, export</i>
<i>Social consequences :</i>	<i>Good opportunities in other industries and in services in urban areas</i>
<i>Gender dimension :</i>	<i>Very important, almost all employment is female and rural</i>

▶ ***Key developments***

The four French départements surrounding the city of Cholet (44 Loire Atlantique, 49 Maine et Loire, 79 Deux Sèvres, 85 Vendée) do not have an historic T/C tradition (with the exception of the Cholet handkerchief). Nonetheless these départements represent today more than 10% of employment in the French apparel industry.

The advent and growth of ready-to-wear in the sixties gave birth to large feminine ready-to-wear, sportswear, and children's wear brands (Gaston Jaunet, New Man, Jacques Jaunet, Guy Laroche, Catimini...) and favoured the creation of subcontracting workshops.

Today the area of Cholet hosts a concentration of brands (sportswear : New Man, children's wear : Catimini, IKKS, Salmon Arc en Ciel, workwear : Mulliez...) whereas subcontractors are concentrated in the Vendée and Deux Sèvres areas.

▶ ***Outlook for 2005***

As a result of their positioning, the easing of trade restrictions in 2005 should not hit these companies. In parallel with the entry into the European Union of new countries creates additional opportunities to find Eastern production partners as well as a possible development of markets for the clients of the Choletais manufacturers.

▶ ***Employment***

Industry employment in the regions Pays de la Loire and Poitou Charentes istrict was 20.800 people in 1999. More than 80% of this employment is located in what is called the Choletais district. T/C employment has diminished by 60 % since 1985 due to restructuring (ex : New Man, Mulliez, Catimini...), to the disappearing of certain brands (ex : Guy Laroche..., Bonneterie Fine Choletaise...) and to the closing of subcontracting companies (ex : groupe Pacreau, Bocage Confection...). In comparison, T/C employment in the North of France has diminished by 71 % over the same period. The unemployment rate in the area remains slightly inferior to the national average. There are other employment possibilities in the region in other sectors besides T/C and the shoe industry : a buoyant food industry, the building trade and the hotel/catering business and fairly large logistics and

transportation industries. Those sectors do provide alternative employment possibilities for T/C laid-off workers.

In T/C the level of training has improved as workers are in general more multi-skilled, capable of mastering several operations than they were ten years ago.

► *Activities*

This industrial cluster is specialised in better end woven ladieswear and most companies offer a complete service starting with product development and continuing through to the management of production – delocalised – targeting the middle to upper price segments, with short delivery times (5-10 days) and small series (below 50 pieces).

The area has succeeded in maintaining employment at relatively higher levels than in other French regions, thanks to different factors. From an industrial point of view, the firms benefit from a local know-how allowing them to work with all types of materials and designs and from a good image both due to their traditional customer base of local middle-to-upper-end brands.

Around this fairly stable customers' portfolio, local companies have succeeded in diversifying their production towards medium – or even low-price -, higher volume order series for retail chains. To these clients they offer reactive production and/or engineered products, for which labour costs are not the first competitive factor. They offer services extending to co-development of products for clients, purchase of trimmings, delivery to the point of sale ; purchase of fabrics is also possible.

Differing from other regions such as the North of France, the Cholet district carries little trade with mail-order companies which experienced strong growth up until the nineties but have subsequently strongly diminished their call upon French subcontracting.

Local firms started relocating production fairly early towards Morocco and Tunisia but also towards some of the CEECs. This process began in the early eighties.

The district activity attracted upstream and downstream clothing services : a research centre for the industrialisation of products ; suppliers of trimmings and materials ; a delocalisation management centre...

Most companies are quite specialised upon particular types of apparel : tailored clothing/dresses and blouses etc... The district thus offers customers an extensive and diversified production base – even in terms of price brackets-, with convenient logistics and the capacity to carry out efficient quality management.

First and foremost, the area is remarkable for its collaborative spirit : most companies owners have understood early that cooperation between themselves was a key success factor for the whole area. As such they have developed various partnerships to carry out actions in good synergy.

The region's positioning upon the upper-end/luxury sector is a result of the close bonds developed with Parisian upper-end and luxury brands (cultural understanding, geographic proximity, customers' service...). This would be difficult to reproduce elsewhere in Europe due to the differences in markets. Local companies are thus left with the need to develop direct exportation insofar as other countries may not have at their disposal an adapted subcontracting offer nearby.

► **Company structures**

The annual turnover per employee can vary between 24,000 and 40,000 Euros for companies in the highest price segments and with the strongest services (production by the unit, product development in collaboration with design studios...). This figure is higher than to the average turnover per employee for a French subcontractor of women's clothing (23,100 Euros in 2000²⁸).

These companies are generally located in rural areas (the Bocage Vendéen) in towns with fewer than 3,500 inhabitants. They are largely family-owned, and are today managed by the second generation of the family (ex : Baizet, CSV...). Some of them were created only in the middle of the eighties following the restructuring of integrated brand manufacturers or through MBO processes.

Companies of the area do business with customers outside of their region, but actual exports are quite limited (less than 10 % of production). None of these companies has created a brand.

► **Local business networks**

Host of the existing links are not formal, however a number of small groups have formed bringing together underneath a single management several workshops each one specialised in a type of product (ex : Albea/Atlanco/Manoukian..., Socami/Sochac..., Mid'Ouest...).

► **Non business support**

The region authority, the chambers of commerce, the industry organisations, the town councils, and the education system are all significantly involved in the T/C sector. Since May 2000, a "redeployment" centre has been put in place in the district of Cholet to help redundant workers. It handled between May 2000 and December 2002 1,384 cases stemming from the T/C and the shoe industries : almost 80% of individuals could find short term or permanent work contracts or extensive training programmes. As to training, one should mention several regional technical high schools (including the Cholet Fashion School), the Colbert Institute (continued education and a design/model making and management training programme). The French Textile and Clothing Institute also has a Cholet campus specialised in apparel. The subcontractors are gathered under the banner *Façonnier Industriel du Choletais* in the industry union *Ouest Mode Industrie*.

► **Competitive analysis :**

Upper-end and luxury outsourcers exist in other French regions (Normandy, Aquitaine). But, these are isolated and do not benefit from synergies similar to the Cholet area. In Europe, it appears that Italy is the most competitive country for the same level of quality and service expected by clients. Italian companies have a clear reputation for tailored items rather than unstructured garments. Countries from Eastern Europe can also be considered as serious competitors for the middle-upper-end segment but only for longer production series (100 pieces) and for products that require less fine tuning.

▪ **Strengths**

--strong specialisation and technical know-how in terms of model making, assembling, and apparel-making using difficult materials

²⁸ Source : SESSI, Ministry of Industry

- image of a qualitative offer
- service,
- reliability customer-oriented service
- good anticipation of the expectations, of the mentality and culture of clients

- **Weaknesses**

--personal relationships are established with people within the client firms instead of firms themselves. As soon as a designer or production manager leaves the company, it is fairly common that suppliers change as well.

- **Opportunities**

- to develop direct exportations
- to develop production licenses

- **Threats**

- the concentration of clients within a handful of luxury groups (LVMH, PPR...)
- the growth of Italian luxury groups (acquiring French Couture house...) which could relocate production in Italy
- rising quality level of the production of the Eastern countries

Liberalisation impact

The Choletais region should not be considered as a highly threatened region. Although childrenswear is a vulnerable category, the impact of liberalisation is likely to be limited as probably liberalised countries will not very keen on producing small runs. Price pressure is much more likely to intensify delocalisation nearby. Liberalised countries would become a major threat if (larger) clients start to manage small scale production over a long distance.

➤ **THE TEXTILE INDUSTRY IN NORDRHEIN WESTPHALEN, GERMANY**

At a glance :

<i>Employment :</i>	<i>36.000 (2,5% of regional manufacturing employment)</i>
<i>Main Categories :</i>	<i>Home textiles : 2,3,20, Technical textiles : 3,34,35</i>
<i>Place in supply chain :</i>	<i>Branded manufacturers, 2d tier suppliers</i>
<i>Dominant trend :</i>	<i>Delocalisation of commodity production, retrenchment in technical textiles.</i>
<i>Strengths :</i>	<i>Technical skill, linkages with research infrastructure</i>
<i>Weaknesses :</i>	<i>Lack of commercial dynamism, credit squeeze (bank reform)</i>
<i>Opportunities :</i>	<i>Innovation, branding</i>
<i>Social consequences :</i>	<i>Good opportunities in other industries/ services except in some textile towns</i>
<i>Gender dimension :</i>	<i>Mostly male employment</i>

▶ ***Key developments***

NRW is the most important textile region within Germany, representing one fourth of the country's employment and turnover. The textile industry in Germany is going through a period of downsizing. The region is less affected by this downturn as the main specialisation is in technical textiles even though the current situation in technical textiles is less favourable than it was a few years ago. NRW is a leader in the development of applications for new technical products and processes. Nowadays this leading role is threatened by other regions, which try to attain the same or higher levels of sophistication to become more competitive.

▶ ***Outlook for 2005***

Remaining labour intensive activities with low added value are likely to disappear. Focus will be on niche markets which will be much less affected than others by trade liberalisations or imports. Much of the apparel-oriented textile industry will disappear, including spinning, weaving and finishing. Home textile activities will focus on printing, while technical textiles and applications can be expected to grow. Two developments can be foreseen. At first, more companies will be engaged in foreign companies or subcontracting. Secondly vertical integration should become more important in order to improve quality control and service. However this vertical integration is combined with foreign production, as most companies are trying to intensify relationships with their customers and suppliers.

▶ ***Employment***

In NRW around 34.000 people are employed in the textile industry, which is 2.4% of total local employment. An additional 19.600 workers in the apparel industry. The industry is evenly spread over NRW with concentrations around Muenster (cotton industry), Aachen (wool), Moenchengladbach and Krefeld (synthetics) and Wuppertal (dyeing and finishing). Dusseldorf and Cologne are important fashion centres while the Bielefeld area has also a strong clothing industry. NRW is also the first clothing region of Germany.

The textile industry employs more men (55%) than women. Around 60% of employees are production workers. The number of production workers is expected to go on declining more sharply than non-production ones. Employment has decreased by 30% since 1995. Last year T/C employment declined by almost 5%. The unemployment rate in the region is relatively high. Further downsizing of the industry will affect labour markets especially in smaller towns and communities in the Muensterland area.

Attracting young and motivated people is difficult, as the industry has a negative image and few people want to start a career in the industry. This constitutes a potentially serious threat for the future of the industry, which will increasingly depend on a well skilled and highly motivated workforce.

Activities

Turnover is about 6.7 billion € in 2002. Production has declined by 20% since 1995. Apparel textiles have strongly declined with the closure of Nino AG, Rawe, van Delden in Westphalia and wool weavers in Aachen (e.g. Deschamps AG). Home textiles have maintained their activities although some companies have restructured substantially (e.g. Irisette and Vossen). A better future is expected for technical textiles (not in number of employees but in production) and many companies have diversified from apparel textiles to technical textiles (e.g. Girmes) or from home textiles to technical textiles. However growth opportunities for technical textiles are considered limited. Synthetic fibres and applications are expected to have a better future than cotton and wool based products.

► *Company structure and local business networks*

There are around 320 textile companies in NRW, most of them medium sized companies with about half being family owned. Most customers are industrial companies and wholesalers, which are increasingly directly approached without intervention of an agent. The industry is more involved in foreign subcontracting than it was in 1995, although this involvement remains low. Most suppliers are still being found in Germany. The German industry is vertically structured and has difficulties to become more flexible. Today companies are heavily dependent on suppliers and customers and are mostly involved in long term commitments. There is no serious exchange of knowledge or other co-operative arrangements within the industry (only with direct suppliers and customers). Most knowledge is offered by and exchanged with institutions. The regional industry association plays a significant part in this respect.

► *External trade of the area*

Around 32% of production (2,3 billion €) is exported. Around 54% of the exports go to the EU, 34% is to the rest of Europe, and only as little as 12% is being exported to non-European markets. Austria, the Netherlands and France are the most important export markets.

Main sourcing areas are the EU (31%), the rest of Europe (34%) and Asia (29%). Most imports are from Italy, Turkey and China. Imports from China are sharply increasing. Imports in general have declined since 1995.

More companies are becoming involved in foreign subcontracting. (40% in 2002 compared to 30% in 1996). Labour intensive activities are mostly subcontracted to Eastern Europe, Turkey and to an increasing extent to the Far East. Investments in the Far East are also increasingly aimed at developing the domestic or regional market.

► ***Non business support***

The policy towards the industry is split over federal and regional development. There is a strong awareness of the impact of 2005 on the industry. Initiatives have mainly been in the area of innovation (e.g. the Zukunft Initiative Textil) and focused on new materials, technical textiles and integration of electronics in textiles. However the general political climate is not favourable to the industry as the current coalition is unable to carry through a programme of reform of the labour market and maintains a high level of taxation.

The role of the textile association in NRW is considered as positive by the industry : it provides employers with advice and assistance to implement new laws, environmental regulations and assists in negotiations with trade unions.

Financial institutions are restricting credit to the industry. This is chiefly due to the banking crisis that is mainly affecting the (public owned) regional banks, which were often important creditors to or shareholders in textile firms (due to their importance for regional employment). The negative industry image does also – but to a lesser extent - affect credit possibilities.

Knowledge and innovations are considered as vital for the NRW textile industry. With research centres in Aachen, Monchengladbach and Muenster as well as a good training infrastructure, the industry has a good support for developing new materials. Companies have large R&D departments and are involved in internal traineeships.

► ***Liberalisation so far***

NRW appears to be better prepared for liberalisation than many other regions. Extensive re-orientation has already taken place towards higher price and quality segments, towards special and niche products and in particular towards technical textiles. These are fields that are less affected by competition from the growing volume of low price imports. 90% of Germany's garment production has already been transferred abroad. Garment producers are looking forward to 2005 when they will be able to source necessary inputs freely and more economically on world markets.

NRW features a relatively high level of penetration in product areas that are still subject to quotas. Thus, manufacturers whose products compete directly with imported goods have faced massive import competition for many years (Jungbauer 2002). NRW fears that it eventually will lose its competitiveness against countries in and around Europe, which may become more technologically advanced and flexible in the near future.

► ***Competitive analysis***

Most competitors can be found within Germany (Baden and Bavaria) in France (technical textiles) in Italy (apparel textiles) and Belgium (home textiles). NRW is increasingly affected by competition from developing countries, also in its more advanced and some technical textile segments. The number of close competitors is decreasing, as more competitors go out of business, but the remainders are becoming stronger.

▪ **Strengths**

- Technical textiles
- Innovative capacity
- Relatively good implementation of new knowledge
- Image (outside Germany) for its consistent quality, reliability and innovations
- Logistics and infrastructure
- Availability of technically skilled labour (today)

- **Weaknesses**

- Wages
- Profit margins and profitability level are declining
- Image (inside Germany : textile is considered a dying industry)
- strong reliance on European export markets

- **Opportunities**

- New markets (Far East and Eastern Europe)
- Enlargement of the EU : new markets and better possibilities for subcontracting (low wages)
- Further ICT applications and implementations
- Governments/ public administration are supporting and stimulating innovation and R&D

- **Threats**

- Inflexibility of the business environment, labour associations and market [market? What?]
- Unfavourable economic climate in Germany, slowing down industrial demand also for technical textiles
- Declining domestic demand for apparel-oriented textiles
- Financial institutions and credit squeeze
- Textile cluster/ network is becoming smaller as more companies are disappearing
- inflexibility of small, often family-owned companies to join co-operative arrangements
- medium- to long-term problems in attracting skilled and motivated young people
- Insufficient protection of intellectual property rights for innovation
- Strict and cost increasing environmental requirements

► ***Performance of the industry***

The continuing decline in the number of employees makes it difficult to speak of an economic success. However compared to other German regions, NRW is performing rather well. This is due to a larger involvement in technical textile and to a more advanced restructuring.

Within Germany the textile industry has a relatively negative image. It is (wrongly) considered as an old industry which has no serious future. This makes it difficult to attract motivated employee, as well as capital and financial loans. Outside Germany, the NRW textile industry has a good image. It is seen as a well performing competitive industry which provides excellent service and quality. NRW is seen as a front runner in innovation and technical textile development.

Since the end of the nineties, the profitability level has significantly decreased, due to more intense competition and a significant rise in costs.

Liberalisation Impact

Impact on production may be important in percentage terms but the number of production jobs (particularly low-skilled) is limited, especially in clothing. Home textiles are the most vulnerable categories and within those activities mainly weaving and making up. Employment losses are likely to be scattered on a wide area as no clear concentration can be seen at present in the local industrial network.

➤ **THE CLOTHING INDUSTRY IN THE EASTERN REGION OF HUNGARY**

At a glance :

<i>Employment :</i>	<i>20.000 (10% of regional manufacturing employment)</i>
<i>Main categories :</i>	<i>Outerwear : 14,15,16,17,26,27</i>
	<i>Knitwears : 4,5</i>
<i>Place in supply chain :</i>	<i>Subcontractors</i>
<i>Dominant trend :</i>	<i>Marginalisation, shift of OPT to Romania</i>
<i>Strengths :</i>	<i>Technical skill</i>
<i>Weaknesses :</i>	<i>Low investment/ productivity, lack of commercial drive, financial weakness</i>
<i>Opportunities :</i>	<i>Co-contracting</i>
<i>Social consequences :</i>	<i>Little re-employment opportunities : very rural industry.</i>
<i>Gender dimension :</i>	<i>Very important, mostly female employment</i>

▶ ***Key developments***

The clothing industry represents around 10% of industrial employment in the Eastern part of Hungary. The region is representative for the focus of the CEEC industry on Outward Processing Trade production and the limitations of industrial development based on that model. The Eastern region of Hungary has a tradition of subcontracting (on a Cut Make and Trim basis) for European countries. A shift has taken place into higher quality production, flexibility and short term delivery, but the industry is struggling as clients shift production to lower costs countries. The industry has many constraints in the business environment and lacks the entrepreneurial vision and tools to shift to another business model.

▶ ***Outlook on 2005***

The OPT model is no longer sustainable. This is mainly due to lower costs countries and the inability to upgrade. The legacy of the planned economy is still visible as inflexible labour markets, lack of capital and a low entrepreneurial basis are clear features. Companies are not strong enough on design, sales and services, thus the shift to another business model is difficult. Production is decreasing and more company closures are expected. Impact is likely to be severe, especially for those who only subcontract.

The Eastern region consists of 6 counties. The focus has been on the Békés county and the Hajdú-Bihar county, because these counties represent the largest share in clothing exports.

The most important sector in both counties is agriculture. Other important industries are food, glass, machine, wood and pharmaceutical industries. The region has a poor infrastructure. The volume of foreign investments in the region is very low as 80-90% of foreign direct investments has gone to the West of Hungary. Talent migrates to Budapest or the Western part of Hungary. The region has benefited for a period of relocation of manufacturing from the centre and the West to the East of Hungary but this logic has ceased.

► ***Employment***

Approximately 20.000 persons are employed in the clothing industry. The percentage of women employed in the industry is 80-90%. The unemployment rate in the region on average is very high, around 13%. In smaller villages this rate is even higher around 30-40%.

In some villages clothing manufacturing companies are the only/biggest employer. If/when they go out of business this causes big local problems. Regional consumer spending goes down, there is massive unemployment as there are few alternatives. Many unemployed people have little motivation to find new jobs. They are satisfied with government benefits and do some work in the black economy.

There has been significant up skilling of workers, mostly as a result of technological advancement. The number of white collar workers and management staff compared to blue collar workers is in general pretty low. However there is only little recruitment of higher trained (middle) management. But in most companies as a result of lack of capital the most modern technology is not available. However many countries do also recruit more marginal workers with a lower skill base. Some companies are trying to get a 'disabled worker' status to get government subsidies. Others recruit workers in nearby Romania or Ukraine in order to reduce labour costs.

► ***Company structure***

The largest companies are foreign owned and operate as manufacturing units on a CMT basis. The larger companies are Mode 3H Kft. (Dutch, 2 000 empl.), Berwin Clothing Fact. Rt. (UK, 1600 empl.), Unicon Rt. (Hungarian, 948 empl.), Felina Rt. (German, 500 empl.) and Mustang Rt. (German, 410 empl.)

While portfolio investments have dominated FDI the period 1989-1995 more recent investments were done by EU industrial firms. Most companies' size range from 100 – 600 workers, and are Hungarian owned. Many medium size firms have stemmed from cooperatives with worker-ownership. However many are transformed in limited companies owned by the management allowing a more pro-active business strategy. There are no integrated companies. Only the smaller firms (less than 100 workers) are family owned. There are also a substantial number of companies employing invalid workers (so-called municipal factories).

► ***Activities***

The manufacture of outerwear is the main activity (80%). The manufacture of underwear, pullovers, cardigans and similar articles count for the other 20%. Production of short cycle items is increasing compared to the more labour intensive long-cycle products. Many companies have entered/are trying to enter the internal working clothes market as it is a more protected market. There are companies with own brand names, but sales are limited to the internal market and with minimal market share. Some have had own brands, or tried to set this up their own collections but failed because of low consumer demand.

► ***External trade of the area***

Trade is concentrated with Western European countries; France, Germany, Italy, the Netherlands, Austria, Switzerland, the United Kingdom and is predominantly based on OPT. Since main activity is subcontracting, many inputs come directly from the clients. The dependency level is very high. Only 30% of production is for the domestic market. Many clients have ended their contracts, despite existing long term commitments. The reason is shift of production to lower cost countries such as Romania, Bulgaria and the Ukraine or because the clients themselves go out of business.

▶ ***Local business network***

Local business networks are little developed. There are few business linkages between firms as they are mainly working for foreign clients. There are no strong clusters as the industry is spread over the entire region.

▶ ***Non business support***

Trade associations have only limited influence and few institutions do exist. Some companies are associated with the Hungarian Apparel Manufacturers Association (HAMA). This is a small non-profit organisation that supports the companies as much as possible but has limited resources.

There is no support to the Clothing and Textile industry and policies are not considered as favorable, recent increase of minimum wages, policy of the strong Forint and direct tax above a certain number of employees.

▶ ***Liberalised already***

Hungary has liberalised trade with the EU countries, but most products produced in Hungary are still covered by quota for third countries. However the strongest competition comes from already liberalised countries (Romania, Bulgaria, Ukraine).

▶ ***Competitive analysis***

Main competitors are the lower cost countries. Clients with greater quantity orders of middle quality are shifting their production to Bulgaria, Romania, Ukraine and Moldavia and for orders of low-middle quality to the Far East. In the higher end Hungary is competing with Croatia, the Czech Republic. In knitwear it competes mainly with Turkey.

▪ **Strengths**

- High quality of CMT production, ability to make smaller quantity orders of high quality

▪ **Weaknesses**

- Lack of market knowledge, who is the customer and what does the customer want.
- Difficulties in keeping clients and getting new clients.
- No capital to invest in new technology, sales, marketing, services, logistics.
- Lack of knowledge to succeed in setting up own collections, brands.

▪ **Opportunities**

- EU clients ask for higher quality and quick response from Hungarian companies.
- If full member of the EU : More flexibility and lower costs because of less administrative barriers to export into the EU
- Increase of domestic market as demand for quality goods on the domestic market will increase
- Maybe turn to production of less labor intensive products like working clothes/ house linen etc...

▪ **Threats**

- Increase of production costs :
- After 2005 more cheap imports on the market

► ***Performance of the Clothing sector***

The Eastern region of Hungary finds itself in a very difficult situation. Hungary is historically a clothing manufacturing country. Most companies are now stuck in the middle of the value chain and do not know how to change their strategy. They are not good in design. If they do know how to be competitive they do not have the money to invest. Perception of entrepreneurs is negative. Many are very insecure and unknowing about the future and they do not see real opportunities to change their strategy to become strong competitive players. 2005 is seen more as a threat than an opportunity. They have years of experience in subcontracting but now decreases in turnovers, losses and company closures have the upper hand. Companies are trying to survive. They are very much in need of help from the government and the EU for capital investments and knowledge to set out future strategy plans.

Liberalisation Impact

The impact is likely to be important but mainly indirect as subcontracting activities may shift because of price pressures to Romania, Bulgaria and Ukraine. Woven apparel (labour intensive) is most at risk. Ability to anticipate or compensate for changes is limited. Employment impact is high but scattered over a wide area with little other employment opportunities.

➤ THE TEXTILE INDUSTRY IN LOMBARDY, ITALY

At a glance :

<i>Employment :</i>	<i>39.000 (cotton textiles = 3% of regional manufacturing employment)</i>
<i>Main categories :</i>	<i>Home textiles : 2,3,20, Apparel textiles : 1,2,3,63</i>
<i>Place in supply chain :</i>	<i>Branded manufacturers, 2d tier suppliers</i>
<i>Dominant trend :</i>	<i>Shift to high-end, delocalisation of spinning, increase flexibility</i>
<i>Strengths :</i>	<i>Commercial dynamism, quality and technical skill,</i>
<i>Weaknesses :</i>	<i>Disinvestment, weak financial basis, family ownership</i>
<i>Opportunities :</i>	<i>Innovation, new markets</i>
<i>Social consequences :</i>	<i>Good opportunities in other industries and services except in “textile towns”</i>
<i>Gender dimension :</i>	<i>Mostly male employment</i>

▶ *Key developments*

Lombardy is the most important textile region within Italy, representing a quarter of the total employment and turnover. The region is mainly engaged in cotton, silk and synthetics. There are strong links with the clothing- and furniture sector. Milan is the fashion- and design capital of Italy. The following analysis focuses on the cotton cluster and home textiles.

▶ *Outlook for 2005*

Major restructuring has occurred and is expected to continue in a slow pace, and will lead to delocalisation and productivity increases. A further restructuring of spinning can be expected. Design leadership allows for the resistance of production of fashion and quality fabric. In home textiles activities will focus on finishing and printing. More companies will be engaged in foreign companies or subcontracting. Vertical integration is becoming more important to have better control over quality and service, and is often combined with foreign production.

Investment in people and processes is becoming very important, as more than 70 % of the companies indicate that business process engineering is a priority since the end of the 1990s.

▶ *Employment*

Lombardy is one of the major textile and clothing region with in total 175.000 people employed (1999). Around 39.000 people are employed in the cotton industry in Lombardy, i.e. 25 % of total employment in clothing and textile industry, and 5 % of employment in the region. Lombardy represents 70 % of the Italian cotton industry. The industry is spread over the entire region with three major concentrations : the Valseriana (Bergamo), Val d’Olona (Milano/Varese) and Valle d’Oglio. The cotton industry is the major sector in textiles in Lombardy, followed by silk and synthetics, concentrated North of Milan.

The textile industry employs more men than women. Around 80 % is production workers. The number of production workers has declined while the number of non production workers has remained stable. Employment has decreased by 12 % since 1995 from 44.000 to 39.000. Decline in employment was most severe in spinning (-20 %), followed by weaving (-10 %) and limited in finishing and in

home textiles (-5 %). This decline is partly due to a drop in production, partly due to growth in productivity. Unemployment in the region is low at 4 %. Labour mobility is very high.

► **Activities**

The entire chain of cotton production is present in Lombardy from spinning, weaving to finishing and making up. The spinning production is declining and the spinning process is rigid and needs to increase in flexibility, improve marketing and quick response to remain competitive. Fabric production remains stable but shows a shift from weaving to finishing. Apparel is the main output with a major shirtings cluster (Cantoni, Albini, Canclini, Oltolina) and some denim and fashion fabrics. The second output is home textiles, with bed- and bath-linen (Zucchi, Bassetti, Bellora, Rivolta, Crespi) but also upholstery, curtain fabrics (Redaelli, Bonomi) etc. Technical textiles is present but less dominant in the cotton chain.

In general a strength of Italy is service and flexibility in design, co-makership, competence in product development and in industrialisation.

Products are positioned in the high end of the market, the middle segment has largely disappeared.

► **Company structure**

While Italy has a reputation for innovative clusters of SME's, large integrated and internationalised firms have an increasing hold on the sector. Zucchi has developed into a European group having taken over Descamps (F) Dorma (F) and Wellspun (India). Legler has shifted spinning and weaving to Sardinia and clothing making to Poland. Cantoni has manufacturing units in Hungary. Olcese owns Caulliez (F) and has manufacturing units in Morocco and Bosnia. However there are around 320 textile companies in Lombardy, mainly medium sized and about half of them family owned. Most firms are specialised in one stage of the production chain. In weaving, the division between small, medium and larger sized companies is 30% -40% - 30%. In spinning, medium sized companies account for 60 %, smaller ones for 30 % and the larger companies for only 10 %. Albini is an example of a company which is setting up production facilities in the Southern Italy. This indicates that there is nowadays a more national textile cluster than a regional one.

More materials are now sourced through merchants, less by subcontracting methods. The relationship and the proximity of textile machine suppliers are becoming more intense and important, as to make better use of IT applications and to improve production control and flexibility.

► **Local business networks**

Local business networks are important. They focus around the Associazione Tessile Italiana and the various consortia of the associative system. There are too many local associations which are too diversified and small to form one block. They represent different local stakes and interests which makes it harder to formulate one vision and strategy. Networking focuses chiefly on joint export projects and technology development. Moreover informal links, family alliances and cross-company shareholding is an important feature of the industry.

► **External trade of the area**

Around 50 % of production (3,4 billion €) is destined for exports. Around 54 % of the exports is to the EU, 34 % is to the rest of the Europe. Germany, France and Spain are the most important export markets. Outside the EU Switzerland and the United States are the main markets, more specific for apparel fabrics the Eastern European market. Of yarn production 30 % is being exported to the EU,

10 % extra-EU and 60 % is destined for the local market. For woven fabrics these numbers are 60 %, 30 % and 10 %.

The main sourcing areas are the EU, the rest of Europe and Asia. Country specific, imports from Turkey, India, Indonesia, Egypt and Syria are increasing, both in yarns and in grey fabrics. Relationships with suppliers become more and more dependent on price.

More companies are becoming involved in foreign subcontracting. (40 % nowadays compared to 10 % in 1996). Labour intensive activities are mostly subcontracted to Eastern Europe and Turkey and to an increasing extent to the Far East. However, production in the Far East and China is also carried out to supply the local market.

► ***Non business support***

The Italian government gives considerable attention to textiles compared to other countries. The importance of new technology is also supported by the government. Export promotion policy has been sustained and effective. However the government is increasingly delivering support policy at the regional level : with a major focus on Southern Italy. This is somehow against an industry that is deregionalising.

The role of the textile association in Lombardy is considered as positive : it provides advice and assistance to implement new laws, environmental regulations and assists in negotiations with trade unions. What is considered as negative by a number of firms is that the association has sometimes too much financial power, which makes the association somehow distant from SME pre-occupations.

Other institutions like the banking system and the logistics systems are not very well supporting the industry.

Knowledge institutions (like the universities in Bergamo and Brescia) and the industry are increasingly working together in an effective way.

► ***Liberalisation so far***

Italy appears to be better prepared for liberalisation than many other countries. Extensive re-orientation has already taken place towards higher price, quality and fashion segments, towards special and niche products. Shift of production activities to the Southern regions of Italy and to the European Rim and CEECs has made its products more price-competitive.

► ***Competitive analysis***

Most competitors can be found in France and Spain for finished products and fabrics. France and Germany are the main competitors for more technical applications. Spain, Greece and Turkey are competitors in yarns. Outside the EU the main competitors are Syria, Egypt, India and Central Asia for yarns and Pakistan, India and Egypt for basic fabrics.

▪ **Strengths**

- Design leadership
- Innovative capacity
- Relatively good exchange and implementation of new knowledge
- Good image for quality, fashion, product development and innovations
- Delocalisation of labour intensive production
- Availability of (technically) skilled labour

- **Weaknesses**

- Hierarchical business climate
- The “Italian system” (administration / bureaucracy)
- Profit margins and profitability level are declining
- Lack of service attitude
- Congestion of Lombardy (space, traffic)

- **Opportunities**

- New markets (Far East and Eastern Europe)
- New innovations, materials, products and applications
- Further ICT applications and implementations

- **Threats**

- Inflexibility of the business environment and labour associations
- Upgrading of the Spanish and Turkish industry
- Stagnant domestic demand and increasing competition in home market
- Textile cluster/ network is becoming smaller as more companies are disappearing
- Strict and cost increasing environmental requirements

- ▶ ***Performance of the industry***

Lombardy is often seen, like Italy as a whole, as a success story. Behind the good resistance of manufacturing activities, it hides a decline in employment in line with the overall trend within the EU. The rosy picture of clusters of SME’ s is also less valid. Vertical integration, including branding and direct retailing activities, however, is a major trend.

Inside and outside Italy, the textile industry has a good image. Inside Italy textiles is still considered as an important industry which employs many people. Outside, Lombardy is famous for its outstanding quality, fashion, materials, product development and industrialisation

Profitability of the industry is fairly low (below 5 % on turnover), while rotation of capital is also low as Italian firms allow long delays in payment.

Liberalisation Impact

Impact is likely to be important as companies close down or delocalise their activities. The cotton industry is most at risk with especially the spinning sector (both for weaving and for knitting). Impact should be most important in the textile districts in the North-East and North-West of Milan. While the region as a whole seems able to absorb the shock, specific districts and more specialised skilled workers appear to be at risk.

➤ **THE TEXTILES INDUSTRY IN FLANDERS (BELGIUM)**

At a glance :

<i>Employment :</i>	<i>46.000 (17% of regional manufacturing employment)</i>
<i>Main categories :</i>	<i>Home textiles : 2,3,20,</i> <i>Apparel textiles : 2,3</i> <i>Technical textiles : 3,34,35</i>
<i>Place in supply chain :</i>	<i>Co-makers, 2d tier suppliers</i>
<i>Dominant trend :</i>	<i>Shift out of spinning and apparel fabrics, high level of investment and productivity.</i>
<i>Strengths :</i>	<i>Industrial culture, high investment/productivity, commercial dynamism</i>
<i>Weaknesses :</i>	<i>Family structure ,no commercial/technological breakthroughs</i>
<i>Opportunities :</i>	<i>Innovation, productivity leadership</i>
<i>Social consequences :</i>	<i>Good opportunities in other industries and services</i>
<i>Gender dimension :</i>	<i>Mostly male employment</i>

▶ ***Key developments***

The Flemish textile industry consists mainly of medium sized family owned firms chiefly involved in home and technical textiles. Although the carpet industry is not part of the study, its presence in the same region does create synergies. The Flemish industry is highly export oriented. Although it is a highly advanced and capital intensive industry the number of employees has gone down significantly due to closures, subcontracting and efficiency improvement. The textile industry is operating in an affluent economic area where the unemployment is in general low.

▶ ***Outlook for 2005***

The process of slow restructuring is going to continue. The mix of upgrading, focus on niche markets, investment in plant modernisation is likely to continue. In the same time company closures linked to a poor financial position will be the largest component of job loss. The industry sees new market opportunities albeit especially in the CEECs. It does also see threats in commodity products, not so much in competing imports but from the development of imports of ready made garments. There will be an access to lower costs inputs (yarns is seen as an opportunity but also as a further weakening of local spinners). Mainly spinning activities and cotton products are affected. Companies which are mostly vertically integrated will be expected to be more successful.

The options to diversify in other markets are seen as limited. Technical textiles require a specific expertise and market insight. Entry barriers are high as incumbents benefit from high sunk costs and an established position in niche markets. Most companies are focusing on improving service and efficiency as well as diversifying the client's base.

► **Employment**

There were around 46.000 people employed in textiles (1999). In 2001, 600 jobs were lost, in 2002 1400. Production workers (80%) are more affected by this decline than non- production workers. There are more male employed (70%) than female. Most affected by the lay offs are low skilled men. Most of them find employment in other textile firms (50%) compensating for the small number of people who are looking for a job in the textile industry. Other lay off workers join other industries (e.e. food processing or engineering) or are approaching the retirement age and are covered by specific social schemes. There is relatively more need for highly educated people as most low skilled labour intensive activities are being downsized.

► **Activities**

Flanders has still a broad textile industry. The total textile turnover was 6,5 billion € in 2002. This is around 5% of the total manufacturing output. The production of interior textiles (representing 40% of total added value) is still increasing. This growth is mainly attributed to terry towel products (e.g. Santens and Clarysse). Carpets, tapestry, furnishing and poles fabrics are stable seeing a small negative trend. Flanders is leading in EU carpet production with some large family owned groups (Domo, Balta, Beaulieu). Clothing textiles (representing 23% of total value added) decreased by more than 9% : -12% in weaving and -1% in knitting. In cotton based weaving only denim products (UCO) saw a small growth. Flat wovens (Utexbel) have a declining demand. Filaments declined by 18% last year because of a low demand for these products and increasing imports from China. The bankruptcy of the large Sofinal Group explains also decline in filament weaving. The weaving of linen fabrics (Libeco-Lagae) for clothing is declining. This decline is compensated for an increase in the flax use for interior applications. The knitted fabric sector saw an improvement in production volume. Technical textiles (24% of total added value) is increasing (Sioen, Concordia, Seyntex, Bekaert). Spinning (4% of total added value) is declining sharply (wool and cotton). Dyeing and finishing is also declining strongly. There is a future for specialised synthetic yarns and rugs, jacquard (for furnishing textiles and the automotive industry) and technical fabrics (upholstery, protection clothing, and filtration and agricultural applications).

The evolution of the production and turnover in Belgium textile industry is in general following the main economic conjuncture. After a fairly positive second half of the 1990's, the downturn has been considerable in 2001-2002. Production has declined by 3,5% in 2002 (between 1995 and 2000 the production increased by 13,7%). Turnover declined by 4% in 2002, because of the decrease in production volume and because of the pressure on product prices due to the intensifying competition.

After a decline of 17% in 2001, total textile investments declined by 18.8% in 2002. As a consequence total investments have declined to a historic low of 250 million € In 2000, investments were still increasing by 13.7%. These low investments can be explained by the low profitability and negative future expectations about the developments in the textile industry. The costs of facilities and materials are increasing. As a consequence the production prizes are increasing sharply as well. The most important aspects are the wages in Flanders, which are very high, including social contributions and taxation. However productivity level is also very high.

► ***Company structure and local business networks***

Most companies are family owned and managed. Small en medium sized companies (<50 employees) are in the majority (85%). There are in total around 1200 textile related companies. Some companies are part of a larger structure, however almost always Belgian owned. Gamma Holding (NL) is the main foreign owner with stakes in De Witte Lietaar and Bekaert Textiles. Most companies have several divisions to spread risk and are mostly involved in more production stages and activities. Vertical integration is becoming more important as to have better control over quality and service. In the textile industry, brands are less important then in clothing. However, beside that textile companies are producing *for* brands, these companies have sometimes also their own brands.

Most companies (and families) have personal connections, but are not willing to transfer and exchange knowledge and information. They are only sharing their business knowledge and relationships with suppliers and customers, not with competitors. Knowledge is only exchanged and offered by associations. Intermediaries are becoming less important : companies are increasingly involved in direct selling. Suppliers and customers are becoming more dependent on each other because of downsizing of the industry. Companies see the need to intensify relationships and to offer more extended products and services.

► ***External trade of the area***

The Belgium textile industry produces 70% for foreign markets. In 2002 exports (10 billion €) are exceeding imports (7 billion €). Growth in exports were mainly attributed to final products like technical textiles (+ 7%) jacquard and furnishing textiles (+4.5%). Exports of semi-fabrics and materials were decreasing. Exports declined most sharply for apparel textiles and to a lesser extent for carpets and home textiles. Home and furnishing textiles remain by far the most important export products. Imports of home textiles were increasing (+8.2%), which is threat for the existing industry.

The EU is the mayor final market, representing 80% of total exports. Exports to France, Germany and the United Kingdom are most important and remained stable. New export markets are the CEECs (growth till 684 million €) of which Poland is most important followed by Russia and the Czech Republic. Exports to Turkey increased sharply (+27%) as well as exports to the Middle East. Exports to North America (-11,6%), Latin America (-5,7%) and the Far East (-1%) were decreasing. Imports of specialty inputs are from the EU countries (Italy) while Turkey and China are becoming suppliers of more standard fibres, yarns and grey fabrics. Subcontracting is becoming more important and most companies are nowadays involved in foreign subcontracting.

► ***Non business support***

There is no special governmental support or policy for the textile industry in Flanders. The textile industry is not a priority sector despite good personal contacts with policy makers.

Restructuring and flexibility is hampered because of the highly regulated labour market and redundancy rules. Social relations between employers and trade unions are normally consensual, however negotiations in 2002 became more tense with regard to more flexible labour conditions and wage evolutions. The textile association Febeltex is seen as positive for its effort to exchange information and to represent the textile industry as one strong entity. More should be done to exchange and stimulate the cooperation within the industry as to exchange information on markets, technology and other developments within the industry. Knowledge institutions (Centexbel and Cobot) are

important but the distance between institutions and companies interests are considered high as companies do need more specific knowledge.

► ***Liberalisation so far***

The majority of the production is liberalised already and the Belgium industry has in general anticipated well to the liberalisation. Most bulk and commodity production has already been downsized or outsourced. Some companies fear they will lose their competitiveness for higher end, more complex applications and products. Few companies are not competitive anymore, but are able to postpone their closure as they have a solid balance sheet and are unable to exit or sell their company under acceptable conditions.

► ***Competitive analysis***

Flanders is facing much competition from regional companies and to a lesser extent from companies from outside the EU. Within Europe, Italy is the main competitor followed by Germany and Turkey. Flanders is not only increasingly affected by competition and imports from developing countries (mainly China), but also from developed countries with lower cost levels, in particular Spain and Central Europe.

▪ **Strengths**

- Relative low overhead costs
- Mentality of the entrepreneurs
- Constant high investment levels
- Competitive stimulating environment
- Image (outside Belgium) for its quality, reliability and innovations
- Family owned companies : less bureaucracy and dedication for the company

▪ **Weaknesses**

- High wage level
- Family owned businesses find it difficult to cooperate with other (family owned) companies
- Interaction and exchange of knowledge remains low
- Fundamental innovations and technology are glimited
- Social relations are becoming less consensual.

▪ **Opportunities**

- New markets
- New innovations, materials, products and applications
- Enlargement of the EU : new markets and possibilities for subcontracting (low wages)
- Strong carpet industry is supporting the general textile business climate indirectly

▪ **Threats**

- Competition from low(er) cost countries in Europe and in developing countries
- Government bureaucratic and insufficient decision making
- Textile cluster/ network is becoming smaller as more companies are disappearing

► ***Performance of the industry***

The region is diversified in products, applications and processes used. As a consequence some sectors within the industry will be hardly affected by the trade liberalisation, for others it will be severe. Expectation is that more textile related employment will disappear. On the other hand the region is innovative, technologically advanced and capital intensive. Entrepreneurs are realistic in anticipating on future developments and liberalisation. However the Flemish industry remains very dependent on the general economic situation.

Outside Belgium the Flemish textile industry has a positive image. It is famous for its outstanding product quality, innovation and the good mentality of its entrepreneurs. Within Belgium the textile industry has a bad image : young people are less willing to work in this industry or to take a textile related education.

The profitability level is decreasing due to more competition and restructuring investments. In 2002 it was only 3.9%, a sharp decrease compared to earlier years and too low to compensate capital risks. As a consequence it is harder to get financial credits and loans within the textile industry then it is in other industries.

Liberalisation Impact

Impact is likely to be small as Flanders will probably lose in some sensitive categories, and gain through exports in others. Home textiles (esp. terry towelling and bed linen) are most vulnerable. Carpets and upholstery can benefit from market access. Social impact is likely to be limited as employment shifts are possible within the industry and local unemployment is low.

➤ THE TEXTILE INDUSTRY IN CATALONIA

At a glance :

<i>Employment :</i>	<i>65.000 (15% of regional manufacturing employment)</i>
<i>Main categories :</i>	<i>Home textiles :1,2,3,20,34,35</i> <i>Apparel textiles :1,2,3,34,35,47,48,49,50</i>
<i>Place in supply chain :</i>	<i>Contract manufacturers, 2d tier suppliers</i>
<i>Dominant trend :</i>	<i>Increasing specialisation, link to Spanish retailers and clothing manufacturers</i>
<i>Strengths :</i>	<i>Flexibility, cost leadership in fashion fabrics.</i>
<i>Weaknesses :</i>	<i>Low investment levels, low export level</i>
<i>Opportunities :</i>	<i>Investment, branding (home textiles)</i>
<i>Social consequences :</i>	<i>Good opportunities in other industries and services except in textile towns</i>
<i>Gender dimension :</i>	<i>Some, slight majority female employment</i>

▶ **Key developments**

Catalonia is the second textile region in Spain with 65.000 people employed. Catalonia has changed from a close to an open economy. This explains a stable evolution in employment between 1995 and 2002. However, the industry is pessimistic about the near future and thinks it will be difficult to build further on its former success. This region is so diversified in the kind of textile products, applications and processes used. As a consequence some segments and companies within the industry are hardly affected by the trade liberalisation, for others it will be severe. This will be especially the case for a fairly large spinning industry.

▶ **Outlook on 2005**

The Catalonian textile industry will face important changes in the near future. This is mainly due to restructuring in spinning and apparel textiles. Commodity production will be relocated or subcontracted to low cost countries. Upgrading is limited as Italy dominates the high end market. Diversification to technical textiles has only been successful from home textiles. The industry expects that the number of employees will decline by 1/3 because the industry is still focused on products currently protected by quota.

Companies try to focus upon and develop new niche markets, high quality and innovative products, and to deliver the best possible service. In the future Catalonia will be mainly involved in the design, distribution and final finishing, sometimes in combination with small scale specialised production. Diversification process has already taken place in the 80's and in the beginning of the 90's and is unlikely to continue.

▶ **Employment**

Textiles and clothing employs altogether almost 100.000 people employed (1999). The textiles industry represents a significant section of the Catalonian industry constituting almost 10% of the total number of industrial employees. Total textile employment has decreased rapidly between 1990 and 1995 (30%) reflecting the readjustment after accession to the EU. Since 1995, the employment in textile only has remained stable at around 65.000. The general view is that after liberalisation 1/3 of jobs are vulnerable. Downsizing will affect mainly apparel textiles and spinning. It is also expected

that some shifts will occur within Spain at the benefit of Valencia which has a better investment climate and business environment. Some companies consider delocalisation of production to the Far East and the Maghreb. Some other companies are already involved in foreign subcontracting.

Restructuring will mainly affect low skilled production workers (70% of total). The level of non-production workers will remain stable. In the textile industry are more women employed than men (70%), but this difference is declining. For the more technically advanced/ skilled jobs men are in the majority (60%). Few workers are expected to find alternative employment. This is due to the specific skills, the concentration of the industry in specific industrial districts, a fairly good social security coverage and low regional job mobility. These factors apply even more to women.

► ***Activities***

The total contribution of the textile/ garment industry in the overall industrial product is €6 billion Euro (6% of the total industry) but is decreasing. The added value has slightly increased from 2.390 million € in 1990 till 2.534 million € last year. Most people are employed in apparel textiles (45 %), followed by home textiles (35%) and technical textiles (20%). By process weaving is the largest sector (30%) followed by knitting (22%), spinning (20%) and finishing (18%). Major companies are Tavex (denim), Puignero and Sati in technical textiles, Dogi (knitted fabrics) Angles Textil and La Seda (synthetics).

The most affected sectors of the textile industry will be the apparel and the home textiles, the opportunities for the technical textiles are more optimistic. The technical textiles sector in Spain is a highly dynamic sector, given that, although it represents just 16% of overall textile production, for years it has maintained a considerable growth rate, above the average in the textile sector. However its production is a long way from countries such as Germany, Belgium, UK or Italy. Its trade balance is traditionally negative, with imports on average 20% higher than exports. Technical textiles exports amounted to some 600 million € representing almost 10% of total exports for the textile/ garment production sector.

In the production process, most spinning and the more labour intensive parts of weaving activities (yarn dyed patterned fabrics) will disappear out of Catalonia, and only final finishing activities will remain. Hardest hit will be cotton and wool products, and to a lesser extent filaments and synthetic fibres.

► ***Company structure and local business networks***

The majority of the Catalonian textile industry consists of small and medium sized enterprises. Most of these companies are independent and family owned/managed. The Tavex Group is the only large group in the region. There are almost no groups with foreign participations. Vertical integration is not highly developed. Both at the spinning and finishing level the industry harbours still independent companies.

Local business networking has become less important as companies have reduced the number of suppliers and internationalised their sourcing base (commodity yarns from extra-EU, fancy yarns from Italy). There is not a close regional cluster of textiles in Catalonia. Exchange of knowledge with competitors is low, and only general information is exchanged through trade associations. Networking and close relationships with suppliers and customers to exchange new knowledge on markets, technology and to jointly develop new markets and products is becoming increasingly important. They try to accomplish that by improving the personal relationships with their suppliers/ customers, and to deliver them the best and most complete service as possible.

Most companies have relationships with local knowledge institutions and schools (like the textile university in Tarrassa).

► ***External trade of the area***

The Spanish entry to the EEC in 1986 started the incorporation of Spanish firms into the international textile market. It led first to a stage restructuring and defensive retreat until 1995 and a more offensive export oriented stage afterwards. In 2001, the total exports reached almost 6 Billion € Export increased fourfold since 1990. The exports are not attributable to the industry only, it has also to do with the major Spanish retailers (Zara, Mango, Cortefiel) to which the textile industry is very much linked. The relative cost advantage which was a key of the success is disappearing. Increased liberalisation of the Catalonian textile market to the exterior has resulted in a corresponding rise in imports during last years. The presence of imported goods reached a share of 45% of total turnover in 2002. But at the same time, Catalonian companies have gained market share in the more competitive world markets.

For its more sophisticated products, Catalonia is very dependent from its supplies from Italy, and to a lesser extent from Portugal, France and the rest of Spain. But also areas from outside the EU (Far East and to a lesser extent the Maghreb) are becoming more important. Two thirds of the Catalonian exports go to the EU. Sales to the America's, the Middle East and Africa are becoming more important.

► ***Non business support***

The Catalonian textile industry is not supported by regional or national governments even if it has a strong regional embedding. The urban context and the various levels of governments create high levels of administrative barriers. Restructuring and flexibility is hampered because of the highly regulated labour market and redundancy rules. Labour unions have an adverse position towards more flexible labour conditions demanded by employers. Firms lack a pro-active innovation policy although soft measures have been implemented (some training, demonstration, export projects). The industry has still a dense support system in terms of textile oriented service industry, training institutions and trade associations.

► ***Liberalisation so far***

The industry is strongly oriented towards products that still have to be liberalised. The exceptions are some synthetic fibre and wool based products. However the industry has contained fairly well the liberalisation of trade with the CEECs and Mediterranean countries. The strongest impact in 2005 will be cotton products and in particular spinning. Possibilities of further specialisation and upgrading are considered limited.

► ***Competitive analysis***

In general the number of competitors from Spain or EU countries has decreased because of the intense competition. There are (depending on the sector within the textile industry) some competitors left within Spain and their main competitors are still European. Italy, Germany and Belgium are seen as competitors in higher quality levels, Portugal and Turkey in similar levels. Pressure from the Far East is increasing from commodity products into more specialised products.

▪ **Strengths**

- Flexibility
- Service
- Family owned business : less bureaucracy and more dedication for the company
- Specialisation in home textiles

- **Weaknesses**

- Not able to reach the sophistication/ productivity level of the most advanced countries
- Textile associations are too diversified to form one block : there are too much different stakes and interest within the textile industry to have a real influence on policies
- Family owned business : less open for criticism and support from (more specialised) people and family businesses are less conducive to engage in business relationships with competitors
- Industry is not very used to develop new innovative products/ processes and markets
- Catalonia is in general a relative affluent region and receive no specific regional assistance compared to other Spanish regions.

- **Opportunities**

- Better access to new markets and increasing exports
- Further improve close personal relationships with suppliers and customers
- Creation and development of new niche markets

- **Threats**

- Price and fashion are becoming more important than quality and fashion
- Governments and financial institutions are not conducive towards the textile industry

► ***Performance of the industry in Catalonia***

The Catalonian textile industry has benefited from EU accession and has successfully specialised and upgraded its industry. However it will be very difficult for the industry to maintain its position. It will be hard to face the competition from developing countries on the one hand and on the other hand to catch up with the sophistication level of the most technologically advanced regions (Germany, Belgium, Italy). The previous road to success is expected to be on its end.

Most companies have not really anticipated to the liberalisation. For them it will be hard to remain competitive after 2005.

The textiles industry has a negative image within Catalonia. This makes it harder to get financial loans for companies in this industry than for companies in other industries. Furthermore there is a perception that the textiles and clothing industry are about the same, while there are big differences in future business prospects and circumstances. Within Europe, the Catalonian textile industry has an average image, both in quality and service, but the industry is seen as a reliable and complementary business partner.

The profitability level of the industry is decreasing, because of the intense competition, but also because there are a lot of restructuring investments going on, which are necessary to remain competitive in the future.

Liberalisation Impact:

The negative impact is likely to be important as anticipation has been limited, except for productivity investments. Apparel textiles are most vulnerable both directly as indirectly (through reduced demand for clothing). Although Catalonia has a low unemployment within Spain, impact on employment will probably be important as it is concentrated on a few textile towns in the North of Barcelona

➤ **THE CLOTHING INDUSTRY IN THE MACEDONIAN REGION IN GREECE**

At a glance :

<i>Employment :</i>	<i>18.000 (2,5% of regional manufacturing employment)</i>
<i>Main categories :</i>	<i>Apparel : 4,5,13,18,28,31</i>
<i>Place in supply chain :</i>	<i>Branded manufacturers, co-makers</i>
<i>Dominant trend :</i>	<i>Upgrading, specialisation in knitting, Delocalisation of making-up.</i>
<i>Strengths :</i>	<i>Commercial dynamism, OPT in Bulgaria</i>
<i>Weaknesses :</i>	<i>Peripheral location, skill shortages</i>
<i>Opportunities :</i>	<i>Local market, branding, quick-response</i>
<i>Social consequences :</i>	<i>Opportunities in services, little in industry</i>
<i>Gender dimension :</i>	<i>Some, mostly female employment (majority changing)</i>

▶ ***Key developments***

Macedonia used to be a production region for low-cost products. Over the last ten years a shift to medium - medium high products has taken place. The focus of firms is on design and quick response in knitted products, benefiting from local cotton production and knowledge of cotton processing.

The shift of clothing assembly to nearby Balkan countries is in full swing. Local production focused on spinning, knitting and dyeing. The clothing industry is one of the most important industrial sectors of the Greek economy. In the Macedonian region the clothing sector is most important in terms of employment, number of companies and exports in comparison to other parts of the country.

▶ ***Outlook on 2005***

Commercial dynamism, awareness of threats and a pro-active attitude assists in reducing the impact even if production is mainly in vulnerable categories. Nevertheless price erosion will foster a further consolidation of the industry and a further shift of clothing making to Bulgaria. Overall a collapse of the sector can not be expected, however a further gradual decline of garment assembly is likely to continue. This will mainly affect subcontractors with little possibilities of reorientation.

▶ ***Employment***

Makedonia is the main textile region in Greece with total employment of around 21.000 workers (1999). Employment in the Clothing and Textile sector accounts for approximately 30% of total employment in industrial sectors in the region. Since 1993 the number of companies and employees has decline dramatically. The number of clothing companies with more than 10 people employed dropped from 441 to 270. For textile companies the number decreased from 200 to 141. Accompanied by these company closures is the cut in the number of employees between 1993 and 2001, which decreased in clothing from 19.965 to 10.450 and in textiles from 13.368 to 8.400 employees. The share of women employed in the industry is 75%. The number of employees over the age of 30 is 67%, which is fairly high. The decline was mainly in weaving and in clothing subcontractors.

Skilled workers account for 45% and 29% is unskilled. The number of skilled workers is increasing. The total percentage of designers, modelists and pattern-makers is 6.7 percent. The industry has problems with attracting good designers as graduates have more theoretical than practical knowledge.

► ***Company structure***

There are mainly family and entrepreneurial businesses. Medium sized companies dominate in the region. A typical medium sized company employs 30-60 people in Greece and 200-600 production workers abroad, mostly in Bulgaria. Smaller firms are mainly subcontractors. Most companies are domestically owned. Foreign owned firms have declined in number as production has been shifted to the CEECs. Some companies are vertically integrated.

► ***Activities***

A major development in Makedonia is the downsizing of clothing subcontractors, especially those linked to companies in the former EFTA countries. Makedonia is now strongly oriented towards knitwear production with a complete pipeline from raw cotton to finishing. Most companies are active in knitted garments (circular knit) and ready-to-wear (woven) in women's wear, but also in men's and children wear. Products are T-shirts, shirts, dresses, skirts, blouse, underwear, home wear, pyjamas, jackets, trousers and casual wear. A few produce Denim products. One company has a license for Disney items. Fabrics are mainly based on circular knit and cotton. The larger companies in the region are Beloni, Cottonfields, Endymata, Sarah Lawrence, and Minerva.

A large shift has already been made from purely production towards design, sales, customer services, quality control, chain management and sample production. Companies are able to produce many collections a year. Most companies have their own production facilities abroad or subcontract these activities, because of pressure on product prices and competition from Turkey. This shift of production is mainly to Bulgaria (80%) where 40.000-50.000 people work for Greek clothing companies. The rest of the production has been shifted to Rumania, the former Yugoslav Republic of Macedonia and Turkey. However most companies maintain some production, mainly in knitting, dyeing, cutting and finishing. The main reason for this is to be able to respond quickly to follow up orders and to be flexible. Some have all activities integrated for the same reason. Some companies subcontract all these activities and purely concentrate on services and design. Almost half of the companies in the region are exporters (exports are more than 50% of sales) and are good for more than 80% of the total exports in clothing.

The industry is evenly split between companies with own brands and companies working for private labels. Most companies with own brand names sell their brands on the domestic market where they also have their biggest market share (around 80%). Some have their own outlets. Most subcontracting is for private labels and well known brands from other EU countries.

► ***External trade of the area***

Most of the exports (75%) are to the EU countries of which 50% to the German market. Because of the economic slowdown of the German economy, market share has decreased in the past years.

A few companies produce mainly for the domestic market. The clients are mainly big retail chains, designers and wholesalers. The suppliers of inputs are mainly from Greece and other European countries. Italy has an import share of 25% and is often mentioned for special inputs (woollen yarns, fancy yarns). Bulgaria is an important trading partner, mainly for outward processing.

The surplus in trade balance of Greece in clothing has changed drastically between 1997 and 2001. Imports increased by 36%, exports fluctuate around 1.2 billion Euros. Between 2000 and 2001 exports decreased and imports highly increased and as a result the trade balance is in equilibrium.

▶ ***Local business network***

Companies in general do not have problems attracting bank loans, most have own capital to invest. There is little co-operation/collaboration between companies. Some do work already with other EU businesses and this is very successful. There is a general want of co-operation, but this is difficult to set up.

▶ ***Non business support***

The infrastructure of the educational institutions does not match with the demands/needs of the companies. This limits the upgrading potential.

There are different kinds of associations in the region. Most companies are associated with export associations and/or the Hellenic Fashion Organisation. This organisation has a service oriented approach and a pro-active policy but there is low/no response at government level. Companies have a strong feeling of self reliance. There are no measures to support exports, development of networks, research studies, studies for new markets etc. Companies themselves have to improve and invest in their marketing and management. There are difficulties in participating in European projects.

▶ ***Liberalised already***

In general companies do not see liberalisation as a big threat even if they are specialised in vulnerable products. However firms perceive that they have to be commercially pro-active and flexible in manufacturing. Liberalisation is also seen as an opportunity for sourcing inputs from the Far East. Some companies are thinking of going to China for production, but most have not made this move yet.

▶ ***Competitive analysis***

Companies have to keep on investing themselves in quality, high value added products etc. to stay competitive. Greek companies don't sell production, but organisation and time. It is also in the Greek mentality of thinking, that the entrepreneurs themselves have full and correct knowledge about the industry and therefore adjustment to market changes are not made or made to late.

Most competition is from Portugal and Turkey for similar products and quality/service level. The Far East gives an upward threat in quality and price. Italy is as yet a quality level higher but a target market segment.

▪ **Strengths**

- Flexibility, short delivery times, good quality and quality control, price, fashion
- The outstanding quality of local raw materials, particularly cotton.
- Having low labour cost production countries nearby
- Entrepreneurial pro-active attitude however solistic and sometimes too self-confident
- Fairly strong capital basis

▪ **Weaknesses**

- Located in Greece - distance to key clients and difficulty of getting timely market signals, poor infrastructure
- Small internal market and no established reputation/image/brands in other markets
- Skill shortages especially in design and industrialisation limit possibilities of competing with Italy.
- Problems at the border with Bulgaria, with the custom procedures, cause of delays in delivery time.

▪ **Opportunities**

- Increasing and diversifying exports
- Move (almost) all production outside Greece
- More sales and design and co-makership with clients
- More co-operation/collaboration between companies
- Able to buy cheaper inputs on the future world market

▪ **Threats**

- Not having great designers. There is a need for this culture so investments are needed for fashion schools.
- High dependency on local cotton and thus to reform of the CAP regarding cotton.

► ***Performance of the T/C sector***

The region in general is doing very well after a strong restructuring. The fact that exports fluctuated around 1.2 billion in the past six years, with the number of companies and employees decreasing, implicates an increase in added value. Those companies who are actively seeking new ways to stay competitive are successful. Main aim is to position the industry as being good in design, sales and services.

Liberalisation Impact

Impact is likely to be small as anticipation has been important. Macedonia remains dependent upon outside decision makers and is vulnerable for liberalisation in more labour intensive apparel products. Employment impact is limited but there are few employment alternatives in industry.

➤ **THE CLOTHING SECTOR IN THE RANDSTAD : WESTERN REGION OF THE NETHERLANDS**

At a glance :

<i>Employment :</i>	<i>8.000 (2,5% of regional manufacturing employment)</i>
<i>Main categories :</i>	<i>Apparel : 6,7,8,15,21,76</i>
<i>Place in supply chain :</i>	<i>Branded manufacturers, co-makers</i>
<i>Dominant trend :</i>	<i>Delocalisation of making up, branding and design.</i>
<i>Strengths</i>	<i>Design and logistics, commercial drive</i>
<i>Weaknesses :</i>	<i>Skill shortage</i>
<i>Opportunities :</i>	<i>Branding, distribution function</i>
<i>Social consequences :</i>	<i>Good opportunities in other industries and services</i>
<i>Gender dimension :</i>	<i>Some, female employment is mainly administrative</i>

▶ ***Key developments***

The Randstad has already experienced deindustrialisation in the '60s and '70s. Production shifted first to Belgium and North Africa, later to Eastern Europe and Asia. During the '90s there was some industry left, the great employment decreases had already taken place.

The Randstad has benefited from its logistical assets by attracting Foreign Direct Investments in design and logistics. Employment is now stabilised if one takes into account that industrial firms are now reclassified as trading companies. However at the end of the nineties a second wave of restructuring occurred as private label traders were bypassed by retailers and mainly branded manufacturers survived. Many companies are global sourcing and trading companies with a long experience in sourcing activities. Many have own production facilities or subcontracting activities in many different countries. Core activities stay in the region but a further shift of functions continues.

▶ ***Outlook on 2005***

Fierce local competition forces innovation in design and branding and creates a good basis for exports. Aim is upgrading and to focus on niche markets as well as on integration into retailing, either directly or through partnership. Companies will benefit from liberalisation as they will have access to lower cost imports provided that they are not bypassed by retailers in sourcing markets.

▶ ***Employment***

Over the last 10 years employment in the Western region (Large part of the provinces Noord Holland, Zuid Holland and Utrecht) has been stable around 8.300 employees in textiles and clothing industry (1999). Amsterdam is the main centre of the industry but suburbanisation has led to a spread of activities over the whole West of the Netherlands. It is however increasingly difficult to distinguish employment in industry and in textile wholesaling as many companies have been reclassified from industry to trade. Employment in wholesaling in the region can be estimated at 4000 people (1999). Moreover the labour market for the industry and retail is highly interlinked as major fashion retailers are also based in the region.

The employment structure is dualistic with a high proportion of highly trained people in marketing and design and low trained people in warehousing and logistics. Production work has been phased out and has also affected production preparation and sample making. This is partly due to changing subcontracting policies and a technical skill shortage. All companies are training their sales staff for better understanding of their customers. Design departments are also positively evolving and can benefit from a well developed training infrastructure (11 fashion academies in the Netherlands).

The labour market is very dynamic, with a high turnover of staff.

► ***Company structure***

Most companies are small and medium sized and have production subcontracted outside of the Netherlands, and are internationally oriented. Many production companies have transformed towards sales organisations, and some are part of groups, having specialised into niche markets.

► ***Activities***

Most company are involved in sales, trade, subcontracting of production, supply chain management, product development and design. They are oriented on brands and have a diversified product range. The Randstad has kept a strong focus on ladies outerwear (coats, anoraks) in which it has an important market share albeit through imported products. Corporate Identity is a growth sector. A number of large American firms have established their European design headquarters in the Netherlands.

Most companies have their own brand names and the larger firms are mainly “editors” of brands. Most firms are not in strong brands, as Northern European consumers adhere less to strongly profiled brands. Some still work for private labels for retailers but are moving out of this more vulnerable segment as large retailers import more and more directly. A growing number of firms work as subcontractor for designers. Their activity is mainly to organise global production for partners.

► ***External trade of the area***

The Dutch sector exports more than 60 % of its sales. However the EU takes up 85 % of sales with a focus on Germany and Belgium. The main non-EU export area is the CEEC. Sales are through all kinds of channels; department stores, retail chains, market clusters, mail-order companies, small wholesalers, independent stores etc. More companies are setting up their own outlets.

Dutch companies have relocated almost 100 % of their production abroad. It is mainly based on a mix between OPT sourcing in the pan-Euro-med zone and direct imports from the Far East. Current allocation is around 40 % for the former to 60 % for the latter, but fluctuates according to fashion, currency fluctuations, prices and risk taking. In the first half of the 90’s nearby sourcing was growing but in the second half a shift to Asia occurred.

Italy is by far the main supplier of high quality and fashion fabrics. These fabrics are usually processed through OPT arrangements in Eastern Europe. Spain, France and Portugal are important suppliers in middle market fabrics. There is little sourcing of fabrics from the Far East as most fabrics from this area are processed there into garments.

Some companies which are involved in production activities in China have headquarter and sales offices in China in order to have better control of the production chain and to improve the communication with the Netherlands.

▶ ***Local business network***

Most companies do not really co-operate with other companies, but they do know each other. Some have a bit of co-operation by offering a package of products to customers as a group. Sometimes companies get new clients through connections. Most companies have bank loans. Especially trade financing is very well developed in the Netherlands. A few expect it will be more difficult in the future to attract loans.

▶ ***Non business support***

The Dutch government does not have a real policy for the industry. Attempts to promote the use of EDI and ECR in the industry have failed because of lack of agreement in the industry. Most companies are associated with the industry organisation Modint. Some find the information from the branch organisation disappointing and would like to get more market information. Most companies have connections with “schools in the business”. They are open for having work placements.

▶ ***Liberalised already***

Liberalisation will have no impact on production since there is no production left. However some companies fear that retailers will bypass them through direct sourcing. Companies have a positive view about the liberalisation, since it will reduce import prices and will increase flexibility in sourcing and reduce administrative barriers.

Companies with production in Asia see possibilities to move all/ most of their production into China, with more tasks being delegated to the local management. Companies which have only production in the pan-Euro-med zone fear the surge of China.

▶ ***Competitive analysis***

Dutch companies compete mainly with companies in the main customer countries : Germany and Belgium. According to the trade balance, the Netherlands has done fairly well in these markets, mainly because of better commercial flexibility and skills. Italy is a clear bench mark in high end products. The Dutch have difficulties catching up with the Italian quality level and are thus curtailed in upgrading into the high end of the market.

▪ **Strengths**

- Good trading spirit and experience, know-how of the EU market
- Advantage of the Rotterdam harbour (good logistics)
- Strong design image
- Many knowledge institutions in clothing
- Financial infrastructure (trade financing)

▪ **Weaknesses**

- Not enough technical middle management
- Companies with production in China have longer delivery times

▪ **Opportunities**

- Border activities with Eastern EU countries will become easier.
 - move further production to Far East and China

- **Threats**

- Quality of the (advance) pre-suppliers and their delivery times.
- Inner-city problems, high rents for independent stores and they have a follow-up problem
 - Retailers to increasingly bypass them through direct sourcing.

- ▶ ***Performance of the Clothing sector***

The region has made a fairly successful shift from manufacturing to trade. This is mainly achieved by taking advantage of its location and trading skills, while maintaining a good design infrastructure.

The companies who are still in the business are continuously and actively searching for new ways to stay competitive by specialising into niche markets or into a broader/certain range of activities. The biggest changes for the clothing industry in the region already happened years ago, so there are no drastic changes in employment. Most companies are doing well, have production in the Far East, and invest much in sales and market knowledge to have a good match between their products and their customers' needs.

Liberalisation Impact

Impact is likely to be very small as production has a very limited significance. Unemployment levels are low in the region and no major social problem can be expected.

➤ **THE CLOTHING INDUSTRY IN THE NORTH WEST OF ENGLAND**

At a glance :

<i>Employment :</i>	<i>23.000 (only clothing - 2,5% of regional manufacturing employment)</i>
<i>Main categories :</i>	<i>Apparel : 6, 7,14,15,16,17,26,27</i>
<i>Place in supply chain :</i>	<i>Co-makers, some Branded manufacturers</i>
<i>Dominant trend :</i>	<i>Downsizing, delocalisation of making up</i>
<i>Strengths :</i>	<i>Industrial knowledge, quick response processes</i>
<i>Weaknesses :</i>	<i>Underinvestment, new to OPT, export weakness</i>
<i>Opportunities :</i>	<i>Innovation, branding</i>
<i>Social consequences :</i>	<i>Good opportunities in other industries and services except in textile towns</i>
<i>Gender dimension :</i>	<i>Very important, mostly female employment</i>

▶ ***Key developments***

Northern England (the combined regions of North-West and Yorkshire) has been the seedground of the European clothing and textile industries, with a cotton specialisation around Manchester and wool specialisation around Leeds. Both regions had a fully integrated chain from yarn making to clothing making. Restructuring has been a permanent feature since the 1960's with a focus first on the textile industry, later on the clothing industry. Since 1995 this restructuring has speeded up. There has been a steady flow of company closures accompanied by job losses. The number of company failures in the (sector) region is nine times above the national average. After 1999, large retailers like Marks & Spencer decided to give up its commitment to a UK sourcing many companies had to seek outside the UK for production and new outlets in order to remain viable, which also had a drastic influence on regional manufacturing. M&S has been more supportive and responsible towards British manufacturers than many other retailers. Most of M&S products are produced by British companies overseas.

There are two kinds of companies. On the one hand there are the larger companies that have ceased manufacturing, but retained the base of marketing, design, quality control etc... On the other hand the smaller firms have that tried to move into higher value added niche markets and focus on quality and/or fast delivery. Almost all companies now outsource production and do only a small part of production regionally. Some companies have own stores.

▶ ***Outlook on 2005***

Clothing textiles has now only a minor role in the regional manufacturing base, while technical textiles have become the core of the industry. Clothing industry has been downsized and now focuses on design, sales, quality control and logistics, with design activities having shifted close to the retailers in London. Some manufacturing will remain in the region for quick response and follow up orders. Restructuring has been accompanied in consolidation in a few number of larger groups which are relatively well prepared for liberalisation in 2005.

► ***Employment***

Textiles and clothing employed totals in the combined regions an employment of 55.000 workers (1999). In the North West around 15.000 persons are employed in clothing manufacturing and around 8.000 in Yorkshire and Humberside, the North represents around 1/3 of UK clothing manufacturing. Employment in clothing at national scale almost halved from 1995 until 2003, from 144,575 to 75,100. However, there is an important informal economy in the UK clothing sector (not reflected in the figures), including also many higher skilled jobs in the upper end of the chain, like design and management functions.

The percentage of women employed is 70 %, and job losses hit women harder than men. The majority used to be full-time workers, but since 1997 a change towards more part-time workers took place to address the labour cost structure of the industry.

Employment in the region shifted mostly to services, call centres etc. where wages are higher. There are also a few headquarters of large mail order companies in the region (Grattans, Empire Stores). The regional unemployment level is very low.

During the past ten years, sales of UK manufacturers have drastically decreased by 42.5 % and the trade balance has deteriorated. Cheaper imports overflow the domestic market. Total imports increased by 85 % and total exports only increased by 20 %. According to the Standard Industrial Classification 18 (made up apparel), the fall in output from 1995 until 2002 is 44 %. Investments fell by 50 %.

Marketing strategies have been linked to retailers' buying policies. These have been characterized by consolidation of the supply base into fewer but diversified suppliers with a high service level. This has led to a wave of takeovers (e.g. Dewhirst taking over Slimma). Smaller suppliers were eliminated and only few of them could diversify. UK manufacturers have long relied on UK production solely and have been very late in starting foreign sourcing, as they could rely on the combination of lower labour costs and high productivity in the UK. At the end of the 1990s the industry experienced a combination of company closures and massive delocalisation. Except for classic "British" products, the industry has been unable to tap into the growth of designer brands. These are mainly manufactured in/through France and Italy.

► ***Company structure***

The UK industry consisted of a few very large firms and many small businesses. The large firms have dominated the UK clothing industry for a long period (e.g. Courtaulds Textiles, Coats Viyella), and downsizing and restructuring have had their toll on them. There are now few companies quoted on the London Stock Exchange. There has been a movement of delisting and carrying out Management Buy Outs as stock market valuation was low. Some companies (Stirling and SR Gent) have a major non EU Stakeholder. Companies with foreign production have often done so with directly owned subsidiaries (e.g. Berwin in Hungary and Dewhirst in Asia). Most design has moved to London. Large players still in the region are Dewhirst Ltd (former PLC), SR Gent Ltd (former PLC), Stirling Group PLC, Quantum Group Ltd (former Coats Viyella) and Simon Berwin Ltd.

The small and medium sized companies can be divided in three categories. First, family owned businesses originating from the Indian subcontinent (3rd/ 4th generation) who are good in the production of quick fashion of low quality. Second, 'classic British' clothing producers who are good

in production of sweaters and suits etc. Third, the smaller factories that used to produce mainly for the large UK retailers, having been hit hard by the restructuring in the industry.

► ***Activities***

The North West tends to specialise in ladieswear, Yorkshire in menswear. Ladieswear is nowadays the main sector with corporate clothing and (school) uniforms as second. Main fabrics used are polyester, wool and cotton. The wool industry in Yorkshire used to be strongly linked to the clothing industry. The woollen fabric production, downsized in the 1990's, is now focused on high quality niche products for European markets. Yorkshire is also a big supplier of carpets. The North-West is an important area for technical textiles.

Companies used to manufacture only for UK retailers. Export share has been and continues to be limited. This has been reinforced by the strong Pound.

Most larger companies operate without brands for large retailers. The industry is thus highly dependent on retailers buying decisions. Smaller companies tend to work with their own brands in niche markets. Smaller private label suppliers to large retailers have already been pushed out of business in the 1990's.

► ***External trade of the area***

Most fashion retailers want a less rigid supply chain and like the advantages in flexibility of sourcing over integrated production. Production, subcontracting and suppliers are located throughout many countries in Africa (Morocco), Eastern Europe (Romania, Bulgaria) and the Far East. High fashion garments tend to be sourced from the EU and the UK and tailored garments from the CEECs. Morocco has emerged as a main nearby source of light womenswear and casualwear. Asia, Sri Lanka and Indonesia have become important as a manufacturing base. After 2005 probably a lot will move to China.

Most companies produce / outsource in many different countries but Marks and Spencer especially wishes to concentrate sourcing in a limited number of countries for reasons of control and logistics. Long term relations, trust and support are also important.

► ***Local business network***

There is a lot of co-operation going on/being set up in the region although networking is not a classic feature of anglo-saxon entrepreneurship. Networking concerns export promotion (mainly in upmarket niche products) and research and development (e.g. in technical textiles). There is also a Textile Centre of Excellence, where a lot of technical equipment is available for common use, e.g. for testing of products, where (starting) companies can work on samples etc. and workshops and seminars are given. Especially smaller companies are getting more aware that there has to be regional co-operation in order to stay in business.

► ***Non business support***

There are many universities in the region specialised in clothing. Courses continuously adjust to industry needs, e.g. buying, research, quality control and management.

There is not really a government policy although the Department of Trade and Industry has been more active since 1997 in promoting design and innovation. On the other hand the government increased taxation and minimum wages. [unclear] Research is being done (Textile and Clothing Strategy Group

report), but there is not much capital support. There are some initiatives by national or regional government (e.g. Skillfast, Yorkshire Forward) and a ten year regional economic strategy plan for Yorkshire and Humberside, focusing largely on training and research.

► **Competitive analysis**

Companies have been reluctant to change their strategies in the past because they were very dependent on retailers and totally restricted in who they supplied. After many retailers ended contracts, job loss and company closures were the result. Some companies who had the courage to make their own decisions are doing very well. They have their own design, moved (almost) all production out of the UK and still do a little sample orders.

In general a lot has to be done to let the regional clothing business flourish and this will only be accomplished in collaboration with all the companies in the clothing industry and support services. Companies now have to move up the value chain and invest more in management, sales, design, technology and work more together with each-other and with retailers. They have to become more entrepreneurial.

Competition is from the low costs countries and other Western countries. Competition is mainly from Italy and Turkey. Companies also tend to source local in the region. Local clothiers buy significant volumes (wool) from local spinners and weavers (Co-operation between weavers and spinners is getting better). Cotton and synthetics are sourced from Asia and finishing is done in the EU.

▪ **Strengths**

- Diversification of products
- Private companies, who are financially independent and make own decisions
- Co-operation with M&S (also a weakness, when M&S bleeds, they bleed with them)

▪ **Weaknesses**

- High cost of training and keeping technical expertise (especially in design, spinning and scouring)
- Limited availability of finance for growth
- Not an attractive industry to work in - sweat shop image
- Did not sufficiently move up the value chain.

▪ **Opportunities**

- More co-operation, but this also needs to be facilitated by trade associations
- Many universities and colleges
- New start ups
- Product development
- Work on industry's image
- Work more closely with retailers.

▪ **Threats**

- Currency factor, strong Sterling (especially 1996-beginning 2003)
- Deflation
- Import penetration
- Decrease of Asian market

► ***Performance of the Clothing sector***

The industry has been hit very hard in past years, but is slowly getting more competitive. The beginning of the supply chain is not competitive anymore, whereas the end of the supply chain is. In terms of jobs the industry becomes smaller but in terms of turnover the industry is moving upward.

Liberalisation Impact

As major restructuring is still going on it is hard to assess the impact of liberalisation ceteris paribus. It may be expected that the clothing industry remaining will rapidly close or delocalise, while apparel textiles will be particularly vulnerable after years of underinvestment. Employment impact would be important in typical mill towns and social problems thus highly localised.

3 - ANALYSIS OF SELECTED THIRD COUNTRIES

Summary

*The end of the quota system is going to be the beginning of a new phase in T/C world competition: for every product with severe quota constraints, many more firms and factories will come onto the battlefield, and make **competition, especially on price, fiercer** and more ruthless.*

*In the EU market, competition with Asian low price products is likely to become particularly hard as the US administration appears determined to use **safeguard mechanisms** against China. At first this will concern only three categories, restricting corresponding imports into the USA within a 7.5% increase for a year. This represents a definite risk of trade flows being diverted in the short to medium term towards Europe.*

*According to their level of development, among many other features, EU foreign suppliers position themselves on **price/quality/creativity ratios** suitable for satisfying specific customers' expectations. However, some countries emerge as stronger competitors as they detain major advantages, be it an integrated supply chain, a vast pool of cheap labour, a high level of service, or the ability to offer very short reaction time.*

***China** obviously appears as the most competitive production base for the time being. Due to an immense oversupply of labour in the rural provinces, a constant flow of young educated workers make it possible to keep wages very low. This oversupply is not due to disappear in less than 10 to 15 years. China also benefits from an integrated textile and apparel supply chain. The upstream parts of the textile chain currently are a state priority objective, with the aim of rationalizing production, increasing volumes and upgrading quality. Another state priority is improving living standards in the rural provinces, which means that whatever upgrading is called for, the apparel and textile industry will continue to provide millions of entrants with work. This allows price competition to be extremely severe on the Mainland.*

***India** is also presently constrained by highly binding quotas, and the inner market protected by very high Customs duties. Even though direct labour costs are lower in India than in China, India is less competitive, due to a lower level of efficiency and productivity. India, which also has an integrated (cotton) supply chain, is striving to improve on its quality. Indian suppliers also tend to play the card of flexibility and production of small orders in order to remain competitive, particularly vis-à-vis China.*

***South Korea** is no longer a low price competitor to the EU T/C industry. With the threats caused by 2005 liberalisation, local industry in South Korea is currently developing higher value sectors such as technical textiles, design and fashion, dyeing and processing. Its major strength lies in upstream textiles, particularly in synthetic yarns and fabrics. In apparel, through investments in China, South Korea makes up for its own high labour costs.*

***Turkey** also benefits from an integrated supply chain, a high level of service and flexibility and is able to take full advantage of its proximity to the EU market. However, production is still too narrowly focused on basic items, which makes Turkish suppliers vulnerable to the fiercer price competition due to develop after 2005.*

***Pakistan**, like India, suffers from major inefficiencies. Solving quality problems is a priority for current T/C plans. Other major weaknesses are lack of skilled labour, focus on low price productions, and over-reliance on a narrow cotton base.*

The other major T/C suppliers/competitors to the EU industry try to reinforce their competitiveness by means of various strategies: quite often by upgrading production and developing export, improving textile supplies to home apparel manufacturers. Having to face rising labour costs, many try and integrate higher value operations, like designing and branding.

3.1 COMPETITIVE POSITION AND OUTLOOK

➤ THE EVOLUTION OF MARKET DEMANDS : TODAY'S KEY COMPETITIVE FACTORS

The evolution of world wide **apparel and home textile** markets displays a clear trend towards a tri-polarisation of demand around

- a price conscious segment, which is largely handled by large retailers at least in developed economies;
- a brand conscious segment, which largely remains in the hands of developed countries' industrialists (who often maintain direct control on the non-labour intensive stages of production and supervise manufacturing itself) because of quality requirements;
- a fashion conscious segment, the production of which remains essentially concentrated in areas close to consumption markets.

The phenomenon can be observed both in developed and developing consumer markets. In the latter, emerging wealthy consumers seldom pay much attention to local quality goods, as they primarily wish to satisfy their need for fashion and image.

At the same time, retailers and premium brands over the world are becoming increasingly concentrated and powerful. They primarily compete on their capacity to follow the trends in consumers' expectations and provide consumers with the right mix. Their requirements **shape the structure of the international offer**, around a complex set of success factors, ranging from sheer price-competitiveness, to differentiation and service. The tables below are organised around detailed elements constituting today's competitiveness and regarding the countries under study. Some factors regarding individual companies, e.g. capacity and specific know-how, are not integrated in the following evaluations:

- **labour** factors are considered quite broadly as they integrate notions such as
 - o "raw"labour costs²⁹,
 - o labour costs taking into account productivity and overheads³⁰, which measures differences in total cost per minute of manufacturing
 - o labour availability
 - o labour operating skills
 - o the quality of management
 - o know-how in specific sectors of the industry
- **industrial** factors, such as :
 - o sufficient home supply of quality raw materials
 - o reliance on efficient machinery and equipment.

²⁹ Based on Werner International Labour Costs Comparisons 2002

³⁰ Based on Consultants' field interviews, as all other indicators used here, unless otherwise specified.

- **general** factors, such as :
 - access to cheap financing
 - availability of cheap energy
 - importance of transaction costs in the broad sense, including corruption, burden of import and export procedures, bureaucratic inefficiency...
 - transportation and infrastructure within the country (deep water harbours, fast trains, road systems ..)

- **commercial** or service factors, such as :
 - reliability of deliveries
 - quality level
 - quality conformity, or the ability to respect specifications
 - flexibility and quick response
 - design and fashion ability, which can enable suppliers to offer their own designs or collections
 - geographic proximity to the EU (as the analysis focuses on the EU market)
 - cultural and language proximity to the EU.

Most of these factors are also extremely influential on the international markets of **technical uses T/C**. One should bear in mind that a large part of what is considered to be technical textiles is workwear and image apparel, two market segments which are quite close from final apparel consumption and which rely on many similar competitive factors.

Other competition factors have to be added to the list, like technological leadership and close linkage to industrial customers. However in order to give an accurate analysis of technical textiles as such it would be necessary to go in much detail into the specific requirements of automotive, electronic, food processing, building etc industries. A more detailed analysis than what is possible for the present report would have to be conducted to produce specific conclusions on those aspects.

➤ **A COMPARISON OF MAJOR EU PARTNERS**

Except for labour costs (see preceding page), the following tables are not based upon statistical evidence but on comparative information and opinions gathered from the experts who were interviewed by the consultants, in particular during their visits to third countries. As such, evaluation figures represent a convenient consolidation of **qualitative** data thus collected, selected and processed by the consultants' team. A list of the interviews which were made is provided in each section of this chapter.

Figures and evaluations should be handled with a lot of caution : countries never are totally comparable, and as such not totally competitors. Customers' requirements are not homogeneous

between them and throughout the product ranges themselves. As a consequence, one supplier country may be preferred to all others by one buyer even though it may not be the most competitive in absolute terms.

This evaluation system should also be considered as reflecting –as much so possible– the situation in 2003. It obviously disregards ambitious action plans that are being implemented in several countries and which could significantly improve the local suppliers’ competitiveness in the mid to long term.

However un-statistical, this attempt at evaluating how EU’s major partners do compete on a world wide basis, is intended to put the into perspective and provide the reader with balanced overview of to day’s global competition.

Labour related factors

Table 27: Labour skill and know how : key factors per country

Advantage ranging from 0 (uncompetitive) to 5 (highly competitive)

Labour skill and know how : key factors per country	Labour costs ³¹	Cost per std mn ³²	Labour availability	Operating skills	Management skills	Spinn/weavg know how	Dyeing/Finishg know How	Appar makg/ knitting know how	Consolidated evaluation
China	4	5	5	5	4	4	3	5	XXXX
India	4	4	5	4	3	4-3 ³³	2	4	XXX
Pakistan	5	3	5	3-4	3	3	1	2	XX
Bangladesh	5	3	5	4	3	2	1	4	XX
South Korea	0	1	1	5	5	5	5	5	XX
Turkey	2	3	4	4	4	5	4	5	XXX
Bulgaria	3	3-4	3	5	3	4	3	5	XXX
Rumania	3	3-4	4	5	3	3	3	5	XXX
Morocco	2	3	4	4	3	2	2	4	XX
Tunisia	2	3	3	4	3	2	2	4	XX

The table above provides an estimate of the labour-based competitiveness of the various countries under study. One can observe that sheer discrepancies in raw labour costs get diluted when other elements like efficiency and quality are taken into account. However some countries clearly dominate this area of competition. When other issues like delivery time (see further tables) come into the picture, other countries in this panel do successfully compete with them.

Countries in the lower part of the table cannot be directly compared to the others as they mostly compete on a CMT³⁴ basis.

³¹ Based on Werner International Labour Costs Comparisons 2002

³² Based on Consultants' field interviews, as all other indicators used here, unless otherwise specified.

³³ 4 : spinning ; 3 : weaving.

³⁴ Cut, make and trim : they do not sell a finished product but mostly labour and manufacturing time.

Industrial factors

Table 28: Raw materials and equipment : key factors per country

Advantage ranging from 0 (uncompetitive) to 5 (highly competitive)

Raw materials and equipment : key factors per country	Cotton supply	Wool supply	MMF supply	Spinning equipmt	Weavg equipmt	Knittg equipmt	Dyeing/ finishg equipmt	Appar makg equipmt	Conso- lidated evalua- tion
China	5	2	4	5	5	5	3	3	XXXX
India	5	1	3	4	3	2	2	3	XXX
Pakistan	4	1	3	3	3	2	1	2	XX
Bangladesh	2	1	1	2	1	2	1	2	X
South Korea	1	1	4	4	5	4	5	5	XXXX
Turkey	5	1	3	4	5	5	4	4	XXXX
Bulgaria	3	1	2	1	2	2	3	3	XX
Rumania	1	1	1	2	2	3	3	3	XX
Morocco	1	1	1	1	1	2	2	3	X
Tunisia	2-1	1	1	1	1	2	1	3	X

When raw material supply and equipment are taken into the analysis Turkey appears to be at least as competitive as China, even though, for the time being, they do not really compete on the same markets.

Raw material supply is one key to flexibility and to price-competitiveness, and the factor is becoming increasingly important to retailers and other customers. Within the PanEuroMed Zone Bulgaria also appears to be in a better position than most neighbours in this respect.

General factors

Table 29: General key factors per country

Advantage ranging from 0 (uncompetitive) to 5 (highly competitive)

General : key factors per country	Access to capital	Energy Costs	Transaction costs	Transport	Infra structure	Conso- lidated evaluation
China	5	4	3	4	3	XXXX
India	3	2	1	3	2	XX
Pakistan	3	2-3	1	2	1	X
Bangladesh	2	2	1	2	1	X
South Korea	4	3	4	4	5	XXXX
Turkey	2	3	5	5	5	XXXX
Bulgaria	1	3	4	4	2	XXX
Rumania	2	3	4	4	3	XXX
Morocco	2	2	2	4	2	XX
Tunisia	2	3	3	4	3	XXX

The efficiency of countries themselves is a key factor for any business, as it directly influences all transactions. In this respect India, Pakistan and Bangladesh –and to a lesser extent Morocco– stand out as quite inefficient countries in our panel, while China and Turkey benefit from a business environment quite propitious.

South Korea is obviously in a good position under this particular aspect, as it is a developed economy with efficient infrastructures, but this level of development is, by essence, negatively correlated to price competitiveness.

In theory the end of the quota system is likely to enhance the competitiveness of supplying countries as it will allow all companies to compete on the market and not only the ones holding quotas. A significant proportion of inefficiency would therefore disappear. China, India but also countries like Thailand and Indonesia should benefit from liberalisation in this respect.

Commercial factors

Table 30: Commercial aspects: key factors per country

Advantage ranging from 0 (uncompetitive) to 5 (highly competitive)

Commercial aspects : key factors per country	Reliable deliveries	Quality level	Conformity	Flexibility / QR	Design fashion capacity	Geographic proximity to EU	Language and culture	Consolidated evaluation
China	4	4	4	2	2	0	2	XX
India	2	3	3	4	2	1	2	XX
Pakistan	2	2	2	1	1	1	1	X
Bangladesh	2	3	3	1	1	1	1	X
South Korea	4	5	4	4	4	0	3	XXX
Turkey	4	4	4	5	3-4	5	4	XXXX
Bulgaria	4	4	4	4	2	5	4	XXXX
Romania	4	4	4	3	2	5	4	XXXX
Morocco	3	4	3	4	2	5	4	XXX
Tunisia	3	4	3	4	2	5	4	XXX

In this table too, countries mentioned in the lower part are mostly involved in CMT activities. As such, their ratings cannot be directly compared to those of countries (above) which supply finished products.

Under the above aspects, PanEuroMed countries display a much better competitiveness than Asia. Turkey holds an advantageous position on almost all factors : quite importantly it is the supplying country with the shortest delivery times into the EU for finished textile and apparel products

The analysis gives evidence that countries are positioned on strategies which give priority to either service aspects or price. However even in the latter case reliability at large is an absolute requirement. This is an area where the competitiveness of China over India, among others clearly appears.

A comprehensive look at the above tables shows that the competitive position of the players selected for this analysis differ widely according to the aspects considered. However one champion stands out of the panel : China, which is extremely successful on a number of issues corresponding to low-differentiation markets (price-conscious segment described at the beginning of the chapter).

Turkey is very well-positioned on many of the issues that are relevant for markets where quick-response and flexibility matter (high-differentiation markets where brand and fashion count).

➤ SUPPLYING COUNTRIES' STRATEGIES

In order to adequately address the evolutions of consumer markets, and in view of their respective strengths and weaknesses, countries have developed a number of strategies. They are briefly reviewed in the following paragraphs.

▶ *Textile upgrading*

Several factors play in favour of an efficient **interaction between textile and apparel** sectors within the supplying countries. In order to be fast, reliable, flexible, cheap, creative the clothing and knitwear manufacturers do benefit from the proximity of dynamic and successful fabric and knitting yarn suppliers. Moreover, retailers increasingly “**co-contract**” with suppliers, which means they want them to take responsibility for the fabric, yarn and trimming supply, which give retailers more opportunity to focus on marketing issues. Not all apparel suppliers and supplying countries are in a position to satisfy this requirement : for the time being, few are able to source locally the necessary inputs. Some partial exceptions must be made for China (basic apparel), India (low price cotton based items), South Korea (synthetic apparel), Bangladesh (knitted cotton fabrics) Bulgaria (Italian investments in weaving) and above all for Turkey which stands out as the most self-sufficient industry on a world wide comparison. Apart from these, inputs have to be

- either purchased abroad in the case of developed industries, with purchasing power, like Korea, China/Hong Kong,
- or supplied by the client, which limits the added value provided by the assembling country to mere subcontracting and hence keeps the country utterly dependent on labour cost competitiveness and international logistics. This is still largely the case in CEECs, Mediterranean countries in Bangladesh and India, for some items

As a consequence, the strategies of the supplying countries put a strong emphasis on the development of a competitive textile industry able to meet international standards. In a time where textiles suffer from a global overcapacity and low-profitability, only some sectors in Korea give some sign of divesting. Most investments in all major players and especially in China focus on the upgrading of the textile industry rather than on capacity building. In China, some major apparel groups like Youngor are heavily investing in quality textiles.

The aim is to enable local supplies to replace what has to be imported now : better quality and more creative fabrics and yarns. The consequence would be a higher value added and increased currency gains.

The different situation of the textiles and apparel industries in most of the countries observed creates the following paradox :

- the local textile industry fits the needs of the local consumers, but the retail and consumption development is still very embryonic and the home market is not big enough to give enough orders to the textile mills
- the garment industry is able to satisfy export markets' demands for quality of make (assembling operations) but has to import materials of higher quality from more developed countries e.g. Italy, Korea

► ***Designing and branding***

Another prevailing strategy in the more developed supplying countries is to counteract diminishing competitiveness based on labour cost by an upgrading of the output in terms of design and brand value. Except for Turkey and South Korea, and to some extent Hong Kong per se, this strategy cannot be expected in the short to medium term to generate competition to existing “Western” and Japanese brands, primarily due to a lack of or lag in fashion marketing culture and know how, not to mention the high investment required. However improvements in this arena are likely to create good business development opportunities in developing markets : for example, Korean fashion is already successful in China, and other countries/companies that are not labour competitive any more are likely to develop similar design and brand strategies for markets other than the existing big three (USA, EU, Japan). In the case of India, the development of brands aims at capturing an enormous middle class market and expanding exports overseas.

► ***Relocating production***

In parallel to this upgrading into higher value-added, fashion and brand oriented areas, some players have started relocating their production bases, following South Korea’s example over the last 15 years. Relocation is either cost-driven as is the case for Turkish and Korean manufacturers seeking to lower production costs, or access-driven, i.e. targeted at countries that benefit from preferential access to the USA or the EU, as is the case for Hong Kong or India (investments in Bangladesh, Sri Lanka).

► ***Price competition***

Labour cost competitiveness generally does not match economic development and – wisely enough – all major players try and create other sources of competitiveness. Even though her labour oversupply is considered by some experts to remain for two decades, **China** is also implementing upgrading strategies. It can be observed in the textile areas, where State influence is effective as the sector is more concentrated and to some extent “controllable”. On the opposite, market driven fierce competition seems to be downgrading the apparel industry.

This wild price competition on the apparel and made-ups markets is largely attributable to Chinese manufacturers –even though considerable downward pressures are also due to suppliers from Bangladesh, Malaysia, Burma, Vietnam and Laos- as they get increasingly pressured by international buyers. This is a major source of concern for all other T/C reliant economies, particularly in Asia in view of coming 2005.

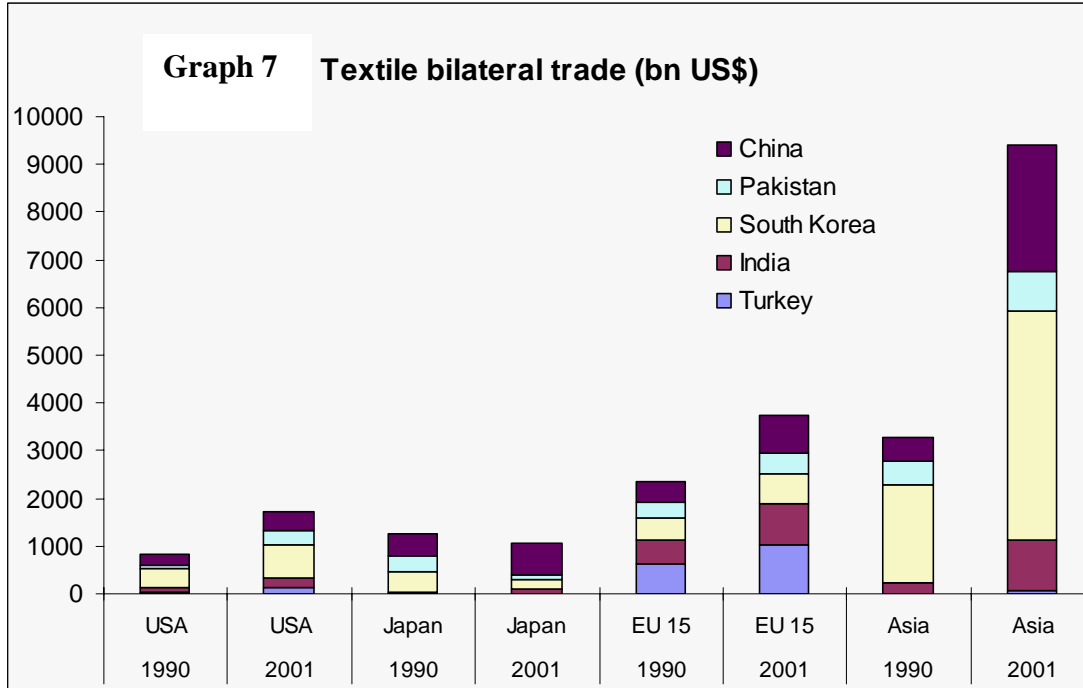
► ***Market diversification***

Domestic markets

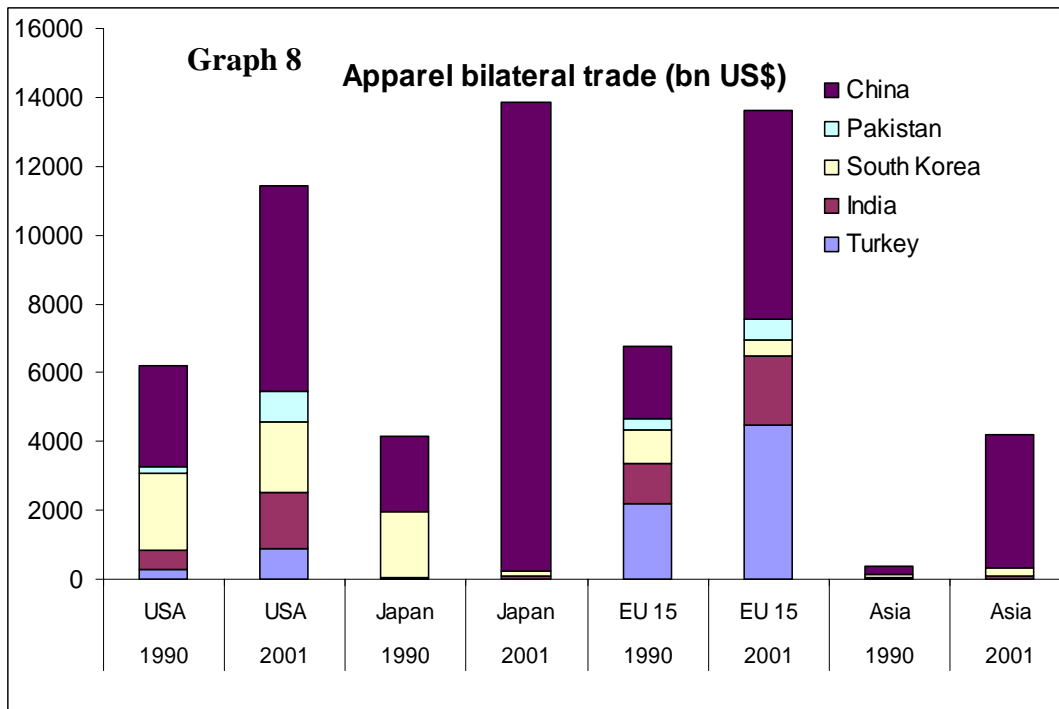
There is little doubt that domestic markets are going to absorb a larger and larger part of textile and apparel production. Growth rates are much higher (around 10 %) on the domestic markets than on export markets which are all saturated and mature. This growth of local demand partly explains the continuous decline of Chinese T/C exports as a percentage of total exports.

Export markets

By looking at the two following tables, one can see that the five largest players under study have considerably changed their sales distribution over the last decade. The tables focus upon the evolution of export trade flows from the countries under analysis (China, Pakistan, South Korea, India and Turkey) in order to examine how their export strategies have changed in terms of destination markets over the period considered.



Diversification clearly took place in the **textile sector**, as textile trade development brought a tremendous growth of the Asian markets (whole of Asia excluding Japan). In Japan domestic textile industry quite successfully resisted import penetration. The growth has been important in the USA and even more in the EU, with a strong development of imports from Turkey but also China and India.



However the most striking phenomenon is the growth of the Asian market itself, which has more than doubled over the decade. It now represents one fourth of world imports, 50 % of Korean apparel exports and almost 40 % for Chinese exports.

The largest growth of the apparel markets has taken place in **Japan** and has been extremely beneficial to China and detrimental to South Korea. This growth has resulted in an import penetration of approximately 65 %³⁵ on the Japanese consumption market . Even though there remains some scope for an increase, it does seem more likely that any further Chinese penetration will take place to the detriment of other foreign suppliers.

China is also increasing its penetration on other Asian markets. This increment probably reflects the quantities of garments which are made up in China with fabrics coming from the final importing country (in the case of joint ventures and other partnerships) and also the development of low price items to others.

The USA appears to be a better market for Far East suppliers than the EU, as US buyers can order very large quantities (million pieces) of one particular design, and work on a continuous ordering pattern. This makes it **difficult** for suppliers **to mix US and EU** customers as the differences in production runs and ordering phasing would significantly disorganise production within factories. The difference probably accounts for a relative preference to work with US clients.

Better end producers, who can derive interesting profits from non-mass productions do find the EU markets quite valuable. In the long run the upgrading of Asian productions along with possible saturation (or lower propensity to import) of the USA and Japan are factors which would bring major increases in Asian exports to the EU.

As far as Turkey is concerned, Japan and the rest of Asia are not significant export areas and market diversification only takes place between the EU and the USA.

➤ **COMPETITIVE PRESSURE**

At this stage of the analysis it is necessary to take a closer look at the ATC categories which presently are under quota constraint for the countries examined here. This analysis is based upon the import statistics (Eurostat and SIGL databases) provided in Chapter 1 of the present report “ Competitive analysis ; binding quotas”.

Comparing import prices helps evaluate the competitive pressure each country represents. The analysis focuses on the quota categories which are “binding”, i.e. for which filling rates were above 80% in 2002. This threshold has been selected as the analysis of past EU liberalisation (2001-2002) presented in the following chapter demonstrates that quotas below it could be dismantled without bringing import volume increases into the EU.

³⁵ IFM estimate

▪ Volume pressure

The **major countries** under such binding quota constraint are the following :

- China : 21 categories in all product groups excluding yarns and filaments and 6 categories for which the Hong Kong rates were also above the 80% level, 4 for Taiwan and 7 for Macao, when one takes into account the first circle of Chinese T/C industry
- Vietnam : 20 categories in all product groups. India : 10 categories mostly concerning cotton based items, towelling, apparel,
- Pakistan : 9 categories, mostly textiles
- Belarus : 7 categories
- Indonesia : 6 categories especially textiles
- South Korea : 4 categories, 2 of which synthetic fabrics

Over the 1995-2002 period of time quotas **have been substantially increased**, but the growth largely varies from one country to another.

Categories of woven garments are the most greatly affected by greater volume pressure much more so than knitted fabrics. The ratio of the relative size of binding quotas in 2002 (sum of quotas whose filling rate³⁶ is higher than 80%) in terms of the 2001 EU output volume reaches 100% for a majority of the considered categories. This ratio can be considered as the share of EU output that could be jeopardized if quotas abolition results in the doubling of import volume from the countries for which the constraint was effective. The ratio lies above 150% for men's suits and other woven fabrics. Threat mainly comes from China, which already holds around 85% of the total binding quotas. For the latter category, Chinese goods represent 48% of the extra-EU import value.

For China the rise was fairly limited as it ranges from 8 to 25 % for the major remaining categories. Whatever the augmentation in quota volume, the saturation level has remained very high or even increased. As it was mentioned earlier concerning EU trade deficit with China, China is successfully integrating the “fabric-making” stages of production (weaving, finishing etc) : this is evidenced by the improvement of EU trade balance in yarns and deterioration in fabrics. Correspondingly there is no longer any Chinese quota pressure on yarns but the pressure on apparel fabrics has increased.

Similarly in the case of India, the most binding quotas have grown in volume over the period : the growth was extremely important, much more than was the case for China, as volumes granted to India have often been multiplied by 2 or 3, be it for textiles or for apparel.

Quota volumes for Pakistan have also been incremented in very large proportion most frequently by a 1.5 to 2.5 factor, roughly similar to India.

For South Korea, volumes have been increased by some 20, one larger increase concerning synthetic fabrics (+72%) for which the filling rate has decreased.

Vietnam appears to have benefited from large additional volumes particularly in the clothing sector (quotas multiplied by 2 to 3).

In absolute terms India stands out as a dominant quota holder for all categories of textiles especially for yarns and fabrics, representing from 2 to 10 times the volumes granted to China.

The situation is the same for Pakistan with extremely large quotas –some larger than India- in textile categories, for example in the areas of synthetic discontinuous fabrics (68 000 tons) and much less in

³⁶ Total licensed volumes divided by total working levels of quotas.

the areas of apparel. With the sole exception of parkas, Vietnam (even though its filling rates are quite high) does not hold large quotas for any category in comparison with China, India, or Pakistan. Despite quota restraints (filling rates above 95%), Chinese woven and knitted garments are extremely competitive and take up a share of more than a fifth of the extra EU imports in value. Chinese garments account respectively for 44, 27, 48, 34 and 41% of the extra EU imports of ATC categories women's suits, brassieres, other woven clothing, underwear and other knitted clothing thanks to average unit values lower than the average extra EU imports unit values. India turns out to be especially competitive for categories within the upstream cotton industry such as cotton yarn, cotton fabrics, table linen as well as for blouses, shirts and dresses for which it holds market shares (in the extra-EU imports) of 18, 10, 24, 12, 11 and 13% well above its average share of 5% for all textile and clothing products. Most of these specific categories correspond to those for which India's filling rate of quotas lies above 95% (cotton yarn, blouses, and shirts).

- **Price pressure**

When one compares, for each category, prices between the different supplying countries who detain large quotas, some remarks can be made :

- the cheapest price levels are held by **Pakistan**, roughly 40 % below the EU average import price (Extra EU imports). This is of particular significance for the categories for which Pakistan is a major quota holder and succeeds in filling up its quotas : cotton yarns and fabrics, synthetic fabrics, home textiles, trousers and T-shirts.
- **China (Mainland)** is the second cheapest supplier of the sample, some 15 % below the average EU import price. However for the textile categories where China holds large quotas and fills them, this price difference is negligible, or even positive : for example for bed linen Chinese price is twice as high as the EU average import price.
The situation is approximately the same for knitted apparel.
On the opposite Chinese prices for woven apparel are very low : some 30 % below the EU average import price for the large volume categories.

Within the selected quota holders, **Hong Kong** commands the highest price level : some 30 % above the EU average import price. Negligible in the textile sector, Hong Kong remains a major supplier of clothing. On two key categories (large quotas and high filling rates), its prices are even close to the EU export prices, which makes it a significant competitor of the EU on a global basis : T-shirts and blouses.

- **India** ranks above Mainland China and Pakistan , as its prices are quite close to the EU average import price. Within woven clothing, India turns out to be much more expensive than China for track suits and somewhat more expensive for T-shirts and knitted trousers, for other areas the difference is much slighter. Indian prices are on the opposite lower for jerseys. Entry of Indian goods on the EU markets appears to be greatly restricted for T-shirts, jerseys and trousers. For the last two categories, India's import share is two to four times lower than that of the aggregate of China and Hong Kong, at 6 and 3% respectively for T-shirts and jerseys compared to 12%. For yarns, apparel fabrics, technical fabrics and home textiles, Indian prices are quite competitive ; they are just higher than those of products from Pakistan but lower than those of goods from China.

Table 31: Unit value and market share extra-EU imports

Average Unit value of goods for which binding quotas apply						
	Pakistan	India	China Hong Kong	South Korea	Turkey	Average extra EU imports
Yarn	2.3	2.8	3.1	2.4	2.5	2.9
Apparel fabrics	3.1	4.2	4.6	12.3	8.9	5.3
Technical fabrics	6.7	7.9	8.5	15.2	17.9	12.9
Home textiles	5.8	5.5	13.3	2.9	7.9	6.7
Woven garments	9.8	16.7	17.2	16.9	23.0	18.8
Knitted garments	8.5	10.9	14.8	16.0	16.5	14.4
Average Unit value of goods as ratio with respect to average extra EU imports unit price						
Yarn	79%	97%	105%	84%	87%	100%
Apparel fabrics	58%	80%	88%	234%	168%	100%
Technical fabrics	52%	61%	66%	118%	139%	100%
Home textiles	87%	82%	198%	44%	118%	100%
Woven garments	52%	89%	91%	90%	122%	100%
Knitted garments	59%	75%	103%	111%	114%	100%
Average Market share in total extra EU imports in value						
Yarn	2%	12%	3%	4%	13%	100%
Apparel fabrics	9%	6%	15%	4%	11%	100%
Technical fabrics	2%	2%	14%	0%	3%	100%
Home textiles	30%	8%	9%	0%	16%	100%
Woven garments	2%	5%	17%	1%	11%	100%
Knitted garments	1%	4%	16%	2%	20%	100%
total	3%	5%	15%	2%	15%	100%
Average Market share in total extra EU imports in volume						
Yarn	3%	13%	3%	5%	15%	100%
Apparel fabrics	16%	8%	17%	2%	7%	100%
Technical fabrics	5%	4%	21%	0%	2%	100%
Home textiles	34%	10%	5%	0%	14%	100%
Woven garments	3%	5%	18%	1%	9%	100%
Knitted garments	2%	5%	15%	2%	18%	100%
total	7%	7%	14%	2%	12%	100%

- **South Korea** is an expensive supplier of the EU, close to Hong Kong and Turkey in terms of prices. Only two categories represent large volumes and high filling rates : synthetic woven fabrics, for which South Korea is about three times more expensive than the EU average import price, and even 3 % higher than EU export price itself ; jerseys for which South Korean prices are only 10 % above the former and 70 % below the latter. South Korean synthetic wovens and socks hold a share of 11% of the extra-EU imports value. The good performance on these last categories is to be related to high quality rather than low price since their unit values per kilo turn out to be higher than that of other non EU competitors.

- **Turkey** is included in this analysis even though it is not constrained by quotas any longer, in order to provide a comparative basis. It stands roughly 20 % above the EU average import price, and a little below South Korea and Hong Kong. For blouses and artificial yarns, Turkish prices surpass those of the EU industry. For synthetic (discontinuous and continuous) fabrics and for T-shirts and shirts, they are also fairly close. These categories for which Turkish prices almost match the average extra-EU import unit value take up at least 15% of the extra-EU import value (yarns, home textiles and knitted garments).

- **Outlook**

In terms of both volumes and prices China clearly appears to be in a position of dramatically increasing its sales into the EU as soon as the remaining quotas are dismantled. Most of the quotas still in existence for (Mainland) China are totally filled in apparel, apparel fabrics and home textiles as well. However the situation is fairly different between categories. On categories like 15 and 16 ladies' and men's woven coats), 13 (briefs) and 83 (knitted coats), China is in a dominant position among quota holders with hardly one competitor. For 29 (ladies' woven suits) and 4 (knitted shirts) and 28 (knitted trousers), China holds quotas comparable to those of India, and Pakistan for 28. For the rest of quotas, increases granted to China have been quite limited in proportion with those granted to India or Pakistan in particular, so that Chinese quotas now represent from one half to one tenth of Indian or Pakistani quotas. This leads to think that for many categories the likely consequence of quota removal would be a re-balancing of imported volumes, in particular from India and Pakistan, towards China.

The analysis of price positions per supplier also demonstrates that there is an efficient dual market strategy at play : China is the undisputed leader in the realm of low price merchandise while Hong Kong commands the upper segment. As Hong Kong quotas are seldom filled, there is likely to be a drop in Hong Kong exports as exports from the Mainland may strongly increase.

Similarly to China, Vietnamese quotas also are quite filled but the quantities involved are much lower : 3 to 8 times smaller than those granted to China, except for category 8 (woven shirts), or 31 (bras).

3.2 MAJOR SINGLE PLAYERS

➤ CHINA

China	Value 1995	Value 2001	Evolution 95-01 per annum
GDP billion US \$	700	1 159	9 %
GDP per capita US \$	581	911	8 %
Imports textile (million US \$)	10 706	11 201	1 %
Imports clothing (million US \$)	993	2 520	17 %
Exports textile (million US \$)	9 713	13 083	5 %
Of which: EU: 15%;USA: 16%; Japan: 17%; other Asia ³⁷ : 22%			
Exports clothing (million US \$)	21 891	35 523	8 %
Of which EU : 17%;USA : 17%;Japan : 38%;other Asia : 13%			
% Textile in total exports	6 %	4 %	
% Clothing in total exports	14 %	12 %	
Inflation (GDP deflator in annual %)	13	0	
Gross domestic savings (% of GDP) (2000 instead of 2001)	43	40	
Cost of capital (lending rate source : IFS)	12.06	5.85	
Population (million people)	1 204.9	1 271.9	1 %
Employment in agriculture (% of total employment)	49	48	
T/C employment source government statistics		7.5 million	
consultants' estimates		15 million	
Textile investments as % of world 99-01 investments : spinning :19%;weaving :53%;knitting :22%			

General economic data are taken from IFS. Trade data come from CHELEM (CEPII).

³⁷ Excludes Japan, China, Hong Kong, India, Bangladesh, Pakistan.

Hong Kong	Value 1995	Value 2001	Evolution 95-01 p a
GDP billion US \$	139	163	3 %
GDP per capita US \$	22 619	26 420	3 %
Imports textile (million US \$)	5 442	2 367	-13 %
Imports clothing (million US \$)	1 123	2 820	17 %
Exports textile (million US \$)	1 925	1 173	-8 %
Of which EU : 9%; USA : 14%; Japan : 1%; China : 40% ; other Asia : 13%			
Exports clothing (million US \$)	8 226	7 981	-1 %
Of which EU : 28%;USA : 36%;Japan : 1%;China : 26%			
% Textile in total exports	7 %	6 %	
% Clothing in total exports	28 %	41%	
Inflation (GDP deflator in annual %)	3	-1	
Gross domestic savings (% of GDP) (2000 instead of 2001)	30	32	
Cost of capital (lending rate source : IFS)	8.75	5.13	
Population (million people)	6	7	2 %
Employment in agriculture (% of total employment)	1	0	
T/C employment (source HK Trade Development Council statistics)			
T/C manufacturing		54 000	
T/C import export		111 000	
Textile investments as % of world 99-01 investments : spinning : 0.6%;weaving :1%;knitting : 15%			

General economic data are taken from IFS. Trade data come from CHELEM (CEPII).

1 - SUMMARY : POSITION AND OUTLOOK OF THE CHINESE T/C INDUSTRY

The textile and clothing industry is a key sector for the Chinese economy, as it represents 10 % of GDP and has been consistently growing since 1995 by 8 % a year. It also generates 20 % of the exports of goods in value. As such it is one priority of the current 5-Year Plan.

2005 liberalisation is an issue of major interest for all T/C players in China.

However due to ATMI³⁸'s pending requests (since fall 2002) for quotas to be reinstalled on Chinese exports for categories having surged in 2002, almost every expert and professional interviewed for the present report has expressed **major doubts** regarding an actual opening of the US market in the first days of 2005.

³⁸ American Textile Manufacturers' Institute

As to the EU market most seem to be more confident in the way Europeans would respect their broad commitments towards liberalisation. Even more confident are they regarding China's intentions and dedication to implement its part of the WTO and ATC obligations.

The industry's competitiveness relies on a **well-balanced mix** of fairly low **labour costs** and efficient **infrastructures**. Today it is still hampered by some serious drawbacks like its marketing inexperience, its lack of commercial drive and its technological backwardness in high value activities (value derived from significant fashion content, better quality and prices, reactive production, integrated design, sophisticated fabric handle and touch etc).

However China undoubtedly has a very large potential for long term development in the global textile and apparel market. Its long lasting **oversupply** of an educated, motivated and trainable **workforce** gives China a sustainable³⁹ cost competitiveness by international standards in the apparel manufacturing sector. Its access to abundant cheap capital, its attractiveness to foreign investors and providers of know-how, as well as the increasing quality of its available management resources, ensure that the overall upgrading which the central government calls for will be attained, in the upstream textile sectors as well as in apparel.

For the time being the apparel sector is much more export-oriented than the textile one : one third of 2001 exports are textiles, lower priced items including greige goods shipped to a diversified customer base, in Asean, Africa, etc. Apparel makes up the remaining two-thirds, shipped towards developed markets : Japan (38 % of exports), the EU (17 %) and the USA (17%).

Free market conditions are largely promoted by the central government. They are likely to help continue the fast and painful reorganisation of the industry : fiercer competition as quota rents disappear, price wars and subsequent bankruptcies and falls out of business. The necessary adaptation period can be estimated to last some 5 more years before market forces may be satisfactorily balanced. However the process is slowed by the local authorities (townships, provinces) who are reluctant to give up traditional practices restraining commerce and investment flows and try to protect local business and employment.

Finally one has to wonder if and when China's industry is likely to become a **high-tech** and **high-value added** sector. For the time being the Mainland is certainly far from this point but traders, brands and industrialists from Hong Kong and other places with a strong Chinese population like Taiwan and Macao are capable of driving revenues from design, branding, management and marketing activities. In this sense they fully compete with US, Japanese and EU firms : they probably control by and large from one third to one half of the production on the Mainland.

However the opening of China allows an increasing variety of operators to shop directly from the Mainland, and to exert direct **pressures on prices** when bargaining with factories, taking full advantage of overcapacity and current price-war situations. This is why China is likely to remain for a number of years a very cheap important production base and to significantly increase its production output, for many markets, mostly working on a contracting basis, with no major input into design nor

³⁹ Some economists contemplate a 20 year period before the labour market reaches equilibrium

product engineering, and therefore with rather low profit margins and little bargaining power in front of a cost-conscious population of international buyers.

There obviously is a limit to China's potential for development at least for some years to come. It is especially palpable in Hong Kong but also among international business circles. It consists in a pervasive **suspicion** for China as a safe long term business partner : even though many strongly believe that China will hold the overall position of the most competitive production base in the world for many years to come, they are certainly not ready to put more than 50% of their eggs in China's basket. They appear somewhat reluctant to relocate operations from Sri Lanka, Thailand, Malaysia or other Asian countries towards the Mainland should competitive pressures urge them to do so.

2 - DETAILED ANALYSIS

➤ CONTEXT

Since 1978 China is carrying an original experiment : creating a **market economy** within a **socialist political system**. In spite of huge problems such as those revealed by the Tien An Men revolt, the reforming of the economic system has not stopped since then and it has produced exceptional economic results : the long-term highest GDP growth rate in the world, the largest financial reserves, rank of largest producer of PCs etc. One of the last achievements for China is its entry in the WTO in 2001. China's WTO membership means that its economic institutions and rules are or will soon become consistent with the ordinary rules of world trade. It is a legal guarantee for China's partners to be treated fairly along the rules of the international law and not according to the good will of unpredictable bureaucracy.

But for how long can the mix of economic freedom and authoritarian state prevail ? South Korea and Taiwan have demonstrated that it was possible to achieve political freedom once their level of development was above 20% of those of developed economies .

The Chinese success gives rise to many hopes and fears. In the chapter of hopes, China is the land of opportunities, the first destination of **foreign investment**, the place where any important company has to be, the fastest growing market in the world and potentially the biggest.

As for fears, many developing countries see China as a threat to their own opportunities for gaining access to the world market and for attracting foreign investment. Past simulations of ATC's impact confirm this is a real possibility in T/C industries. For developed countries some think there is a danger of deflation due to the decrease of the already low prices of Chinese exports, however the global risk is low due to the limited weight of China in the world economy.

One of the major difficulties in assessing the threats and opportunities from China is the size of the country and all its complexities.

China is a **dual country** with its modern sector which is concentrated in the coastal areas and covers a quarter of the country and a "traditional" sector based on agriculture and located the provinces of Centre and the West.

Discrepancies between rich and poor regions jeopardize the unity of the country as they could recreate a disruption which has already happened several times in the past. But modernisation of the country means that the poor regions will have to catch up and will be supported to do so. Two major ways exist : one is to allow citizens to move from the less privileged regions to the more affluent ones and this has already begun, but to a limited extent. Contrary to what happened between Europe and its neighbour populations, the Chinese migration movement is internal. Due to the size of the country this migration process has a major economic impact as, this large pool of low cost workers creates a strong pressure to maintain wages at a low level.

The other way to accelerate the catching up process is to invest directly in the development of the poorest part of the country. There the capacity of the central State to organise such allocation of capital will be determinant.

Probably one of the major risks for China will come from its **banking sector** which is considered as virtually bankrupt. It has to support the State-owned enterprise's huge deficits. Moreover the sector is not used to private management techniques. As a result the State bails out failing banks. But there are strong pressures from the IMF and the USA to liberalise the financial sector. One should remember that both Mexico and Korea registered major financial crises on the years they chose to liberalise their financial sectors.

At the time of the writing of this report (summer of 2003), with the surge in Chinese exports to the EU and the USA and the price decline of Chinese products, there is mounting pressure on Chinese authorities to leave the dollar peg and to **let the Yuan appreciate**. When the US Treasury representatives paid a visit to Beijing in early September 2003 and asked for such an appreciation, the Chinese answer was negative for the time being.

Five years ago, in 1998, many experts believed that China should devalue its currency. Their opinion was based on the idea that China would not be able to compete with other Asian countries after their own currencies were devalued during the so called Asian crisis.

One might then wonder what would be the "fair" rate of the Yuan ? The currency was made partially convertible in 1994 at a rate well below its purchasing power parity : it was then probably undervalued by a factor of 4 or 5 (according to the World Bank's 2003 development indicators it is undervalued by a factor of 4.8 : in other words one has to multiply the Chinese GDP estimate in current dollars by 4.8 to obtain a more realistic value). In 2003 things have improved a little as inflation has come back and the current account surplus has been markedly reduced.

To make a floatation of the Yuan possible, some key conditions in addition to capital account liberalisation should be fulfilled. In particular, China would have to reform its banking system and its state-owned enterprises sector. This will not be achieved any time soon. 2008, when foreign banks are to be allowed into the Chinese market, might be a starting date. But it is the earliest one can reasonably expect.

► ***Importance of the Sector***

The textile and clothing sector plays several key parts in China.

First it provides employment and subsistence for some **15 million workers**⁴⁰, notwithstanding some 13 million more who are occupied in primary (natural) fibre processing. Those jobs can be quickly taken by young girls coming from the rural areas thus helping with a redistribution of wealth throughout the country.

The industry is also a strong contributor to exports : one fourth⁴¹ of the industry output is exported, which represents 62 billion \$ in 2002 and a major currency owner. China⁴²'s share of world wide exports in 2001 was 16 %.

One should also mention that the sector is successful in driving foreign investment into the Mainland, even though the trend is less promising than in recent years. In 2000, there were more than 5300 foreign invested companies in the industry. They were mostly export-oriented.

► ***State : Priorities and Involvement***

The ongoing 5-year plan gives priority to socio-economic issues and in particular the development of the **rural areas** in order to ensure long term stability and prevent social unrest.

It is also a very high priority to comply with international rules and ensure the successful position of China on the world trade scene. Within this dual context, central government tries and actively promotes **free competition**, with a view that it will eventually destroy excess competition and overcapacity.

T/C exports are on their way to meet the target of 70 to 75 billion \$ by 2005. Both fibre and fabric consumption are also planned to increase.

The industry is presently achieving the objective of a 6.5 % growth per year in value added and a 40 % rise in productivity over the 2000-2005 period.

Moreover efforts are made to **upgrade**, especially from a technological point of view, T/C know-how and output. The ongoing rationalisation and concentration of the textile sector is also strongly influenced by government directives.

Privatisation of state-owned enterprises is another objective of the plan. It also brings about the need for more investment (foreign or other) in sectors to be modernised like technical textiles and printing dyeing and finishing.

► **KEY FEATURES OF THE INDUSTRY**

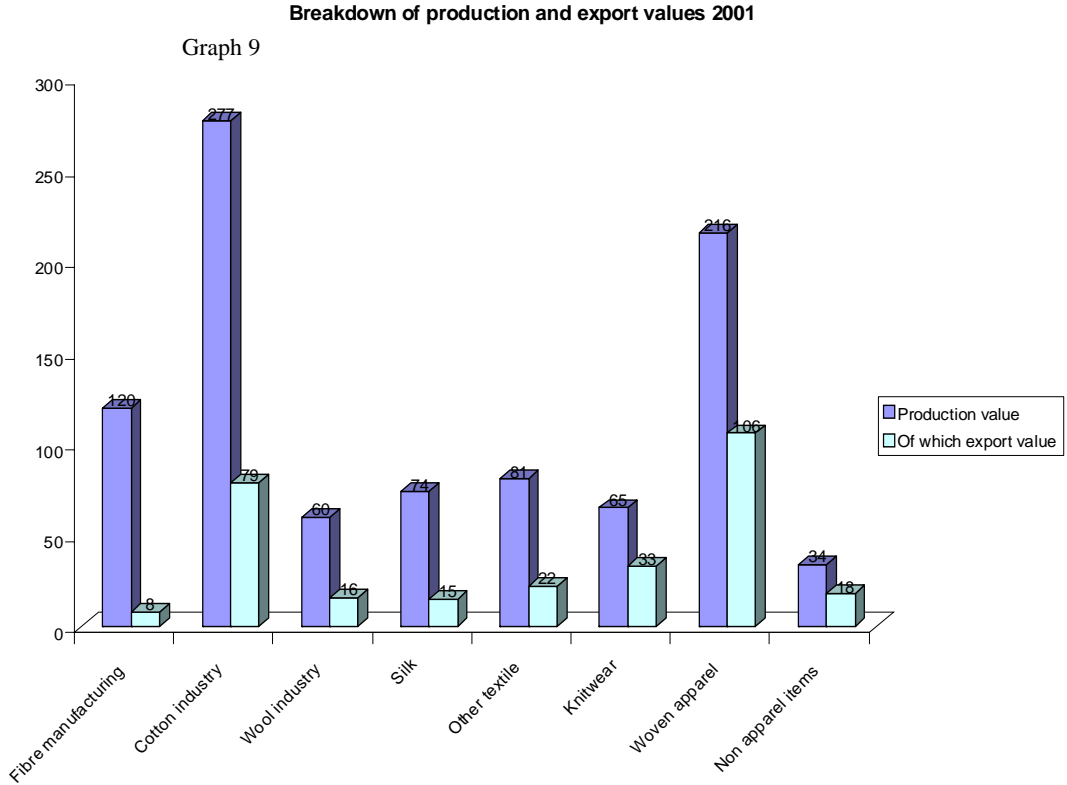
One prominent feature of the Chinese industry is that, contrary to those in many developing countries, it is **fully integrated**, at the level of the country and increasingly also within firms themselves. As such, the textile and apparel supply chain does not heavily rely on third countries, except for its export sales which have a high import content.

⁴⁰ Official statistics (7.5 million employed) do not take into account firms with sales below 5 million Yuans, the equivalent of 0.5million Euros

⁴¹ Estimate based on a re-estimation of production figures as explained in footnote 36

⁴² If one consolidates Hong Kong and the mainland China represents 19 % of world's textile exports and 30 % of apparel exports.

According to official statistics total T/C production output is 995 billion Yuans (equivalent to 115 billion Euros), representing a 15 % increase over 2001. It can be broken down as shown in the following graph. Even though the cotton sector and the apparel one prevail in output, there is a fairly balanced distribution of activities across the T/C chain.



Source : China National Textile Industry Council

Another significant advantage lies in its **labour cost situation**. An early champion for low labour costs, China can no longer be considered a cheap T/C manufacturer by official standards : 20 % more expensive⁴³ than India and Sri Lanka, 40 % than Indonesia, 100 % than Pakistan, 180 % than Bangladesh... However particularly in the apparel sector, when productivity, reliability and indirect costs are brought into the picture – not to mention the increased flexibility margin that private or less structured enterprises can afford – China offers an unbeatable **quality / price ratio**⁴⁴ : Chinese standard cost per minute averages 10 US cents, the same as in India, Indonesia or Viet Nam and 25 % less than in Pakistan. The size of the country generates a diversity of competitive edges : for example, the large firms in the industrialised areas of the East can successfully compete in the medium-price bracket, whereas remote factories in the West are still competitive for cheap productions.

* Source : CIRFS

* Source : WTO statistics

⁴³ Source : Werner Spinning and Weaving Labour Cost Comparisons 2002; above comparisons are based on coastal areas labour costs (0.69 US\$ par hour); rural areas being much cheaper (0.41).

⁴⁴ Source : KSA 1999 Cost Per Standard Minute of Labour in the Garment Industry.

➤ MAJOR SUB SECTORS OF THE INDUSTRY

China holds a 22 % share of world **fibre production**. However despite high production volumes, China still has to import half a million tons of raw cotton, 150 000 tons of wool (2/3 of local needs), and 1.5 million tons of man-made fibres.

With a **textile** trade balance of 4.3 billion US\$ in 2001 comparing to a **clothing** balance of 43 billion, China displays a much lower competitiveness in the global textile market than in apparel.

Textile is one area where government seems most dedicated to helping a **thorough restructuring** of the industry, as could already be seen since 1997 when 10 million spindles were scrapped and 1.2 million workers "displaced". The present 5-Year Plan insists on the need for an increase in quality, variety and performance instead of quantity : emphasis is put on equipment modernisation, consolidation of productive capacities and better sensitivity to market demands. Apparel uses still represent 67 % of textile output but they are decreasing as home textiles (20 %) and industrial textiles (13 %) are both growing.

For the time being China exports cheap and/or little processed textiles and imports expensive⁴⁵ and/or finished ones, essentially⁴⁶ to be processed and then exported as finished garments. **Textile** exports in value represented 12 % of world exports in 2001, and **imports 9 %**.

Some 20 billion US\$ textile⁴⁷ were thus exported in 2002, corresponding to one third of the official textile output in value⁴⁸, the remainder being consumed in the domestic market. The textile industry is primarily characterised by a high degree of overmanning, of overcapacity and of increasing overproduction, which results in intense price competition between Chinese producers, be it in the domestic market or on the export scene. **Cotton industry** is the single largest activity (30 % of the production value and 35 % of the employment of the whole textile and clothing sector). **Cotton spinning** represents 45 % of this volume and occupies 60 % of these workers.

The weakest link of the textile supply chain remains the **dyeing-printing and finishing** sector. China still lags significantly behind more developed countries for such a "refined" and somewhat tertiary

Source : CIRFS

Source : WTO Statistics

⁴⁵ Average export price for finished fabrics in 2001 : 0.72 US\$ / m ; average import price : 1.03 US\$ / M

⁴⁶ In 2001 out of the 12.6 US\$ textile imports into China, 94% were to be processed and re-exported.

⁴⁷ Statistics for 2002 produced by the State Council ; not comparable to Chelem/Comtrade statistics mentioned in the table at the beginning of the chapter.

⁴⁸ Official production statistics do not take into account enterprises with sales below 5 million Yuans (half a million Euros). In some areas China National Textile Industry Council reports that only one third to one half of the total employment is measured by existing statistics. On such a basis one could estimate actual production figures to be several times higher than statistical data maybe twice as much for the textile sector and 2.5 times as much for apparel. The essential part of these incremental volumes are assumed to be consumed domestically. On such a basis textile exports probably make one sixth of actual output.

know-how, whereas for mechanical-oriented processes – spinning, weaving, knitting and assembling – the country is only hindered by the obsolescence of a large part of the equipment in use.

The estimated output of the **man-made fibre** industry in 2002 represents 33 % of world wide production in volume and a 20 % increase over 2001. It suffers from an ever increasing overcapacity⁴⁹ and falling prices and profit margins. Its low productivity is due to structural reasons : small operation scales by international standards – synthetic fibre capacities per production site are 10 to 30 times lower in China than in competing countries – and a lacking in R&D and in modern equipment.

The textile sector heavily **invests** in modern equipment : 3 billion \$ in 2001 in spinning, weaving and knitting equipment. Traditionally wool textiles produced in China are poorly competitive and fabrics for medium and better end apparel have to be imported : it is worth mentioning that in 2000 and 2001, China's investments in long spindles (wool type spinning) have been quite significant, representing 59 % of world investment. In weaving equipment China was also top investor with a similar percentage of 59 % of world investments.

The success of industry's attempts at improving its performance can be seen in the recent export figures : after the slow growth of 2001, Chinese statistics estimate that exports grew by 22 % in 2002 thus emulating the 2000 rate.

Much more than the textile industry, the **apparel** sector depends on the buoyancy of its export markets and on its capacity to fight international competition. 41⁵⁰ billion US\$ apparel were exported in 2002, representing a 13 % increase over 2001, and twice as much as textile export worth. This figure is equivalent to the officially recorded production value. One may estimate that it corresponds to approximately 40 % of actual production value.

A significant proportion of these exports – 60 % in value terms would seem a realistic figure – is manufactured with **imported fabrics and yarns**.

The apparel sector suffers from low profitability even though it is one of the fastest growing manufacturing segment in China.

34 000 companies are now allowed to **export** textiles or clothing : by 2004 all companies will be allowed to do so. Most of them expect their export performance to be boosted by the quota removal. However the large majority of Mainland firms are not in a position to fully benefit from those opportunities. The sector overwhelmingly suffers from a **lacking in design and fashion capabilities**, and from insufficient communications with the consuming markets. For the time being Hong Kong buying offices and exporting firms do provide for this missing link and it will take time before a majority of Mainland firms are able to deal directly and profitably with foreign buyers, and take some part in higher value adding operations. Very few brands even in the domestic market exist to help create a sustainable market base. Results are small profits on average and significant risks of price wars for the coming years, largely fuelled and driven by investors from Hong Kong and the rest of the world and from the large size retailers in the consuming markets.

⁴⁹ 70% of world wide growth in man-made fibre production since 1995 is attributable to China.

⁵⁰ Hong Kong own exports not included (approx. 8 more billion US\$)

Home textiles represent a large and developing market, as well as a profitable diversification from apparel. However lacking in design and marketing know how, the industry successfully strives to offer better quality and greater diversity to its customers. This segment now represents 20 % of textile production.

Another 13 % and also increasing is held by **technical textiles**. Despite a fast growth in production, the segment is still a net importer, only cheap or unfinished items being presently exported.

➤ **VARIOUS ISSUES**

The effective opening of the textile and clothing sector to globalisation and free competition has brought about an overall trend towards **privatisation**⁵¹ Almost 90 % of the industry's firms have begun to open their capital and their decision-making processes to private forces. State-owned enterprises in general⁵² poorly compare with those ventures in terms of profitability as they are heavily burdened by redundant and retired workers – still on their payroll until emerging national pension schemes can replace them – and by fairly good working conditions complying with legal requirements.

Despite central state laws, private enterprises, be them township or other, Chinese or foreign invested, are reported to offer **harder working conditions** : cases of 12 hours ' shifts, seven days a week etc are not exceptional. Coming from the poor rural areas an estimated number of 150 to 200 million people are ready to take jobs and boarding in the Eastern and Southern regions of China, in the basic service or industry sectors. Textile and clothing obviously provide first step employment for them. Young girls arrive in those areas at the age of 18 or so and spend an average of 4 years, sometimes only going back home for Spring Holidays (Chinese New Year celebrations) and living in dormitories with thousands of other workers of the same firm, working hard and leaving when they have made enough money to get married and build a house in their home place. Such workforce is eager to take and retain employment without bargaining. With 500 to 700 Yuans (55 to 75 Euros) a month they earn at least ten times as much as in the countryside.

Better conditions than average are said to be provided by Western invested companies, and export-oriented companies as labour conditions are a significant issue for their consumers and as such are paid attention to by companies' management. On the opposite Asian invested companies (excluding Japanese firms) do not enjoy a good reputation in this respect.

From an **environmental** point of view, the present 5-Year Plan stresses the need to reduce energy as well as water consumption per meter of fabric by 15 % over the 2000-2005 period and to recycle 30 % of water used in dyeing and printing operations.

⁵¹One should remind that the word is not used for political reasons

⁵²Some companies have been created in the last decade with a clear government support : they are clearly multinational firms, with very ambitious technological goals.

➤ MARKET ISSUES AND MARKETING PERSPECTIVE

Government places high priority on the improvement of living conditions and purchasing power in the rural areas, among other means, by creating better infrastructure and offering tax incentives, in view of maintaining social stability and of stimulating domestic consumption. This objective has two major consequences on the textile and apparel industry : the first one is a relaxing of inter-provinces labour flows in order to enable a substantial number of newcomers from the West and Central regions to settle in the high-employment areas of the East. This might result in deflated industrial labour costs and increased competitiveness in the low price segment ; the second is that it might give a strong impetus to **domestic consumption** of apparel and other textiles, among other basic consumer goods, essentially to the benefit of the local SMEs whose cost competitiveness is best suited to price conscious consumption.

The process of **increased liberalisation**, started in 1999 or so, is gradually shifting the privileges held by few state-trading companies into the hands of a large number of new operators, state-owned as well as private, and recently Sino-foreign joint-ventures⁵³. In parallel import quotas are still applied for sensitive materials like polyester and wool with an effect of impeding and slowing trade. They should have disappeared before the exporting quota phase-out in 2005 according to China's commitments.

On its way to becoming a more fully market driven economy, China's domestic apparel and home textile markets will benefit from an input of foreign know-how and financial investments in the realms of **retailing**, merchandising and customer oriented marketing. This input will work in perfect synergy with the ongoing decrease of import restrictions and particularly the existing duties on imports of finished apparel⁵⁴ and substantially stimulate demand. The several tens of million potential consumers for imported apparel and home textiles from the EU, the USA or Japan, certainly would fuel demand for a broader more competitive and better marketed offer from foreign fashion suppliers and brands. The domestic market is estimated by CNTIC⁵⁵ to represent some 80 billion US\$ and to be growing fast : 15 % from 2000 to 2001. A very limited part of it is taken by foreign imports. This is partly due to the amount of duty (overall 15 %) which might handicap mid and lower end foreign competitors. But above all it is due to the **inefficiency** and unattractiveness of the **retail** sector. Both factors should considerably improve as China's opening to foreign imports and capital expands, turning the domestic market into a major destination for apparel and home textile imports.

➤ OUTLOOK 2005

The end of the quotas is likely - and has already begun - to increase local industry's price-competitiveness for several reasons :

- allowing a much larger number of companies to compete, (and not only those holding quotas) brings a natural increase in price competition
- because quota prices and all the speculation around them disappear
- by becoming less complex, the system is also becoming more efficient as fewer intermediate players are necessary. As factories become able to deal directly with buyers,

⁵³ Since March 2003

⁵⁴ Average rate reported by Chinese authorities for 2002 has been 15 % i.e. one year ahead of arranged schedule.

⁵⁵ China National Textile Industry Council

many agents, traders, quota dealers, etc. will be made redundant, and their margins pocketed by the buyers. In international apparel mass markets the overcapacity and fierce competition in the apparel sector is likely to **push further down** already **low price levels**.

However Central State, large industrialists and many investors exert significant pressures in order to upgrade the whole sector, in particular by trying to develop a high standard textile industry. Those efforts should result in a **decrease of textile imports**, as the local spinners, weavers and knitters become better suppliers to the apparel and made-up industry.

Finally the development of the domestic market for apparel and home textiles is likely to benefit imports but also to provide an **increasing outlet for domestic production**. It is approximately twice as large in value as the present Chinese export market : its expected growth (some 10 % a year or more) makes it quite attractive for the future development of the industry.

Appendix A: Sources CHINA

Statistical data :

Unless otherwise specified statistics used in this chapter have been taken from :

- The Development Report of China Textile Industry by China National Textile Industry Council , 2002
- Comtrade database

Interviews :

When meetings have been conducted with one leading interviewee and his or her staff, only his or her name is generally mentioned hereunder.

Organisation	Name of interviewee	Position
China (Mainland)		
Ministry of Foreign Trade and Economic Cooperation (MOFTEC)	Mr David Sun Mrs Bao Ling	Deputy Director General Head of Textile Division
Delegation of the European Commission to China	Ms Sarah Invernizzi Mr Sergio Balibrea	Economic and Commercial Officer First Secretary
French Economic Mission (French Embassy)	Mrs Agnés LI (Beijing) Mrs Marylise Hebrard Mr Bruno Cabrillac	Textile assistant (Beijing) Textile Trade Attaché (Shanghai) Trade Attaché (Hong Kong)
Interchina Distribution Co., Ltd.	Ms Chen Xiaohong	General Manager
World Best Apparel Group	Mr Wang Zengjing	Chairman of the Board Ex Vice Minister Textile Chairman of China Fashion Colour Association
China Chamber of Commerce for Import and Export of Textiles	Mr. Wang Yu	Vice Secretary General and Head of Market Dept
National Statistical Bureau	Mr Zheng Jingping	Director General Comprehensive Statistics

Organisation	Name of interviewee	Position
China (Mainland)		
Development Research Centre of the State Council	Mrs Li Shantong	Director- General of Department of Development Strategy and Regional Economy
Institute of World Economics and Politics (IWEP), Chinese Academy of Social Sciences (CASS)	Mrs Wei Wang	Professor
Shanghai Garment Group	Mrs Yin Jian Jun	Deputy General Manager
ICBT / Rieter Shanghai	Mr Song Tao	Sales Manager
Shanghai Hua Nan Trading Co	Ms Li Fei Nan	Managing Director
Shanghai Orient Shopping Centre Ltd	Ms Cen Xiang Fang	Assistant Manager
Hong Kong		
Trade and Industry Department The Government of the Hong Kong Kong Special Administrative Region	Mr Joseph Lai Mrs. Charmaine Lee Mr. Edmund Cheng	Deputy Director-General Commercial Relations, Controls and Support Assistant Director-General of Trade and Industry Trade Consultant in Textile
Morgan Stanley	Mr Andy Xie	Managing Director and Chief Economist of Asia Pacific
Textile Asia Business Press Limited	Mr. Kayser Sung	Publisher and Editor in Chief
Hong Kong Polytechnic University	Dr. Zhiming Zhang	Professor in the Institute of Textile and Clothing,
Clothing Industry Training Authority Sterling Products Ltd	Dr Kenneth Wang	Chairman Managing Director

Organisation	Name of interviewee	Position
Hong Kong		
Textile Council of Hong Kong Sun Hing Knitters Ltd	Mr. Andrew Leung	Chairman Managing Director
Yangtzekiang Garments Ltd	Mr. Chan Wing Kee	CEO and repr. of China people's Congress + ex chairman of Textile Council
Bay Apparel Ltd.	Ms Sophia Leung	Director, Legislative Councilor
ITC Advisory Committee TAL Apparel Ltd	Dr Harry N.S. Lee	Chairman Managing Director
Peninsula Knitters Ltd	Mr Tai-Fai Lam	Managing Director
Hong Kong Trade Development Council	Mr Dickson Ho	Assistant Chief Economist
French Economic Mission (French Embassy)	Mr Bruno Cabrillac Ms Christiane Deschamps	Trade Attaché Textile Assistant

Appendix B : Chinese Customs Duties

1. Applied tariffs for imports of T/C products into China

Chinese tariffs have been reduced after the Chinese accession to the WTO. Imports from the EU are subject to MFN duties.

Applied duties for products of chapters 50 to 63 are as follows :

- **Raw materials** : for most products, from 5% to 15%.
- However, some products are still subject to **tariff quotas**⁵⁶. These are heading 5101 (wool carded or combed), some products of heading 5105 (wool and fine or coarse animal hair, carded or combed) and noils of wool (heading 5103.10.10). The “in-quota tariff” is between 1% and 3%, whereas the out-quota tariff is 38%. For cotton, headings 5201 and 5203 are also subject to quota. The tariff for in-quota products is 1%, whereas this for out-quota is 47.2%
- **Yarns** : from 5% (cotton) to 11.3% (synthetics).
- **Fabrics** : from 10% to 24%. Tariff peaks (from 17.5 to 24%) for some woven fabrics of man made fibres (e.g. SH 5512, 5513 and 5514).
- **Carpets** : from 16.8% to 19.5%.
- **Apparel products** : from 14 to 25%. Tariff peaks for overcoats, men’s and women suits, ensembles of wool (from 17.7 to 25%) .
- **Made-ups** : from 14% to 19.5%.

Product	Silk (chapter 50)	Wool (chapter 51)	Cotton (chapter 52)	Synthetic (chapters 53-54)
Raw materials	9%	1-38%	1-47.2%	5- 7,8%
Yarns	9%	8-8.8%	5%	7-11,3%
Fabrics	13.4%	16.7%	10-15.8%	5-19.7%

Product (all types)	
Carpets (chapter 57)	16.8-19.5%
Special woven fabrics (chapter 58)	12.5-18.5%
Impregnated fabrics (chapter 59)	10- 17.3%
Knitted fabrics (chapter 60)	12-19%
Apparel (chapters 61- 62)	14-25%
Made ups (chapter 63)	14-19.5%

2. Additional taxes

VAT : 13-17% on duty paid value.

Customs supervision fee 1-3% of Customs value applied to reduced duty imports, free imports and bonded goods.

⁵⁶ The tariff quota establishes a maximum quantity of goods allowed to be imported at a preferential tariff level (in quota tariff). The exceeding quantities (out quota) can only be imported at the out-quota tariff.

➤ **INDIA**

India	Value 1995	Value 2001	Evolution 1995-2001 per annum
GDP billion US \$	353	478	5 %
GDP per capita US \$	380	462	3 %
Imports textile (million US \$)	421	741	10 %
Imports clothing (million US \$)	8	21	17 %
Exports textile (million US \$)	4 244	5 740	5 %
Of which :EU : 30%;USA : 17%;Japan : 3%;China : 3;other Asia ⁵⁷ :11%			
Exports clothing (million US \$)	3 958	4 877	4 %
Of which :EU : 41%;USA : 34%;Japan : 2%			
% Textile in total exports	13 %	14 %	
% Clothing in total exports	13 %	11 %	
Inflation (GDP deflator in annual %)	8.7	6.0	
Gross domestic savings (% of GDP) (2000 instead of 2001)	23	21	-1 %
Cost of capital (lending rate source : IFS)	15.46	12.08	-4 %
Population (million people)	929.4	1 033.4	-2 %
Employment in agriculture (% of total employment)	67	n.a.	
T/C employment (source Government of India)			35 million
Textile investments as % of world investments 99-01 : spinning : 24%; weaving : 1%; knitting : 4%			

General economic data are taken from IMF. Trade data come from CHELEM (CEPII).

1 - SUMMARY : POSITION AND OUTLOOK OF INDIAN'S TEXTILE AND CLOTHING INDUSTRY

Preparation of the Indian textile and clothing industry for a quota-free world is a top priority for both government and industry. The official aim is to boost competitiveness in terms of quality, design, reliability, flexibility and delivery times in order to increase Indian exports from US\$ 11bn today to US\$ 50bn in 2010, i.e. to 10% of world exports.

In 2000, the Government presented its National Textile Policy containing a set of actions and reforms needed to achieve this ambitious aim. It constitutes a major policy change from state intervention towards a free(er) play of market forces. However, while it proposes the right actions and reforms, their implementation takes time. First positive results are only being felt today, with the major impact being expected for only well after the 2005 quota removal.

The need to get things right is enormous, given the sector's economic and social importance. With 35m employees, it constitutes the largest industrial employer (second overall, after agriculture). It covers the entire textile chain, has an output of around 40bn per year, accounts for 14% of industrial output, 8% of GDP, and about 30% of India's export earnings (US\$ 11bn; 2002). Maximising the

⁵⁷ Excludes Japan, China, Hong Kong, India, Bangladesh, Pakistan.

opportunities of quota removal, while minimising the risks, is therefore a key challenge for the entire country.

Indeed, quota liberalisation is seen as both an opportunity and a threat. While textile experts agree that India has the potential to thrive in a quota-free world, they also acknowledge that large parts of the Indian industry are still not prepared.

Generally speaking, textile experts are optimistic about India's prospects. For exports to the EU, the main "winners" are expected to be ready-made garments (upper/middle segments; knitting : lower segment), made-ups (esp. bed linen, terry towels, toilet and kitchen linen) – although EU antidumping duties will keep bed linen exports low – yarn (esp. cotton yarn, but also synthetic/ blended yarn), and possibly denim fabrics (depending on fashion trends), as well as specialised handloom and hand-processed embroideries.

On the other hand, these benefits are by no means an "acquis" due to numerous structural problems of the Indian industry. These problems were mainly caused by decades of interventionist government policies, which provided "positive discrimination" to small-scale labour intensive firms, thereby creating deep distortions in terms of production, resource allocation, competition and competitiveness. Small – and otherwise mostly uncompetitive – companies saw a spectacular rise in output, while large ones – the main force behind exports – suffered severely. Today, the main weaknesses are in the weaving sector, in textile finishing and processing as well as in parts of the garment sector, which is often unable to source locally-made high quality fabrics needed for their export business.

Despite these drawbacks, experts believe Indian businessmen will be able to adapt quickly, provided government reforms are speeded up. Reforms have been made, most recently in the Government's Budget 2003 e.g. by improving the excise duty structure and cutting import tariffs. But much still needs to be achieved, such as reform of labour laws, efficient customs procedures, or improved infrastructure and power supply. As things stand today, it is by no means guaranteed that these issues will be addressed in an effective and timely manner. This would compromise India's ability to fully exploit the benefits of quota removal.

2 - DETAILED ANALYSIS :

➤ CONTEXT

The development of India's T/C industry must be considered in the context of the 1990's economic reforms which aimed at opening the Indian market to the international competition. Reforms led to a reduction in tariff protection, the convertibility of the currency, a certain liberalisation of capital flows and a more flexible attitude towards foreign investments. Despite the progress of the reforms and economic growth⁵⁸, India remains affected by problems such as low alphabetisation, high infant mortality, under-alimentation, and the enormous size of its population (above 1 billion).

⁵⁸ In 2000, GDP was 2300 US\$. La lettre du CEPII, mars 2003.

The T/C industry is also faced with serious problems common to all exporting sectors. In particular, India is listed as one of the worst countries in terms of competitiveness of infrastructure⁵⁹. Transportation costs, energy costs, high interest rates and important transaction costs affect particularly an industry which is export oriented and will face increasing competition on its export markets from Asia and in particular China.

➤ **KEY FEATURES OF THE INDIAN TEXTILE AND CLOTHING INDUSTRY**

India is one of the few countries in the world that has a T/C industry that covers the *entire textile chain* from raw materials to finished garments, with a large majority of production being based on the local production of cotton. The industry produces T/C worth US\$ 40bn per year, mainly destined for the huge domestic market of 1 billion people who serve both as customers for – mainly lower quality – products and as a reservoir of cheap workforce. The existence of the complete textile chain means that Indian manufacturers can – in principle – organise their production within India’s borders without recourse to imported input materials. Structural problems within parts of this chain (see below) meant, however, that this could only partially be turned into a competitive advantage.

A key feature is the industry’s split in two tiers : an “**organised**” sector with mainly large, capital-intensive industrial groups, and the “**unorganised**”, decentralised sector made up of a multitude of small-scale units with little access to modern technology. While the former companies generally focus on up-stream activities, such as fibre production, spinning and modern weaving, the latter are active in power- and handloom weaving, processing, making-up and production of finished garments.

Much of this two-tier structure is due to decades of **interventionist government policies** which pursued two key aims : self sufficiency in terms of affordable clothing for India’s people, and creation of jobs for the growing population. An elaborate system of support measures, regulations, investment ceilings, labour laws and fiscal measures (e.g. excise duties) provided “**positive discrimination**” to **small-scale companies** with labour intensive production methods. For example, until 2002 woven garment manufacturing was exclusively reserved for small-scale industries (SSI reservation), preventing larger firms from entering this activity or small ones from growing into larger groups. Still today, knitting activities are under SSI reservation.

This interventionist environment created numerous **market distortions** in terms of production, resource allocation, competition and competitiveness. While small and otherwise often uncompetitive companies in the unorganised sector have seen a spectacular rise over past decades, large integrated textile companies suffered and saw their share in total production decline considerably. To shield this “Indian model” of T/C development from international competition, high tariff and non-tariff barriers had been erected (which have started to come down only recently). As a result, **large parts of the industry are ill-prepared for a more competitive environment** on their export markets once quota are removed (for a more detailed analysis see below). Unless business and government undertake massive efforts to tackle these problems, India will find it difficult to compete with their competitors from countries such as China, Sri Lanka, Bangladesh or Pakistan.

⁵⁹ Work Competitiveness Report 2000 listed India 42 out of 49 countries. Samar Verma (2002), p. 28

Apart from problems specific to the sector, the industry also suffers from more **general problems** that affect the entire economy :

- India’s notoriously **inefficient power distribution** translates into high energy prices and unreliable power supply, energy costs being among the biggest obstacle to improving competitiveness⁶⁰;
- **Insufficient road and port infrastructure** leads to costly delays. It takes at least seven days for a shipment from Delhi to leave Mumbai port as against 24 hours in China and Thailand⁶¹. In addition high **transportation costs** compared with competitors⁶², lengthy, bureaucratic and **discretionary customs procedures** reduce export competitiveness further;
- **Outdated, highly protective labour laws** act as a severe burden, especially on the organised sector;
- Decades of **import protection** – both for input materials (e.g. cotton, yarns, fabrics) and textile machinery – prevented Indian T/C firms to easily source inputs from abroad and to buy modern machinery for their plants.

However, despite these obstacles Indian textile and clothing exports have been growing⁶³ :

Fiscal year	Export volume (Million USD)
1998-99	10,654.30
1999-2000	11,260.20
2000-2001	12,295.00

Despite the many problems faced by Indian industry, its key asset is the **large pool of skilled workers**, including competent managerial and technical personnel. In addition, **wages** are very competitive compared to industrialised nations but also vis-à-vis competitors in the developing world, and efforts are undertaken to combat child labour and other breaches of international labour norms. Finally, India has a large cultural heritage which translates into **creativity** in terms of colours, designs and production methods. An increasing awareness of fashion trends and the perception of creativity as a competitive edge, is expected to benefit India’s aim to move into higher value-added and more fashion-driven market segments.

➤ MAJOR SUB-SECTORS

India has a wide domestic **production of fibres**. As the world’s third largest **cotton producer**, India’s fibre basis is mainly cotton oriented, but includes to a lesser extent also wool, silk, jute, and ramie. Production of man-made fibres (in particular polyester) has grown over the past decade, although these fibres are mainly exported, and domestic consumption has increased only recently. For several decades, government policies deliberately favoured cotton over man-made fibres, a trend that has

⁶⁰ Samar Verma: “Export competitiveness of Indian textile and garment industry”, ICRIER, Nov. 2002, p. 28.

⁶¹ “Why the Garment industry needs to grow up”, Business World, 26 April 2003.

⁶² Shipping a container of garments from India to the US is costlier than in China, (13% cost advantage), S. Verma, Idem.

⁶³ Source: Textile Commissioner, Government of India. Under other data, exports value for 2002 are estimated 11 billion US.

started to change only recently. However, the development of this sector is slowed down by the high costs of energy, decades of unfavourable government policies, low productivity – with the exception of some large, modern companies (Reliance) – and the important role played by the labour unions.

India's strong cotton orientation constitutes both a strength (availability of low-cost raw materials) and an obstacle for export development due to a lack of product diversification in terms of fibre-composition. Hence, India is not well prepared to take advantage of the increasing global demand for blended and synthetic textile and clothing products. Also, quality problems in India's cotton translate into quality deficiencies with yarns and fabrics that are either directly exported or indirectly as input into Indian clothing products.

India has the second largest yarn **spinning** capacity in the world (after China) and accounts for 20% of world's spindle capacity. Spinning is almost entirely carried out by the organised mill sector, i.e. 285 large vertically integrated "composite mills" and ca. 2.500 spinning mills, which produces mainly cotton yarn (blended yarn : 30% of output, 2002).

For decades, the Indian spinning sector suffered from discriminatory government policies that resulted in low productivity, low rates of modernisation and low profit margins. Large parts of the spinning industry are therefore not fully prepared for the ATC quota removal. Nevertheless, parts of the sector are very modern, efficient and big exporters, with India accounting for 20% of world cotton yarn exports. It is therefore expected that (cotton) yarn exports will be among India's main winners of ATC quota removal. Recent government reform will help, but as they did not come earlier, their impact will be felt only well after the removal of quotas.

With about 64% of the world's installed looms India accounts for the largest number of looms to weave fabrics world-wide. However, the **weaving sector** is one of the weakest links in the Indian textile chain due to the low level of modernisation, low profit margins and absence of labour reforms.

Weaving is carried out by large composite textile mills on the one hand and small-scale power- and handloom producers. The latter account for 98% of installed looms, use old equipment, produce mainly low-value unfinished fabrics, and produce largely for the domestic market. Composite mills in the organised sector account for only 2% of installed looms, but for 85% of India's fabric exports. Due to preferential government policies for the hand- and powerloom industry the share of composite mills in total fabric production fell from 36,5% in 1980 to only 4% in 2000, reflecting the dire state of numerous mills.

Many mills will simply not be able to benefit from quota removal in 2005 and will have to go out of business unless they quickly restructure and modernise. The sector's poor performance (composite mills and others) also poses a risk to the future export performance of India's woven clothing manufacturers. Lack of access to flawless, uniform and high-quality fabrics made in India could hamper efforts to upgrade the quality of Indian clothing – a key prerequisite for remaining competitive vis-à-vis competitors such as China or Pakistan.

In addition, **India's dyeing and finishing industry** is dominated by small-scale companies that are unable to provide modern, quality processing needed for increasingly sophisticated tastes and new applications in industrialised countries' markets. Modern processing is largely confined to large mills,

and the man-made fibre sector in particular, which caters for the domestic **technical textiles** market. Many of these companies have joint-ventures with leading international companies, which will help them to serve both the growing domestic and the international market for technical textiles.

Apparel employs directly or indirectly 4 million people. The turnover of the apparel industry is 16 million US\$. With an increasing production volume (3 billion pieces/year) the apparel sector is the sub-sector experiencing the best growth rate within the textile and clothing chain (+ 20%/year).

Among the export oriented sectors **woven apparel** is the one best prepared for quota removal. The quality consciousness is still low but goes up, with apparel producers being more conscious about the fabric quality and the necessity to adopt fashion trends. The Indian clothing industry also benefits from the experience of a skilled and relatively low cost labour force. On the domestic market, there is a higher consumer consciousness on brands and prices.

However, the industry is highly unorganised and is deeply fragmented due to the government restriction on large companies' development in woven apparel (small-scale industry reservation – SSI). Consequently, the volumes produced remain often small and the sector has not grown at its potential. In general, the level of automation in apparel remains low and the average investment by machine is inferior to e.g. China or Thailand, with a lower productivity⁶⁴. Nevertheless, the 40-45 largest exporters have been investing heavily in 2002, most of them expecting to grow at 25% per year for the next three years. It is also hoped that the recent lifting of SSI reservation offers opportunities to local producers and foreign investors to shift into a larger production base, thereby benefiting from economies of scale⁶⁵. Indian apparel exporters work mainly as subcontractors for foreign apparel companies or retailers. This crucial characteristic has increased their experience, their flexibility and their knowledge of European and US markets. At the same time, this choice has prevented the earlier development of Indian brands for the domestic and the export markets.

The Indian industry shifted towards more fashion designs building the ethnicity into a modern style. The government has also taken specific actions for the development of the Indian clothing industry and the creation of domestic brands. However, the sector lacks product diversification, as most of India's exports are concentrated in a few product categories only. This factor along with the sectors' fragmentation, low productivity, high production costs, inappropriate taxation system and lack of adequate export infrastructure is likely to affect the sector's competitiveness after 2005. It is generally felt that companies focusing on medium-high quality garments will be best placed to benefit from the quota liberalisation, as they will not compete directly with e.g. Chinese goods. Recent developments show an increasing interest from large retailers (H&M, GAP, JC Penney, Marks and Spencer, OTTO). In 2002, large Western retailers sourced 1.5 billion US\$ of garments from India, up from 899 million in 1999. These retailers want to diversify their sources of supply and concentrate more on India.⁶⁶

The **knitwear sector** is still covered by the system of small-scale industry (SSI) reservation, which limits the size of knitting units. The knitting sector is still small but quickly gaining in importance. The main centres of Indian knitting industry are Tirupur (cotton) and Ludhiana in Punjab (wool), where

⁶⁴ Average investment per machine in a typical garment factory was just 250 US\$ while 1,500 in China and 1260 in Thailand, productivity also being estimated 50% than in China or Honkkong., Business World, op.cit, p, 34.

⁶⁵ Recently, the government also allowed 100% foreign investment without any export obligations, to spur new investment in the sector.

⁶⁶ For example, one third of big retailers business could be therefore be sourced from India, Business World, op.cit, p. 30.

hundreds and thousands of small knitting units have set up co-operative arrangements for production and finishing, up-gradation of quality, marketing, and exporting.

Products such as leisurewear have become very competitive on the international markets. In addition, there is a trend moving towards higher quality and value added products (e.g. Pashmina), and a UNDP project for upgrading the technology has been recently implemented. However, backward technology and low rate of modernisation hinder the development of the sector, particularly as long as SSI reservation will prevent companies to set up larger and modern knitting units. On the other side, price sensitiveness becomes a source of concern (in particular with the impact of tariff preferences granted by the EU to certain other suppliers). The economic crises and the recession trend in the recent years have shown that the price sensitiveness could affect to a very important extent the garment sector – both knitted and woven.

However, despite the many difficulties faced by the sector, the export of ready-made garments has significantly increased in recent years⁶⁷ :

Fiscal year	Export in million dollars
1998-1999	5,268.40
1999-2000	5,524.50
2000-2001	6,212.70

As far as **home textiles and made-ups** are concerned, handlooms and powerlooms dominate the domestic production which is largely based on cotton. Handloom is price competitive in terry towels and for home furnishing. Powerlooms are most competitive in bed linen. The official sector (composite mills) dominates the branded market and the export market.

The sector is constantly growing and increasingly oriented towards high-value added products. India is already a high-ranking exporter of made-ups, on both EU and US markets. Indian made-ups are expected to **gain additional market share after quota dismantling** due to the good quality/price ratio and the largely binding nature of some of the quotas.

➤ MARKET ISSUES AND MARKETING PERSPECTIVE

The total India apparel market is estimated to be US\$ 20 billion, half of it in traditional wear (e.g. saris). The tailored apparel market is about US\$ 9 billion. Ready-made apparel accounts for only 20% of the domestic market and it essentially urban. However, population growth and increasing segment of middle class spending on clothing, combined with progressive reduction of import duties offer new opportunities for EU high quality and branded products.

Retail activity is emerging but remains **globally weak**. Despite the recent development of some retail malls (e.g. Ansel Plaza in Delhi) and retail chains (Shopper stop, BE, Life Style, Pantaloon, Raymond) the retail sector for apparel products remains relatively weak and atomised. The retail sector in textiles accounts for 1/3 of the organised distribution in India, for all sectors. In addition, foreign direct investment is not authorised in the distribution sector, which has hampered the development of foreign retail chains in India. Nevertheless, the sales of international branded goods increased by 13% in 2001 and 21% in 2002.

⁶⁷ Source: Textile Commissioner, Government of India

Foreign brands find the **Indian market extremely difficult**. First, they are facing competition from domestic suppliers in certain products (e.g. shirts, quality and price). Second, Western products and styles do not always meet the Indian tastes, particularly for women's wear. Thirdly, even if basic customs duties were reduced significantly in March 2003, they remain too high for EU exporters⁶⁸. Given the price-consciousness of Indian consumers and the relatively low wages of the rapidly growing middle-class, export opportunities for European producers will continue to be limited to the up-market and luxury segment aimed at wealthy Indians. However, Indian companies are heavily investing in local brands for Western-style clothing (particularly for young consumers) which should in the medium- to long-term lead to a convergence of Indian tastes with Western tastes – thereby creating opportunities for European manufacturers.

➤ **OUTLOOK 2005**

There is an increasing consciousness about ATC liberalisation challenges. However, there have been some **delays in implementing strategies** to reduce the industry's weaknesses and reinforce its strengths. These delays are also due to the social importance of T/C employment for India as a whole (the garment sector alone employs 3m directly and 4m indirectly). Handling the social costs of restructuring are particularly difficult for a government one year before general elections.

The **most successful sectors** are the garment sector (upper and middle segments and lower segment for knitting), the home textile (bed linen, certain clothes, toilet wear) the specialised handloom and hand-processed embroideries, and yarns. However, to gain market shares in export markets, the industry will have to diversify into new product categories and/or to add value to categories currently exported.

The **weakest sectors** are weaving and processing / finishing (in particular fabric for apparel), where there is still little progress towards modernisation and restructuring. This will continue to constitute a gap in India's textile chain and will act as a break on increasing exports of value-added garment and made-up products, unless India turns to importing finished fabrics from other, more competitive countries (such as Korea).

In principle, **India could take significant advantage of ATC quota liberalisation**, given its abundance in cotton resource, the complete range of production activities and its skilled labour force. However, the achievement of this challenge requires rapid and concrete solutions to problems linked to production costs, lack of economy of scale, timely delivery and ability to take up large orders, as well as weaknesses in inland and export infrastructures. As most of these changes will take time, India is unlikely to be able to fully exploit the benefits of quota removal in 2005.

⁶⁸ Under the Tariff 2003, for most HS positions of Chapters 50 to 63, the basic ad valorem duty has been reduced from 30 to 25%, but average total import duties are still at 40 - 50% for several products. In addition, the new Budget implements an increase in the additional duty (24% instead of 16%) for polyester filament yarn and a new national calamity duty (1-12%) Easy reference Customs Tariff, Academy of Business Studies, (2003).

Appendix A : Sources INDIA

Statistical data :

Unless otherwise specified statistics used in this chapter have been taken from :

- Indian Textile Ministry : National Textile Policy, 2002
- U.S. International Trade Commission, Office of Industries : India's Textile and Apparel Industry : Growth Potential and Trade and Investment Opportunities, 2001
- Samar Verma : Export Competitiveness of Indian Textile and Garment Industry, 2002

In addition, statistics and estimates provided by the professionals and experts interviewed have been used. One will find hereunder the list of these persons.

Organisation	Name of interviewee	Position
Delegation of the EU Commission	Mr. Stefano Gatto Mr. C. Kaushal	Counsellor and Head of Trade and Economic Affairs Adviser – Trade section
Ministry of Textiles	Mr. R. Subramaniam,	Director
Academy of Business Studies	Mr. Arun Goyal	Director
Apparel Export Promotion Council (AEPC)	Mr. S.B. Mathur	Director General
National Institute of Fashion Technology	Mrs. Gauri Kumar Dr D.K. Batra Rajesh Bheda Sibichan Mathew Satish K. Bhardwaj	Director General Head Academic Affairs Professor Assistant professor
National Council for Applied Economic Research (NCAER)	Dr. Rajesh Chadha	Chief Economist
International Council for Research on International Economic Relations (ICRIER),	Dr. Samar Verma	Senior Fellow
Office of the Textiles Commissioner	Mr. Subodh Kumar	Textiles Commissioner
The Cotton Textiles Export Promotion Council (Texprocil)	Mr. Siddharth Rajgopal	Executive Director

Organisation	Name of interviewee	Position
Textile Association of India,	Mr. D.R. Mehta Mr V.C. Gupte Mr. P. S. Pawar Hon	President Chairman Honorary Secretary
Clothing Manufacturers Association of India, Kaytee Corporation	Mr. Premal H. Udani	President

Other interviews :

Organisation	Name of interviewee	Position
Federation of Indian Chamber of Commerce and Industry (FICCI)	Mr. Manab Majumdar	Deputy Director, in charge of WTO Division
Confederation of Indian Industry (CII)	Mr. T.K. Bhaumik Mr. T.S. Viswanath	Senior Adviser Consultant
Indo German Export Promotion Project	Dr. D. Kebschull	Director
International Business Consultants (IBC)	Prof. Sri Ram Khanna	Chief Consultant
Mumbai office of the EC delegation.	Dr. Heinrich Poell Mr. Nishikant Haté	Head of office adviser
Bombay Dyeing, Worli, Bombay Dyeing Mills	M. Ninu Khanna	Managing Director
Raymond Ltd	Mr. Vijay Kumar Bhartia	President
Zodiac group of companies	Mr. M;Y. Noorani	Chairman
Hardinks India	Mr Dinesh Shah	Vice President and Director
Reliance Industries Ltd	Mr. C.S. Gokhale	President Corporate Development

Organisation	Name of interviewee	Position
The Financial Express	Ms. Parul Malhotra	Assistant editor
Prime Minister's Office	Mr Anup Wadhawan	Economic adviser
French Trade Commission Economic mission	Ms Rooma Kumar Bussi	Trade Attaché
Italian Trade Commission	Mr Keenu Nagpal	Trade Analyst
Ministry of Commerce	Mr Sri D. K. Mittal	Joint Secretary
Delegation of the European Commission	Ms. Sandra Kramer	Head of Section, Economic Cooperation

Appendix B : Indian Customs Duties

1. Applied tariffs for imports of T/C products into India

MFN duties apply to EU imports into India.

India has preferential tariffs for Bangladesh, Sri Lanka, Nepal, Bhutan, Maldives and Pakistan under SAPTA (South Asia Preferential Trade Agreement).

A large number of products are subject either to an **ad valorem basic duty** or to a **specific basic duty** (in Indian Rupees per piece, per square metre or per kg). In such cases, Customs apply the duty **whichever is higher**.

Applied basic duties for products of chapters 50 to 63 are as follows⁶⁹ :

- **Raw materials** : from 5 (wool) to 30% (cotton)
- **Yarns** : from 15 to 25% or specific duty, whichever is higher.
- **Fabrics** : 25% or specific duty, whichever is higher.
- **Carpets** : 25% or specific duty, whichever is higher.
- **Apparel** : 25% or specific duty, whichever is higher.
- **Made-ups** : 25% or specific duty, whichever is higher.

Table of basic ad valorem duties only:

Product	Silk (chapter 50)	Wool (chapter 51)	Cotton (chapter 52)	Synthetic (chapters 54 – 55)
Raw materials	30%	5 – 30%	10 – 30%	20 %
Yarns	25%	15 - 25%	20 – 25%	20 % or specific
Fabrics	25%	25% or specific	25% or specific	25% or specific

Product (all types)	
Carpets (chapter 57)	25% or specific
Special woven fabrics (chapter 58)	25% or specific
Impregnated fabrics (chapter 59)	25%
Knitted fabrics (chapter 60)	25% or specific
Apparel (chapters 61-62)	25% or specific
Made ups (chapter 63)	25% or specific

⁶⁹ Arun Goyal: Easy reference Customs tariffs 2003 – 2004, Academy of Business studies, 2003.

2. Additional import taxes

Even rationalised since April 2003, the Indian tariff structure remains complex. The Basic duty (Customs duty) is charged on the assessable value of goods. On this amount, various duties and taxes are charged. They differ, according to the product. The import duties are calculated according to a **cascade calculation system**:

- The additional duty is calculated on the landed value + basic duty. The additional duty rate is 0%, 8%, 10% or 16% according to the product. For products of chapters 61 and 62, the additional duty is applied on the basis of the Maximum Retail Price of the product. For example: if the cif is 100 and MRP 180, additional duty will be levied on the 60% of the MRP(108).
- The special additional duty is calculated on the landed value + basic duty + additional duty.
- In addition, a textile cess tax of 0.05% is applicable for various products.
- For some products (synthetic filament yarn, all sub-headings of HS 5402), a National calamity duty is charged on the « landed value ». It ranges from 1% to 12%.

The **total amount of duties and taxes** paid by the importer can be significantly higher than the basic duty, given additional duties applied.

Total applied import duties are therefore still **high** for all products, even if Indian Authorities have reduced in most cases the applied basic duty from 30% to 25%. Total import duties can reach between 30% and 56.83%⁷⁰. Among the countries under review, India has therefore the **strongest level of tariff protection**, basic and total import duties being globally higher than those applied by other suppliers (e.g. China, Pakistan).

⁷⁰ Easy Reference Customs Tariff 2003-2004, 21st Budget Addition, Arun Goyal.

➤ **SOUTH KOREA**

South Korea	Value 1995	Value 2001	Evolution 1995-2001 per annum
GDP billion US \$	489	422	-2 %
GDP per capita US \$	10 874	8 861	-3 %
Imports textile (million US \$)	3 695	2 868	-4 %
Imports clothing (million US \$)	876	1 492	9 %
Exports textile (million US \$) Of which :EU : 7%;USA : 8%;Japan : 3%;China : 26%;other Asia ⁷¹ : 15%	11 953	10 785	-2 %
Exports clothing (million US \$) Of which : EU : 16%;USA : 51%;Japan : 15%;China : 4%;other Asia : 3%	4 099	3 562	-2 %
% Textile in total exports	10 %	7 %	
% Clothing in total exports	3 %	2 %	
Inflation (GDP deflator in annual %)	7	1.33	
Gross domestic savings (% of GDP) (2000 instead of 2001)	36	31	
Cost of capital (lending rate source : IFS)	9	7.71	
Population (million people)	45.0	47.6	1 %
Employment in agriculture (% of total employment)	12	11	
T/C employment (source KOFOTI)	434 540 ⁷²	370 900	
Textile investments as % of world 99-01 investments : spinning : 2% ; weaving : 4% ; knitting : 2%			

General economic data are taken from IMF. Trade data come from CHELEM (CEPII).

1 - SUMMARY : POSITION AND OUTLOOK OF KOREA'S TEXTILE AND CLOTHING INDUSTRY

The liberalisation of the T/C sector in 2005 is of crucial importance for Korea. The industry remains a **key industry** for Korean economy with an export volume of 15.7 billion US\$, a trade surplus 10 billion US\$ and a share in total employment of 15%⁷³ (2002). The most dynamic sectors are the synthetic fibre production and the synthetic fabric export. The most sensitive sectors are apparel sector and the non-synthetic fabric production.

However, the Korean T/C industry is undergoing **severe difficulties**. With the development of other sectors (semi-conductors, chemical) combined with a decrease in the international and domestic demand and the increasing competition from China, the share of this industry in GDP is expected to decline further. A major indicator has been the reduction of synthetic fabrics exports since 1995 from 6.4 to 3.3 billion US\$ in 2000 – a trend that has worsened in 2001 and 2002. Korean products have lost competitiveness compared to other Asian suppliers, preventing them to maintain their market shares abroad and on their own market. In particular, the increasing competition with Chinese products can hardly be overcome, given a number of structural factors, such as labour cost increases, shortages

⁷¹ Excludes Japan, China, Hong Kong, India, Bangladesh, Pakistan.

⁷² 1996

⁷³ Most of the statistical data used in this chapter has been kindly provided by the Industry association KOFOTI.

of manpower, lack of investment and the continuous reduction of the technical gap between Chinese and Korean productions. In addition, Korean industry remains weak in fashion related activities.

Therefore, it is expected that Korean textile and clothing industry will strongly suffer as a result of 2005 liberalisation. The **clothing industry** is expected to lose out most. It is already going through a significant crisis. Today, Korean clothing production often provides customers with the necessary flexibility in the event that other Asian production sites have filled up their quotas. This function will no longer be needed after ATC quota removal. The “China shock” after China’s accession to the WTO is foreseen to have an even larger impact after 2005. As a result, US and EU customers will continue to put Korean producers even more under pressure to meet Chinese prices with Korean quality.

While the **government** recognised the importance of the T/C sector, the restructuring tools and projects implemented have been insufficient. The 1999 “Milano-Project”, however ambitious and loudly advertised, did not seem to fulfil its main aim to restructure the industry. It focused on establishing expensive new infrastructures in the Daegu region that were often not taken up by an industry struggling to survive in difficult times. In 2002, the Korean authorities have adopted guidelines of a new ambitious programme aiming the restructuring the T/C industry until 2010. However, the programme has not yet been implemented. It comes late in the liberalisation perspective.

Korean **textile and apparel operators** are trying to reinforce their competitiveness by relocating their production to China or countries benefiting from preferential access to the US or EU markets (Sri Lanka, Bangladesh, Vietnam, CEECs). Other companies have invested in R&D in technical fibres, yarns and fabrics. However, this effort is up to now mainly limited to the largest companies, most of SME are struggling to survive. Korean industry also seeks to further develop exports to China and other Asian markets, taking advantage of the good image of Korean products and exploiting the medium range market segment. Nevertheless, this requires the urgent emergence of Korean brands which has not yet really taken place.

2 - DETAILED ANALYSIS

➤ CONTEXT

The T/C industry has been vital for Korea’s economy for many decades. As other industrial sectors (steel, shipbuilding), it has played an important role in turning Korea from a developing to a developed country, serving as an **engine for Korea’s economic recovery**. It has been the first industry to reach a 10 billion US\$ export share. However, today, other sectors, such as the electronics, automotive, shipbuilding and semiconductor sectors, have gained importance *and* benefit from a better image than the T/C industry.

Since 1998, Korea has undergone several crises, which have led to economic slowdown. Between 1995 and 2001, GDP dropped from 489 to 422 billion US\$ (-2% per year). GDP per capita decreased from 10 874 US\$ to 8 861 US\$. The T/C sector has also suffered, and its importance compared to other export oriented sectors decreased. Between 1995 and 2001 the share of textiles in total exports decreased from 10% to 7%, while the share of clothing decreased from 3% to 2%.

➤ KEY FEATURES OF THE TEXTILE AND CLOTHING INDUSTRY

The T/C sector has been characterised as the engine of Korea’s economy in terms of employment, production and exports. The sector represents some 20% of all companies, 15.2% of the total workforce and 8.3% of total production value.

Korea's production focuses on **textiles**, especially on man-made fibres and synthetic fabrics, rather than clothing. The main production areas are concentrated in the area of Sunghnam outside of Seoul, Busan, Daegu and in the province of Kyongsang. The two latter regions account for 54% of Korean exports in textile and clothing. In 2002, Korea was the world's largest synthetic fabric exporter with a global market share of 16.9%, and the third largest synthetic fibre producer with a share of 9.4%.

The T/C sector is highly **dependent on exports**. In 2002, Korea was the fourth largest textile exporter world-wide (after China, Italy and Germany) with an export value of 15.7 billion US\$, a global market share of 5.2%. 45% of Korea's textile and clothing production is **exported** mainly to the US (3.3 billion US\$), China (2.5 billion US\$) and Hong-Kong (1.2 billion US\$). Germany, the UK, France and Italy only account for 1 billion US\$ (7% of exports). Korea's main **supply countries** are China (3 billion US\$) accounting for almost 50% of Korean imports, followed by Japan (0.5 billion US\$) and Italy (0.4 billion US\$).

However, Korea's textile and clothing industry is facing **difficult times**. For the past years, Korea's T/C exports have declined steadily⁷⁴. In 2001 alone, they decreased by 14.5%. Significant export declines can be witnessed in synthetic fibre fabrics (-10.8%) and synthetic SF fabrics (-5.5%), as well as in clothing (-7.1%). From 2001 to 2002, Korea's textile and clothing have been losing ground in the US (-2.5%), Japan (-20%), Indonesia (-13.7%) and United Arab Emirates (-9.3%). Export markets experiencing a small growth were China (+3.0%), and the EU (+0.6%)⁷⁵.

More than 2 050 companies (12.5% of the total sector) had to close production since 1997. The **yarn sector** alone is estimated to have lost some 15 000 workers or 30% of its labour force, while some 16000 jobs were cut in **synthetic fibre** production. As a result, the share of total population employed in the textile and clothing sector decreased from 30% in 1970 to 15.2% in 2002.

Korea faces a **threefold challenge** : the slowing demand for synthetic fibres, the liberalisation of textile trade in 2005 and the impact of accession of China to the WTO ("China shock"). The "China-shock" is the main threat for Korea's textile and clothing industry. While quotas have not played an important role in Korea's textile-focused industry, their protective impact is felt indirectly, by restricting exports of the country's main competitors. It is likely that with the removal of the quota system, Korea will lose market shares, mainly to China. On the other hand Korea's textile industry is expected to benefit from increased exports of yarn and fabrics to China and others – albeit for a limited time until those countries have upgraded their production capacities. Yet, Korea's direct clothing exports are expected to suffer.

Korea's main disadvantage is its **high labour cost**. With an average hourly wage level of 5.73 US\$, labour costs are 14 times higher than in China (0.41 US\$ in Mainland areas) and even higher than in Portugal (4.78 US\$) or Poland (2.90 US\$)⁷⁶. Labour costs increased by more than 20% over the last decade. These figures demonstrate that a labour intensive clothing industry can hardly survive in Korea, if they (continue to) compete on price only. With its geographic location between China with its cheap and abundant labour, and Japan with its highly sophisticated fibre production, Korea is therefore struggling to upgrade production and productivity to justify higher labour costs. Today, Korea has to compete with both developing countries and developed countries. While developing

⁷⁴ KOFOTI: Vision and Progress strategy of Textile & Fashion Industry in Korea, November 2002.

⁷⁵ Highest growth in Vietnam (+34.5%), Guatemala (+8.3%) and Turkey (+48.7%).

⁷⁶ Werner International Labour costs comparison 2002.

countries offer a lower price and are continuously upgrading their quality, developed countries have a competitive advantage in producing highest quality textiles and high value-added fashion.

A second weakness of Korea's clothing sector is its dependency on **basic contract production**, where the foreign buyer dictates everything from raw material to design, resulting in large production of medium and low range quality products, with little high-value-added production. One of the key developments in the present textile and clothing markets is the trend towards a higher fashion content. However, the focus on basic contract manufacturing in addition to Korea's lack of sufficient design capacities, clearly will handicap the development of the clothing sector.

Thirdly, the industry, as in many other developed nations, is suffering from a **negative image**, described as a **3D industry** (dirty, dangerous and difficult). The negative image and competition for labour from new-technology companies or the automotive sectors have led to a **serious scarcity of skilled workers**, especially among young people. The shrinking pool of skilled manpower and the reluctance of young graduates to study textile-related subjects has been identified as a major problem in the long-run. Especially the textile industry, with its technology-intensive production and reliance on R&D, is in urgent need of skilled manpower to stay competitive. To address this problem, the industry, facilitated by the government, has relied on **migrant labour**, e.g. from Bangladesh.

Fourthly, over the last years, there has been a strong reluctance to **invest** in new machinery and equipment given the poor confidence of the industry, in particular in the clothing sector, and the policy of relocation overseas. According to the MOCIE⁷⁷, the projected **facility investment** in 2002 was 38% inferior than in 2001. Decrease in investments currently affects more the clothing sector than the textile sector⁷⁸, where the majority of investments are focused on automation and application of IT in textile manufacturing processes. Too little investment in R&D is also threatening the long-term future of the sector.

Despite these difficulties, Korea has the **advantage** of sophisticated production methods, e.g. in dyeing technology, and a stronger foothold than its main competitor China in **technical and industrial textiles**. In addition, **domestic private and industrial demand**, despite the relatively small population, is dynamic.

Despite an increasing consciousness of the liberalisation challenges, the answers given by both the Korean Authorities and the companies seem not to be sufficient to solve the current problems of declining competitiveness and lack of high-value added products.

To avoid further losses in the international market and to increase the diversification of products exported, the **Korean industry** has initiated **relocation of activities** in lower wage countries (mainly China, Vietnam, Burma, Indonesia and North Korea) or in countries benefiting from trade preferences in the EU or US markets (Guatemala, Bangladesh, Vietnam)⁷⁹. Most products processed overseas – using often Korean fabrics – are men's shirts, men's jackets and men's wear and ladies garments.

⁷⁷ Decreasing from 280 million US\$ to 173.7 million US\$. Ministry of Commerce, Industry and Energy, survey on 200 large companies.

⁷⁸ Investment in 2002 decreased by 39.6% in spinning and weaving and 40.7% in clothing and sewing compared to the previous year, leading to a total decrease of 19.8%. Korea's Development Bank (2002).

⁷⁹ Overseas investment outside Korea amounted to 1.91 billion US\$ as of November 2002 in about 1 920 units and has been increasing in recent years. In terms of amount by region, investments in the Asian region led all other investments with 1.43 billion US\$ followed by Central and South America with 204 million US\$.

Korean groups have also developed training programmes for foreign workers that are employed in their overseas mills.

Another industry's strategy consists in producing **more higher-value added** items that cannot be produced (yet) by China. This however requires reducing the ratio of subcontracting or licensed production, while expanding the number of companies producing under their own designs and brands. The industry seems more interested in **establishing and developing their brands in the Chinese market** than in the EU, because of too much competition with well-established brands in the European market. In Beijing and Shanghai, an increasing number of Korean branded products are sold with a high price strategy. Industry representatives are also looking for strategic alliances with EU companies to develop their marketing and fashion capabilities.

On the **government side**, the MOCIE published in April 2003 an ambitious development plan. It foresees to almost double exports in T/C from 15.7 billion US\$ to 30 billion US\$ by 2010. The plan foresees to specialise in textiles for three fields : industrial materials, fashion design and dyeing/processing. A fashion exhibition centre will be created in Seoul. This strategy foresees to speed up the increase in fashion garment exports. The plan also aims to strengthen the information oriented capacity for leading e-businesses, to establish Seoul as a fashion place, develop fashion brands and support marketing activities, train fashion design professionals, promote the linkage of fashion industry and IT and strengthen development of fashion design.⁸⁰ However, the 2010 governmental plan is still at an infant stage, as it has not yet been implemented. It remains to be seen whether this plan will be successful and timely enough to make a difference in view of ATC quota removal in 2005. One may doubt it when analysing the Milano experience.

A previous textile revival plan called the "Milano-Project" (1999 – 2003) pursued similar aims to restructure the current production system into higher value-added, diversified, short runs production with a strong focus on fashion and branding. This project aimed at creating in Daegu the largest Asian centre for fashion. While the project achieved some positive results, especially in strengthening and building on Korea's competitive advantage in the dyeing technology sector, it achieved little in fashion and branding development. The government invested heavily in providing the infrastructure (Fashion Centre, Textile Development Centre etc.), but the take-up by the companies in the Daegu region is very slow.

Other key features of Korea's textile and clothing industry is the large number of **SMEs** that often do not have the necessary capital to invest in **R&D**, e.g. for production of functional yarns and fabrics. To address this problem, Korea has developed a system that subsidises basic research accessible to all and assists companies in applying the results of this research, e.g. through access to technology centres, such as the Korean Dyeing Technology Centre in Daegu⁸¹.

Another key strategy of the Korean T/C industry is the **development of exports to China** and other Asian countries which are expected to increase their clothing exports to restrained markets once ATC

⁸⁰ The textile plan focuses on six core strategies : (1) promote progress in technical textiles, dyeing technology and fashion; (2) expand infrastructure for differentiated products; (3) specialisation and integration of textile regions and foster exchange with overseas textile research institutes; (4) restructure synthetic fibre and cotton spinning industry by reducing number of companies, promoting specialisation of production and reducing spindles and raising automation rate; (5) e-business, e.g. through standardisation project for internet business portal, (6) operate active global marketing by training marketing specialists and support exhibitions.

⁸¹ See: www.dyetec.or.kr

quotas have been removed. Korean companies want to improve the favourable image of Korean products in the Chinese market and exploit the medium range market niche for apparel products. However, this requires an urgent development of the Korean brands.

➤ MAJOR SUB-SECTORS

In the production of **raw materials**, Korea is a major world-wide producer of man-made fibres⁸². The sector is characterised by overproduction, even if exports of polyester and spandex have expanded over the last years to meet the increasing Chinese demand.

The **natural fibre** sector is quite limited in size and faces tough competition of other Asian cotton based or silk based suppliers (India and China), whose products are in line with the consumer demand for natural fibres. The **synthetic fibre sector** remains a key sector. Its **main strengths** are the access to the raw material (petro-chemical)⁸³, the proximity to the Chinese market and a competitive advantage due to modern production a strong technology. The main **weaknesses** is the price of Korean synthetic fibres that cannot compete with cheaper imports from China. As a result, production has decreased. Strenuous efforts must be made to secure price competitiveness by focusing on the production of high added value and differentiated products. At the moment, the raw material sector remains too dependent on the man-made fibre. The sector needs to diversify and invest in R&D, as foreseen in the ambitious 2010 Government Plan.

In the **spinning sector**, synthetic yarn has suffered a decrease of production. The domestic cotton yarn market also suffered a sales price decline caused by an increase in low price imported yarns. In particular, imports of coma yarn, the basic raw material used by the Korean cotton industry originating in India and Pakistan represents 70% of domestic production; therefore price increases are a constant threat to the domestic manufacturing base. The domestic industry suffers the fierce competition from major foreign suppliers and has also been negatively impacted by the WTO accession of China. Despite competitive pressure, in 2002, synthetic yarns were among the few products experiencing growth in exports (+14,7%) to Vietnam, Guatemala and Turkey, while the increase on the EU market was modest (0.6%)

The main **strengths** of the spinning sectors are Korea's leading technological position in the world market, its geographical proximity to the Chinese market, and its strong IT foundation and experience in R&D⁸⁴. In addition, Korean synthetic yarn still enjoys a relative advantage in terms of price/quality. Yet, China and Indonesia are catching up and are getting closer to technological levels with lower prices. The main **weakness** of the spinning sector is its over-capacity and existing capacities must therefore be reduced. In addition, given the competition on price by Chinese and Indonesian yarn, the only way to survive is to relocate to China, Vietnam or Indonesia. Today, some 60% of total capacities are more than 15 years old and replacement and disposal of worn out facilities should take place on a more accelerated basis. The 2010 Government Plan contains a strategy aiming at restructuring the synthetic fibre and cotton spinning industry. Specialised production of differentiated products is also scheduled.

⁸² Korea is listed as the third producer of synthetic fibres with a world-wide share of 9.4% and the first worldwide exporter of synthetic fabrics exports. "Vision and progress strategy of textile and fashion industry in Korea" (nov 2002).

⁸³ However, Korean producers are dependant in the price fluctuations of petroleum.

⁸⁴ In particular the creation of new fibres and special yarns (anti-fire, anti bacterian etc ...).

The **clothing sector** is composed of 7,500 companies, mainly located in Seoul and the neighbouring area. Most of the export oriented companies (some 70-80%) produce under subcontracting and licensing contracts. The US market is their first export market, followed by Japan and the EU.

Since 1998, the sector has been drastically affected by the 1997 Asian crisis, that decreased production by almost 25%. In 2001, after a slight recovery, the sector suffered declining market conditions, both in the domestic market and abroad⁸⁵. The sector has experienced a **constant decrease in exports**⁸⁶. In 2002 exports accounted for 3.8 billion US\$. Main export markets are the USA (2.1 billion US\$), Japan and the EU (0.53 billion US\$). Conversely, Korea has also experienced a **surge in apparel imports** (+ 37% in 2002). In 2002, the main increase came from China (+ 30%), Italy (+ 24.3%), India (10%) and Indonesia (9%). China (low priced products) represents currently about 70% of total imports, while Italy (high price goods) accounts only for 8,65%. Forecasts of the industry for 2003 are rather pessimistic. Reversion to an upward trend will depend upon the global economy recovery, also affected by the present situation (Iraq war, SARS economic effects etc.).

The clothing sector experiences a general decline and is hardly competitive. Its **strongest points** are the skilled workforce, reliability and timely delivery, as well as good design and high added-value for some products (for example in the computer embroidery products). It is reasonable to think that clothing “Made in Korea” could benefit from the general positive image of Korean music, film and art in Asia, especially in China. However, expectations should be modest, since Korean clothing would have to compete with US and Italian branded goods.

The clothing sector is mainly affected by the above mentioned **weaknesses** of high labour costs and a shortage of skilled labour⁸⁷. In addition, clothing companies suffer from a lack of investment in core technology and are often equipped with backward technology. Furthermore, the domestic demand for clothing has also decreased. Besides, the sector still experiences weakness in fashion design development ability. As a result, Korean operators experience difficulties to maintain market shares in the EU and US markets. Buyers (retailers) put Korean producers under pressure to accept lower prices. Basic apparel products will have no chance to challenge Chinese products after 2005.

➤ **MARKETING ISSUES AND MARKETING PERSPECTIVE**

Among other factors above mentioned (moving upmarket, increasing exports to China...), the upturn of the T/C industry will depend upon the recovery speed of the domestic demand. Structure of imports must take into account the imports of products manufactured abroad by Korean firms. In 2003, the industry forecasts also an increase of imports of low price products (from China, in particular cotton fabrics and apparel) and high price products (EU fabrics and apparel). However, as the domestic market demand is likely to stagnate, there will not be an increase in the total imports of apparel⁸⁸. In apparel, the domestic market volume is estimated at 12.4 billion USD.

For European producers, access to the Korean market is relatively easy and liberalised. With tariffs ranging from 8%-11%⁸⁹, the country’s applied customs duties for textile and apparel remain at a low

⁸⁵ Textile Korea, annual report 2002, Korea Federation of Textile Industries, 2002, p. 7.

⁸⁶ Drop of 14%, in 2001 and of 7.3% in 2002. KOFOTI data.

⁸⁷ The shortage rate of manpower for textile and apparel is estimated at 7.1%.

⁸⁸ Situation in the clothing and textile Industry , Korea, KOFOTI, 2003.

⁸⁹ Source ATMI (American Textile Manufacturers Institute).

level compared to other Asian countries (China, India). In addition, EU exports are not hampered by specific non tariff measures.

➤ **OUTLOOK 2005**

Despite an increasing consciousness about the liberalisation challenges, there is currently a lack of implementation of strategies to compensate for the main weaknesses of the T/C sector in Korea. The government strategies (Textiles 2010) come too late, are not implemented and/or not known or fully accepted by **industry**. It seems **insufficiently prepared** to counter the leading position of China in synthetic fabrics and mass apparel products, which today still constitute the core of Korea's production.

The most successful sectors are the synthetic spinning and weaving sectors. In particular, Korean functional and technical yarns and fabrics remain competitive as well as some high added value fabrics (for apparel). However, these sectors will be able to maintain their position in domestic and export markets *only* if Korean companies put a stronger emphasis on R&D, upgrade the product quality and succeed in keeping a technological advance on Chinese producers.

The weakest sectors are the clothing and – to a lesser extent - the raw material sector.

Even though Korea has kept a leading role in **synthetic fibre production**, this advantage must also be strengthened by R&D in new fibres. A main weakness of the textile sector is the over-reliance on man-made fibres and the lack of diversification in other fibres. The **clothing industry** remains uncompetitive and will suffer most after 2005 liberalisation, given high labour costs, lack of investments, the weakness in fashion design development ability and the low development of Korean brands.

Korea has to move out of standard clothing by continuing delocalising to low costs countries and by moving upmarket. Most likely, overseas investments and production by Korean apparel groups will increase in markets enjoying tariff preferences in the US (NAFTA, Central America) or the EU market (CEECs, Bangladesh, Sri Lanka...), as well as in neighbouring low-cost countries, such as China.

Appendix A : Sources SOUTH KOREA

Statistical data :

Unless otherwise specified statistics used in this chapter have been taken from :

- Author : Vision and Progress Strategy of textile & Fashion Industry in Korea, Presentation, 2002
- Ministry of Commerce, Industry & Energy : Korea Textile Industry – Challenges and Opportunities, 2002
- Korea Federation of Textiles Industry (KOFOTI) : Situation of the Textile and Clothing Industry in the year 2002 & Outlook for 2003.
- French Embassy in Korea : 2002 – Les défis du secteur textile and Corée du Sud, 2002; Le marché du Pret-à-porter en Corée du Sud, 2001.

Interviews :

When meetings have been conducted with one leading interviewee and his or her staff, only his or her name is mentioned hereunder.

One interviewee from a textile firm and one from an apparel firm accepted to be interviewed but absolutely refused that even the company's name be mentioned in the report;

Organisation	Name of interviewee	Position
Korea Federation Of Textiles Industry (KOFOTI)	Mr. Young-Kie Ahn Mr. Bu-Heung Kim Mr Y.C. Jung	Executive Vice Chairman Team Manager International Trade Team
Korea Apparel Industry Association	Mr. Byung-Hee Kim Mr. Sun-Suk Kim	Director Assistant Director
Korea Textile Trade Association	Mr Kyu Sik Lee Mr Jung Kyung-Joon Whaon-Hee, Park	Executive Director Executive Vice President Assistant Manager
Italian Trade Commission	Mr. Hye Kyong Choi MrSung Kil Cho	First Trade Analyst Chief Trade Analyst
French Economic Mission	Mrs Hyeun Suk Oh	Trade Analyst
Ministry Of Commerce, Industry And Energy Textile, Fashion, Apparel And Consumer	Je-En Kim Mr. Chul-Whan, Moon	International Trade Team International Trade Team
Korea Institute For International Economic Policy	Dr. Nakgyoon Choi	Director, Department of Trade and Investment Policy

Organisation	Name of interviewee	Position
European Chamber Of Commerce	Mr Philippe Chabaud Latour	Analyst
Daegu-Gyungbuk Textile Industries Association	Mr. Hyuck-Do Kwon	Executive Secretary
Daegu-Gyungbuk Silk & Synthetic Weaving Corporation	Mr. K.S.Jeong	Executive Director
Daegu-Gyungbuk Development Institute	Mr. Jung In Lee	Director of Regional Planning Division; Senior fellow
School Of Textiles (Yeungnam University)	Mr. S.J.Kim	Professor,
Planning Section, Korea Textile Development Institute	Mr. D.H.Cho	Section Chief
Dyeing Technology Centre	Mr. Jong-Woo Ryu Mr. Byung-Kab, Song	Vice President Head of R&D Team
Fashion Centre Korea	Mr. Dong Geun Lee	Director
Milano Project, Mayoral Advisory Office of Daegu	Mr. Honey Moon	Advisor to Mayor, Milano Project
University of Bonn, Dep. of Geography	Dr. Robert Hassink	Researcher on textile industry (Milano Project / Zitex)
Korea International Trade Association, Brussels	Mr. Eun-Kyung Jung	Assistant Manager
Korea Trade Center, Brussels (Kotra)	Mr. Kwang-Hee Choi	Researcher

Appendix B : South Korean Customs Duties

1. Applied tariffs for T/C imports into South Korea

Imports from the EU are subject to MFN duties.

The applied duties for textiles and clothing imported products into South Korea are **relatively low**. (Lower than India, Pakistan and China but higher than Turkey and most EECs under review). Imports from beneficiary ESCAP (Economic and Social Commission for Asia and Pacific) members⁹⁰ may be granted a lower preferential duty rate.

Applied Customs duties for products of chapters 50 to 63 are as follows :

- **Raw materials** : from 1% (raw wool) to 8% (synthetic or silk).
Tariff quotas for **worm cocoons** suitable for reeling (5001 0000) and for **white silk** (heading 5002 00 10). For white silk, the “in-quota” products are subject to 8% duty, whereas the out-quota products are subject to 53.4% duty or specific duty of 17,789 won/kg (13.55 Euros/kg).
- **Yarns** : uniform applied duty of 8%.
- **Fabrics** : from 8% to 13%. Tariff peaks mainly for silk and wool fabrics.
- **Carpets** : uniform applied duty of 10%.
- **Apparel products** : 13% for most products. However some products such as brassieres, handkerchieves and scarves are subject to 10% duty.
- **Made-ups** : between 8% and 13%.

Product	Silk (chapter 50)	Wool (chapter 51)	Cotton (chapter 52)	Synthetic (chapters 54-55)
Raw materials	8% or specific	1%	1%	4-8%
Yarns	8%	8%	8%	8%
Fabrics	13%	13%	10%	8-10%

Product (all types)	
Carpets (chapter 57)	10%
Special woven fabrics (chapter 58)	8 – 13%
Impregnated fabrics (chapter 59)	8 – 10%
Knitted fabrics (chapter 60)	10%
Apparel (chapters 61-62)	13%
Made ups (chapter 63)	8 – 13%

2. Additional taxes

VAT : 10% on duty paid value.

⁹⁰ ESCAP members are Korea, India, Bangladesh, Sri Lanka, Laos, Philippines and Thailand.

➤ **PAKISTAN**

Pakistan	Value 1995	Value 2001	Evolution 1995-2001 per annum
GDP billion US\$	61.2	60	0%
GDP per capita US\$	500	421	-3%
Imports textile (million US\$)	146	175	+3%
Imports clothing (million US \$)	5	6	+5%
Exports textile (million US\$)	3 868	3 982	0%
Of which:EU:24%;USA:23%;Japan:3%;China:9%;South Korea:5%;other Asia ⁹¹ :10%			
Exports clothing (million US \$)	1 187	1 721	+6%
Of which :EU : 34% ; USA : 51%			
% Textile in total exports	51%	45%	
% Clothing in total exports	16%	19%	
Inflation (GDP deflator in annual %)	13.8	5.5	
Gross domestic savings (% of GDP; year 2000)	13	12	
Cost of Capital (lending rate source : IFS)	12.49	10.71	
Population (million people)	122.4	141.5	+2%
Employment in agriculture (% of total employment)	47	47	0%
T/C employment (in 1999 and 2003)	2 005 000	2 300000	
Textile investments as % of world 99-01 investments : spinning : 9%; weaving : 1%; knitting : 0.8%			

General economic data are taken from IFS. Trade data come from CHELEM (CEPII).

1 - SUMMARY : POSITION AND OUTLOOK OF PAKISTAN'S T/C INDUSTRY

Pakistan is one of the major cotton growing countries in the world. The importance of the T/C industry in Pakistan's economy cannot be overestimated, accounting for about 65% of Pakistan's export earnings, 46% of total manufacturing and employing 38% of the labour force (with the creation of 300,000 new jobs over the past years). Given this economic weight, both the Pakistani government and the textile industry recognise the critical importance of preparing for ATC quota removal. Their primary goals include rationalising production, increasing investment in technology, promoting modernisation, enhancing the skill level of the work force, and enacting essential government reforms. The ultimate **goal is raising exports to \$15bn by the end of 2005**, but with exports worth \$7,46bn in 2002, this target is **unlikely to be met**.

In 2001, the government put forth a comprehensive "Textile Vision 2005" report highlighting the steps needed to ensure the competitiveness of the industry in a free market environment. These recommendations attempt to redress both counterproductive government policies and industry practices, so that Pakistan can enhance its competitiveness by moving up the value added chain.

⁹¹ Excludes Japan, China, South Korea

However, the developments in T/C sector since that programme have not been exactly in line with the recommendations. Although sizeable investment in new equipment has been made, contrary to expectations, the largest part of investment went to the spinning and weaving sectors rather than the garment sector, thereby accentuating Pakistan's structural preponderance of the upstream sectors at the expense of down-stream sectors. Also, the development of the T/C sector in Pakistan remains largely compromised by cumbersome administrative procedures regarding Sales Tax, import procedures for input materials, acquisition of utility services and inadequate training facilities.

In fact, to be able to **benefit from ATC quota removal Pakistan must confront a series of structural weaknesses**. Some of the key challenges include : a lack of skilled labour, low quality of cotton, continued focus on low value added production, a narrow product base, reliance on cotton and failure to shift production to man-made fibres, lop sided investment on upstream sectors (rather than downstream sectors / garments), and counter-productive government policies. Although Pakistan is the world's second largest producer of cotton yarn, its products are often viewed as low quality. Fabrics' unit prices are among the lowest in the world, with the vast majority of exports consisting of coarse and medium fabric varieties. The weakest links in the production chain are in the downstream parts of the industry with the greatest export potential, such as apparel, – segments that are dominated by small units with little access to modern machinery and know-how.

As a result, until very recently, the industry fell short of its allotted export quotas, especially in higher value added products. The silver lining for Pakistan's textile industry is that **in 2002/03 both exports and production increased substantially**. The industry has shown buoyancy despite recessionary trends in some of its export markets. The much feared downward slide in the aftermath of 9/11 was to a substantial degree averted by the timely trade concessions granted by EU in October 2001, which increased quotas and suspended tariffs. The consequent **surge in exports to the EU** benefited many sub-sectors, in particular, home linen, towels and knitwear.

The increase in export proceeds has resulted in increased liquidity for the leading textile units who are **investing** a large part of it **on new equipment** (over \$1bn in the past two years). This has been facilitated by improved import conditions, as tariffs were substantially cut on imports of modern machinery (down to 5% and duty-free in case of large exporting units).

As pointed out above much of the **recent success is due to easing of import restrictions by the EU**. However, these preferences are due to expire at the end of 2004, and Pakistan will be competing on a level playing field in 2005. Furthermore, the **SARS epidemic boosted exports** by disrupting the production of several of Pakistan's key competitors including China/Hong Kong. While the immediate benefits of these events are clear, the impacts of efforts to improve the industry's structural competitiveness are ambiguous. Therefore, it is uncertain as to whether Pakistan's short-term gains will erode once the EU preferences expire and its competitors fully recover from the impacts of SARS. While exports have risen in recent years to \$7,46bn (2002/03) it remains to be seen if the official export goal of \$10.4bn in 2003/04 can be reached.

If Pakistan fails to overcome its industry's structural problems it is likely lose out to major competitors in India, Bangladesh, and China. While the **industry has potential to be highly competitive** as a result of its abundant source of cotton and low cost labour, its recent export improvements have little bearing on their export competitiveness in a free trade scenario. Although many within industry and

government remain optimistic and reforms start having an impact, **Pakistan's ability to prosper in a quota-free world remains uncertain.**

2 - DETAILED ANALYSIS :

➤ CONTEXT

Pakistan's politico/socio-economic environment poses major challenges for the success of the textile industry. Social problems such as low levels of education and literacy, high infant mortality, and low life expectancy continue to plague the country and damage its image. Furthermore, throughout much of its recent history Pakistan has suffered political and economic instability.

Nevertheless, since the early 1990's and especially in recent years, Pakistan has adopted economic reforms and structural measures that may lay the foundation for future sustainable growth and attract foreign direct investment. However, investment in T/C and in the economy in general has been slower than would be expected. Political risk, low environmental and labour standards, poor infrastructure are issues that continue to impede incoming investment. After 9/11, US buyers decreased their purchases substantially, and prices fell for Pakistani products in the US market. Furthermore, the government and industry are concerned with the threat posed by EU anti-dumping measures. Nevertheless, president Musharraf's co-operation with the EU and United States in "the war on terrorism" has brought tangible benefits to the industry in the form of enhanced access to the EU market, and the industry hopes that EU enlargement will create an expanded market for its low-cost exports.

➤ KEY FEATURES OF THE PAKISTANI T/C INDUSTRY

Pakistan is one of the few countries in the world whose T/C industry covers the entire textile chain, with some segments being strongly export oriented. Throughout the 1990s Pakistan increased its share of world T/C exports from 2.55% to 3.60%. The industry's **strength is mostly concentrated in the bottom end of value added production**, with cotton and spinning being the strongest sectors. In addition to its abundant sources of cotton the industry's growth in both the domestic and export markets, is led by a large, pool of cheap labour. Pakistan's **exports are heavily concentrated in textiles**, with the clothing industry catching up recently, but only slowly.

Pakistan's production is split between a relatively small "organised" sector, and a much larger, fragmented "unorganised" sector comprised of many small producers with little access to modern production technologies. Most of the production within the "unorganised" sector is focused on downstream activities such as weaving, finishing, knitting, garments making etc.

This **prevalence of the informal sector poses a problem for Pakistan's export competitiveness**, as outdated machinery are unable to produce the quality and consistency required by international markets. The "organised" sector is essentially the spinning sector. But even within the spinning sector, investment in modern equipment is still needed to upgrade the quality of yarn. Today, the quality of Pakistan's textile products is widely viewed as low to medium, thus impeding export competitiveness throughout the production chain. To address this, the government supports modernisation and

replacement. Significant investment has begun to enter in the past few years – mainly into spinning and weaving – helped by a significant fall in interest rates and increased liquidity of banks and companies. Also, government and industry are working to improve cotton quality through the “clean cotton campaign”, which has begun to show very encouraging results.

The **primary challenges faced by Pakistan’s industry today** include : increasing efficiency, modernising production, and moving up the value chain. Pakistan’s consistent failure to fill some of its quotas is due in part to the inefficiency of the fragmented structure of the industry, and the uneven distribution of investment in technology and machinery. Without a greater injection of investment, particularly within the downstream sectors such as dyeing, finishing and clothing, Pakistan’s textile industry will continue to produce below its potential.

For many decades, government policy impeded the development of the weaving and clothing sectors by restricting imports of primary products and machinery. Consequently, the T/C industry’s competitiveness has been compromised by higher than necessary input costs, as well as an over-reliance on cotton. The government has only **recently eased import restrictions on both production inputs and machinery**. First tariff reductions took place with the tariff ceiling having been brought down over the past three years from 35 % to 25%. Also, the “Negative list” of textile items banned for imports has been abolished, and textile machinery can be imported in most cases at a maximum duty rate of 5%, or at 0% rate in case of units performing well in exports. Nevertheless, many observers believe T/C **tariff rates in Pakistan are still too high**.

Industry also suffers from other **general problems** affecting the entire economy :

- **Lack of adequate road, port and energy infrastructure** – an area where improvements take time, but which is quoted by industry as one of the major obstacles hampering competitiveness.
- **Heavy bureaucracy** at many levels, stretching from taxes (e.g. Sales Tax) to customs procedures, which reduce industry’s flexibility and international competitiveness.
- **Scarcity of skilled labour**, which both government and industry recognised as a key problem and have made human resource development a priority. But while funds have been channelled towards training institutes, the quality and strategic focus of the curriculum has not yet been adapted to world-market requirements.
- Overly complicated and bureaucratic nature of a government scheme under which input materials can be imported duty-free provided they go exclusively into products meant for export. Many companies do not make use of the scheme due to the administrative burden attached to it.

➤ **MAJOR SUB-SECTORS**

Fibre production is the primary sub-sector in the Pakistani textile industry. Pakistan is the world’s fourth largest producer of cotton, and locally grown cotton satisfies 95% of the domestic industry requirements. Additionally, there is modest production of wool, jute, and polypropylene.

The cotton ginning industry has 1,221 ginning factories which work on seasonal basis (in line with the cotton harvest). 20 different varieties of cotton are produced. The Pakistani cotton is on the average of short staple fibre which is not conducive for finer count yarn. The domestic T/C industry is highly

reliant on cotton. The production of man made fiber is on the increase (e.g. 25% capacity increase in polyester fibre production over the past three years; a first acrylic fibre plant is working), but remains far short of comparative levels in other cotton growing countries like China and India.. The government has protected the cotton industry by restricting imports, and as a result, the costs input materials have been high, with little diversification of fibre-composition. Consequently, Pakistan is ill-equipped to take advantage of the increasing global demand for MMFs. However, in its Textile Vision report the government made increasing the use of synthetic fibres a priority, hoping to raise its share in total production from 20% to 50%, among others by reducing import barriers for synthetic fibres and input materials. Nevertheless, high import barriers still makes local MMF more expensive than comparable products on the world market.

The primary challenge facing the cotton sector is improving quality. This is difficult due to the large number of small growers throughout the country. Problems with cotton contamination directly impact downstream sectors, which are effected by the poor quality of the yarn. Also, the industry was hurt by government policies, which heavily focused on providing tax and other incentives for increasing production, rather than promoting higher standards. In recent years, however, the central and provincial governments have made improving cotton quality a priority, and the Pakistan Cotton Standards Institute made efforts to implement a standardisation system for the production of high quality cotton. While big improvements are being made (bringing contamination down from 26g/bale to 6g/bale), the technology upgrading in the ginning sector has been made difficult due to the low investment capacity of the factory owners, who are also burdened by high cost of energy and risks involved in an activity in which profit margins depend entirely on the size of crops.

The **spinning** sector is one of the most developed sub-sectors of Pakistan's textile industry, employing 342,000 people. Approximately one third of total yarn production is exported (\$930m, 2001-2002). At present, the industry is made up of 450 textile mills (all in the organised sector) with 9.06 million spindles and 141,184 rotors, but only 7.17 million spindles and 64 thousand rotors are in operation (capacity utilisation at 78.6% and 45.4% respectively). Although Pakistan has a significant world market share for cotton yarn of 10.2%, this is down from 19.3% in 1990-1991, reflecting a decrease in Pakistan's export competitiveness.

Apart from over-capacities, spinning suffers from a series of other structural problems. The sector suffers from a lack of adequate investment, although this has improved in recent years. A large number of spinning machines have been imported in recent years, and about €63m (3.7bn Rs) were invested in the spinning sector in 2001-2002. Nevertheless, industry observers estimate that another \$167m (10bn Rs) will be needed in the next years to make the industry competitive. Also, manmade fibres make up a small proportion of production and exports, diverging from the trend of increasing global demand. While much of Pakistan's textile export industry has had a strong year as of yet, cotton yarn exports were the only sector to decline. To improve its performance, the sector will need further investment, greater reliance on manmade fibres, and greater product diversification.

The **weaving** sector is among the weakest elements of the Pakistani textile chain, and has a long way to go in order to compete in a free trade environment. The three sub-sectors in weaving are integrated, independent, and power loom units, employing a total of 751,000 people. There are currently around 256,000 traditional power looms, but only 16,500 shuttle-less, and 3,700 airjet and water jet looms. Hence, the bulk of weaving is carried out by the informal "power-loom sector" (which thrived since

the 1970's when much of this sub-sector shifted to the informal sector to avoid the fiscal net and labour legislation), which uses obsolete machinery and is unable to make products of consistent quality. It is only recently that the weaving sector started restructuring itself (back) into the organised segment. Investment has greatly accelerated in recent years – largely due to lower interest rates, with imports of looms increasing from \$2.63m (158m Rs) in 1995 to \$71m (4,23bn Rs) in 2000-01.

Nevertheless, the power loom sector still accounts for more than 70% of total fabric production. Although this situation is changing, Pakistan's production technology and efficiency are far behind its competitors. Consequently, over 50% of Pakistan's exported fabric is in unprocessed form, and more than 70% of fabric exports belong to the coarse or medium count categories (with low unit prices), while the fine and super fine counts are mostly consumed by the domestic market. Hence, to compete with higher quality producers from other countries, the industry will need to upgrade technology, further increase investment and to consolidate into larger organised production structures to better exploit economies of scale. Furthermore, future success will depend on the ability to diversify fabrics in order to cater to the diverse demands of the international and local markets, including in man-made fibres. Crucially, a sustainable growth of the weaving sector can only be ensured through an aggressive development of the domestic clothing industry.

Pakistan's weaving sector is also hampered by a lack of modern **dyeing and finishing** facilities. Dyed fabric represents only 14% of total exports and 26% of production. The production process is dominated by small units in the unorganised sector (only 10 large units out of 625) and by outdated machinery, printing instead of dyeing, and is impeded by cumbersome procedures for the duty-free imports of dyes and chemicals. This in turn has damaged the competitiveness the clothing sector.

Pakistan's **clothing** sector is fragmented with about 70% of its units in the unorganised sector – often established in small shops, flats, and houses, lacking modern machinery. Only 15-20% of Pakistan's 2,500 garment manufacturing units can be categorised as "big producers". For woven items, production (within the formal and informal sectors) is estimated at 700 million articles per year, and exports stood at US \$875m or 9.6% of total exports (2001-02).

Government and industry have recognised that the clothing sector has the potential to drive T/C export growth in the future. The sector provides employment for 400,000 people, and exports (woven and knitted) are increasing significantly – much faster than trade in textiles. However, to compete in a quota-free world, the sector will have to diversify its product mix, increase investment in R&D, shift more towards synthetic and blended fabrics, and improve its design and marketing capabilities to cater to Western markets with quickly changing tastes. While being potentially *the* key engine for the entire T/C industry, the clothing sector attracted little new investment. It is still a particularly weak link in the textile chain, thereby holding back the growth potential of upstream producers.

The **knitwear** industry has developed rapidly in recent years. Currently, it is composed of around 600 units with about 15,000 knitting machines working with approximately 60% capacity utilisation, and employing 350,000 people. Nearly 200 units are part of major integrated composite mills with knitting dyeing and sewing processes. A large number of different brands of knitting machines have been imported in recent years with an increase from \$4.58m (245m Rs) in 1996-97 to \$14m (837m Rs) in 2001-02. The knitwear industry is a high value added sector that is strongly export oriented. Between 1989 and 2002, exports increased from \$274m to \$846m. Despite this very positive development of

the sector, Pakistan's knitwear industry will need a further influx of investment, modernisation, and skilled human resources, in order to fully benefit from ATC quota removal in 2005.

The **home textile** and **made-ups** sectors suffer from many of the same structural difficulties as the clothing sector, in which the processing technology is often not adequate to meet the requirements of the quality market. Furthermore, these sectors involve many processes and skills, once again highlighting Pakistan's need for more skilled labour. Nevertheless, Pakistan has a strong position in the global **towel** market, with \$267.7m exports (2001-02). Much of the production is export oriented and takes place in the informal sector (ca. 400 units), but at a capacity utilisation of only 65-70%. The majority of exports are of middle/low end quality, leading to low unit prices. Recent efforts to improve quality did not have (yet) the desired effects.

Within made-ups, **bed linen** is the largest export sector, earning \$918m annually. The informal sector is extremely important, with only 150 units operating in the organised sector. Recent trends have been positive with a 35% increase in exports in past years.

Despite their strong export performance in bed linen and towels, the made-ups sector needs further investment in modernisation and upgrading of skills, and improvements in design and development for the sector to become more competitive.

➤ **IMPACT OF ENHANCED EU TRADE PREFERENCES**

Much of the recent export success is due to easing of import restrictions on Pakistani textiles by the EU, which increased quotas and suspended tariffs in October 2001. According to Pakistani industry observers, all elements of the textile chain benefited from these enhanced preferences. Main beneficiaries are home textiles, particularly bed linen and towels, but also kitchen linen, followed by certain trousers (mainly denim) and knitwear (e.g. shirts, blouses). In addition, major sports garment manufacturers started out-sourcing part of their production to Pakistan.

The EU decision to grant enhanced access to its market came at a critical moment for Pakistan, when orders from the US plummeted. It helped Pakistani companies to expand market share in the EU and – crucially – to reinvest the extra export earnings in modern machinery. While such investments will improve the T/C industry's long-term competitiveness, Pakistani companies will lose their enhanced market access on 1 January 2005. As of then they will have to compete on a level playing field with other competitors, such as India, China and Bangladesh. As of then, trousers, knitwear and certain woven garments are likely to be exposed to severe pressure.

➤ **MARKET ISSUES AND MARKETING PERSPECTIVE**

Only relatively **wealthy Pakistanis** in the top 20% of the national income bracket represent potential consumers for Western style clothing. Nevertheless, this group constitutes a sizeable **market of ca. 25-30 million consumers**. Tastes and demand vary depending on social class and potential retailers and apparel exporters face significant “natural” and “artificial” **obstacles** to enter the Pakistani market :

- First of all, most of the **population is poor** and even the middle-class is very cost conscious, with a small demand for high-end apparel products.
- Secondly, throughout most of society, **cultural preferences** pose as a major barrier to the success of Western fashions, although this is gradually changing especially within the younger population as television and media are slowly influencing an opening towards Western culture.
- Thirdly, there is a **gender gap**, as women are much more likely to wear traditional clothing.
- Finally, the **T/C market is still protected** despite recent cuts in import tariffs and the lifting of import bans (“negative list”) on numerous textile and clothing items. On the other side, there are few barriers to investment for retailers wishing to produce and export their products.

The domestic clothing **retail market is highly fragmented** and close to 90% of articles are sold in small stores with specialised styles – with large retail outlets and shopping malls still being the exception. Only recently, several Western style Pakistani department stores have opened in Lahore, Karachi, and Islamabad, targeting the high end market. Nevertheless, **international brands** such as Wrangler, Benetton, Levi’s, Nike, Reebok etc. **are beginning to gain ground** in the Pakistani market, opening up new stores in the major commercial centres. These companies either produce locally or import their products from other countries (e.g. in South East Asia). However, the large black market sector selling counterfeit clothing items, poses a further obstacle to the success of Western brands. There are a few known **local brands**, such as Bonanza, Hustler, Cambridge, Pency, Leeds, and Tee Jays. But overall the market is extremely fragmented, and characterised by many small and often local brands which represent over 80% of the market.

➤ **OUTLOOK 2005**

The Pakistani government and T/C industry are well aware of the critical importance of success in the post ATC free market environment. While the Textile Vision report identifies many of the key reforms necessary to compete, the industry faces many remaining obstacles to its success.

In the past few years **investment in new machinery has greatly increased**, particularly in spinning and weaving, and the government has begun to **lower tariff barriers** that were impeding the industry’s development. Nevertheless, due to the prevalence of the informal sector, often outdated machinery and over capacities throughout many parts of the value addition chain, **more restructuring and investment will be needed**. Crucially, heavy bureaucracy, burdensome tax schemes, and inadequate utility services and infrastructure act as a powerful break on Pakistan’s potential. Addressing the structural weaknesses of the Pakistani T/C industry will however take time, and it is to be expected that large parts of the industry will not have sufficiently adapted to take full advantage of liberalisation in 2005.

As of now, Pakistan is **most competitive in** the lower value added sectors such as **cotton production, and yarn**, as well as higher segments such as **towels and bed linen**. In order to gain export market shares, companies will have to diversify their products, improve quality and become more flexible. Although, many steps have been made in this direction, a considerable part of the task still lies ahead.

Pakistan’s industry is clearly weakest in producing high quality fabrics, in dyeing and finishing, and in clothing manufacturing, although the knitting sector is performing rather well. Government and

industry identified **development of the clothing industry as absolutely crucial for driving the growth and improving quality throughout all levels of the production chain**. This will be a major challenge particularly considering the large size of the informal sector, a lack of new investment, and the presence of many other countries that are already highly competitive in clothing and are likely to strongly benefit from ATC quota removal.

On the bright side, Pakistan's government and industry have recognised the challenges that they face, and have started to deliver reforms. Furthermore, **Pakistan has real potential to become competitive** due principally to its cheap labour, vast source of cotton and long established presence on EU and US markets. Products that industry observers expect to **benefit from quota removal** are bed linen, towels, some knitwear, certain trousers (made from coarse count yarn), followed by certain underwear and coarse count clothing.

Taking full advantage of this potential will take time, money, and political will, and it is to be expected that **Pakistan's T/C industry will face fierce competition in many sectors when quotas are lifted** in 2005, particularly for basic products such as yarn, grey fabric, printed fabric, and clothing that need finer count yarns.

A particular challenge will be that **ATC quota removal coincides with the end of the current EU GSP scheme**. Enhanced tariff concessions that Pakistani exporters enjoy since late 2001 are likely to be lost as a result, which could shift European retailers' and manufacturers' buying to other supply countries. To meet this double challenge both the T/C industry and the Pakistani government will have to speed up restructuring, modernisation and wide-ranging reforms. These have to include *inter alia* a further opening of the Pakistani market to improve access to input materials at all stages, and a substantial streamlining of administrative procedures that currently hold back the unfolding of the industry's export potential.

Appendix A : Sources PAKISTAN

Unless otherwise specified statistics used in this chapter have been taken from :

- Textile Commissioner’s Organisation (TCO),
- All Pakistan Textile Mills Association (APTMA)
- Export Promotion Bureau
- Pakistan Cotton Ginners Association (PCGA) for cotton production statistics
- Imperial Chemical Industries (ICI) for Man Made Fibers production statistics
- Pakistan Textile Journal; 2002 – 2003
- US Embassy Country Report on Foreign Trade Barriers, 2003
- French Embassy Reports on Clothing and Textile Industries, 2001 - 2002
- Pakistan Government : Textile Vision Report, 2001

Professionals, Government officials and company representatives interviewed :

Organisation	Name of interviewee	Position
Mohammad Farooq Textile Mills	Mohammad Farooq Sumar	Chief Executive Officer
All Pakistan Textile Mills Association (APTMA)	Anis-UI-Haq	Secretary
Sapphire Group	Shahid Abdullah	Director
Quota Supervisory Council	Aziz Memon	Chairman
Pakistan Knitwear and Sweater Exporter Association(PAKSEA)	Anis Marfani	Chairman
Al-Karam Textile Mills Ltd	Mehmood Ahmed A. Wahid Tumbi	Director General Manager (Export Marketing)
Towel Manufacturers Association (TMA)/ Nakshbandi Industries Lrd	Abdul Razaak Teli	Chairman Nakshbandi Industries/Former Chairman Quota Supervisory Council/ Former Vice Chairman Towel Manufacturers Association. Authorised spokesman of Towel Manufacturers Association

Organisation	Name of interviewee	Position
Pakistan Bedwear Exporters Association (PBEA)/Husein Industries Ltd	Aziz L. Jamal	Chairman, Pakistan Bedwear Exporters Association and Managing Director, Husein Industries Ltd
Pakistan Textile Journal	Nadeem Mazhar	Executive Editor
Pakistan Readymade Garments Manufacturers & Exporters Association (PRGMEA)	Zubair Parekh	Chairman (South)
Textile Institute of Pakistan	Shakil Ahmed	President
Textile Commissioner's Organisation	Idrees Ahmed	Textile Commissioner

Appendix B : Pakistani Customs Duties

1. Applied tariffs for imports of T/C products into Pakistan

Imports from the EU are subject to MFN duties. After Indian tariffs, **Pakistani tariffs** for textile and clothing products remain **higher** than those applied by the other suppliers under review.

Applied duties for products of chapters 50 to 63 are as follows⁹² :

- **Raw materials** : from 5 to 20.
Although the tariffs for raw silk, wool and cotton have been reduced in 2003, there are still tariff peaks for cotton waste (heading HS 5202) with duties of 20%. In 1999, Pakistan increased tariffs on acrylic staple, tow and tops to 25 %. Under the MoU (Memorandum of Understanding) with the EU of 2001, Pakistan has committed itself to reduce tariffs on acrylic fibres to 15% in 2002 and to bind these rates in the WTO by 1 July 2002. However, it seems that these rates are not still applied, applied rates for acrylic fibres (heading 5506) being still 20%.
- **Yarns** : from 5% (wool, cotton) to 25% (synthetic).
Tariffs peaks for headings HS 5207 (cotton yarn put up for retail sale) 5402 (synthetic filament yarn) and 5406 (man-made filament yarn, put up for retail sale).
- **Fabrics** : for most **fabrics** 25%.
With rare exceptions at 5% such as heading HS 5902 (tyre cord fabric). In addition, the import of a large number of fabrics is not admitted without **specific authorisation**. The fabrics allowed without authorisation are indicated in the Tariff Code.
- **Carpets** : uniform duty of 25% except for some very specific products (5-10%).
Import also subject to **specific authorisation**.
- **Apparel** : uniform duty of 25%.
Most products still subject to **specific authorisation** for import.
- **Made-ups** : uniform duty of 25%.

Product	Silk (chapter 50)	Wool (chapter 51)	Cotton (chapter 52)	Synthetic (chapter 54-55)
Raw materials	5%	0-5%	0-5%	5-20%
Yarns	10%	5%	5-25%	5-25%
Fabrics	25%	5-25%	25%	5-25%

Product (all types)	
Carpets (chapter 57)	5- 25%
Special woven fabrics (chapter 58)	25%
Impregnated fabrics(chapter 59)	5- 25%
Knitted fabrics (chapter 60)	25%
Apparel (chapters 61-62)	25%
Made ups (chapter 63)	25%

2. Additional taxes

Sales tax : 15% on duty paid value. **Income withholding tax** : 6% on duty paid value + sales tax.

⁹² www.cbr.gov.pk

➤ **TURKEY**

Turkey	Value 1995	Value 2001	Evolution 1995-2001 per annum
GDP billion US \$	170	148	- 2 %
GDP per capita US \$	2 806	2 229	- 4 %
Imports textile (million US \$)	1 755	1 823	1 %
Imports clothing (million US \$)	55	212	25 %
Exports textile (million US \$)	2 387	3 551	7 %
Of which : EU : 50%;USA : 10%;Japan : 1%			
Exports clothing (million US \$)	5 381	5 973	2 %
Of which EU : 75% ; USA :15%			
% Textile in total exports	11 %	12 %	
% Clothing in total exports	25 %	19 %	
Inflation (GDP deflator in annual %)	87.0	55.7	
Gross domestic savings (% of GDP) (2000 instead of 2001)	21	17	
Cost of capital (lending rate is not reported Bank Rate source: IFS)	76.02	74.70	
Population (million people)	60.6	66.2	1 %
Employment in agriculture (% of total employment)	48	46	
T/C employment			
Official (government)		500 000	
Estimate (source Price Waterhouse Coopers)		2 million	
Textile investments as % of world 99-01 investments : spinning : 6%; weaving : 3%; knitting : 3%			

General economic data are taken from IMF. Trade data come from CHELEM (CEPII).

1 - SUMMARY : POSITION AND OUTLOOK OF TURKEY'S TEXTILE AND CLOTHING INDUSTRY

Turkey's T/C industry is one of the most **important sectors** of the Turkish economy and has been its "locomotive" since the early 1980's. It accounts for 10% of GDP, 21% of industrial production, 21% of industrial employment and 34% of total Turkish export earnings. In 2002, Turkey's T/C exports reached US\$ 12.1 billion⁹³ with a strong focus on clothing (73%) and with the EU being the main market, accounting for 65% of total T/C exports. Imports into Turkey are lower (US\$ 4.1 billion in 2002), but have increased by 30% from 2001 and are mainly made up of textiles, representing 90% of all T/C imports.

Given the importance of the T/C sector, the removal of ATC quotas in 2005 is of great importance for Turkey. Having a **Customs Union** with the EU (including application of EU import quotas), Turkey is expected to face fierce competition from Far Eastern competitors once quotas are removed – both on

⁹³ Most of statistical data kindly provided by the Industry Textile and Clothing Exporters' Association ITKIB. The domestic production of T/C products is estimated to be double the export value. However, due to grey market activities it is not possible to accurately assess the exact value of domestic production.

its domestic and on its main export market, the EU. The strong focus on the EU makes Turkey especially vulnerable to any changes in this market. Competition is expected to be particularly strong as Turkey's clothing production is heavily based on cotton, i.e. the same fibre on which soon-quota-free competitors from India, Pakistan or China base much of their exports. Also, many of Turkey's key products in clothing and home textiles are protected by (binding) quotas, and many products are often in similar quality segments as those from quota-constraint suppliers.

Hence, ATC liberalisation is generally expected in Turkey to negatively impact upon future exports to the EU – not least due to numerous structural problems in Turkey's T/C industry. It is striking, however, that – despite the sector's importance – no special textile programmes are foreseen by the government to assist the industry to adapt for quota removal.

One of the **major challenges** for the Turkish T/C industry is to move from standard-quality production – mostly on a contract basis – to original design manufacturing and eventually to original brand manufacturing. While Turkey has all the necessary elements to succeed, such as a complete textile chain, easy access to raw materials (mainly cotton) in order to move to a “**Made in Turkey**” own-brand and own-design producer country, it will have to urgently increase productivity and quality of its products. However, investing in brands and image to compete with companies from Italy, the US etc. is costly and will be feasible for a limited number of larger firms, only. Other companies will instead have to focus on producing standard goods of a better quality, while continuously investing in modern production facilities, and to further increase their flexibility to deliver just-in-time and in small lots.

Particularly in view of rapidly changing fashion cycles, one of the main **advantages** Turkey's T/C companies can draw on is their **geographic proximity to the EU**. A strong entrepreneurial spirit, combined with experience in providing good customer service and the ability to respond quickly to both large and small orders provide Turkish T/C companies with an important competitive edge vis-à-vis competitors from the Far East. In addition, they can draw on a broad domestic raw material basis and a complete textile chain within their country, as well as on a young and motivated workforce.

To be able to make full use of these advantages, Turkish companies will however have to overcome a number of **weaknesses**. Apart from moving into higher value-added products, own brands and design, the industry needs to **diversify its product range**, reduce over-capacities and invest in modern machinery (particularly in spinning and weaving), modernise dyeing and finishing facilities, and diversify their export markets to reduce their strong reliance on the EU market. Given the generally very difficult economic climate in Turkey, the large number of SMEs, a shortage of investment capital and very little FDI coming to Turkey, the necessary restructuring of the T/C industry is unlikely to come in time for ATC quota removal, although investments have picked up recently. Indeed, most observers anticipate that Turkey's exports will lose market share in the EU, particularly in the home textiles and clothing (knitted and woven) sectors.

2 - DETAILED ANALYSIS OF THE TURKISH TEXTILE AND CLOTHING INDUSTRY

➤ CONTEXT

The Textile and Clothing industry is vital for Turkey's economy. In terms of employment and export value it is the most important sector and as such has an important socio-economic function. With an increasingly young population, the industry provides an important entry portal into the labour market.

Many of the industry's manufacturing sites are in the poorer parts of Anatolia, an area with less infrastructure and few employment opportunities, thereby decreasing migration flows to Istanbul, a city that has seen a rapid increase in population in the last 20 years.

Turkey differs from other third countries in the fact that it has a **Customs Union (CU)** with the European Union since 1996 leading to full liberalisation of all tariff and quota restrictions between the EU and Turkey. As a result Turkey has already experienced a first important liberalisation phase of its textile trade levying zero duties on imports from the EU and applying the EU's common custom tariffs to its third-country trading partners. This has brought some important changes. In the domestic market it increased competition, since Turkey's import duties before the CU agreement were much higher than EU duties⁹⁴. As a result the T/C industry experienced an increase of low-priced imports that compete directly with domestic products. On the other hand the CU has strengthened the professionalism of companies as it encouraged and accelerated upgrading of production methods and investment in new machinery.

The Customs Union also means that Turkey had to apply the EU's import quotas for T/C. The protection offered by these quotas on the Turkish market will be lost, once quotas are removed in 2005⁹⁵.

➤ **KEY FEATURES OF THE TEXTILE AND CLOTHING INDUSTRY**

Given the T/C industry's importance in providing large part of exports and employment for the country, ATC quota removal is of a high importance for Turkey and has become a social and political topic⁹⁶.

The further liberalisation prospect of 2005 is a source of mixed feelings among public and private actors. Only some observers see new export opportunities, while the majority **showed deep concern about the lack of preparation** of the sector to face this crucial challenge in the light of Turkey's **reliance on commodity products** that will not be able to resist fierce price competition from cheaper imports. Most experts and company representatives are concerned about a surge in cheap imports from China into Turkey and a decrease of Turkey's world-wide market share, particularly in the EU. This concern also originates from a general feeling of disappointment amongst the industry about the non-materialisation of high hopes as to increased exports resulting from the Customs Union with the EU.

In 2002, Turkey's **T/C exports** reached 12.1 billion US\$, up from 10.4 billion US\$ in 2001. The EU represents Turkey's main export market, accounting for 65% of the country's total T/C export, with a particularly strong focus on exports to Germany (26.5%), followed by the US (13.7%) and the UK (12%). As a result in 2002 Turkey was the 2nd largest third-country supplier of textiles to the EU with a share of 3.4% (8.9% for Extra-EU) and holds the 2nd rank for clothing exports after China with a share of 7.8% (12% for Extra-EU).

⁹⁴ Average import duties for industrial products were reduced in 1996 from 16% to 5.4%, and T/C duties were reduced from an average of 27% to almost 6%.

⁹⁵ It should be noted that while Turkey is part of the Customs Union and therefore has to apply the EU's external trade regime, Turkey is not formally participating in the EU's trade related decision making procedures.

⁹⁶ It is estimated that the economy has to provide new jobs for 1.5 million young labour market entrants every year.

T/C imports into Turkey are relatively low, but have increased sharply over the last 20 years especially in textiles from less than US\$ 3 million 1985 to US\$ 4.1 billion in 2002, with textiles making up 90% of imports (US\$ 3.8 billion). Most imported textiles are used for export-oriented clothing production. The EU plays an important role in T/C imports to Turkey, accounting for 41% of imports in 2002 with Italy taking the largest share (12.2%) followed by Germany (8.5%).

The main characteristic of the Turkish T/C industry is its **focus on the production of clothing for export**, which has grown from a level of less than 1 billion US\$ in 1985 to 8.9 billion US\$ in 2002, representing 74% of T/C exports and 25%⁹⁷ of the country's overall exports. Therefore the clothing industry clearly dominates the overall T/C sector with a close link to the textile industry, which produces much of the yarn and fabric used by the domestic clothing production.

By **product group** Turkey's T/C exports are divided into knitted clothing (36.7%), woven clothing (26.8%), home textiles (10.3%), man-made fibre fabrics (5%), man-made fibre yarns (5.2%), cotton fabrics (4.6%), Cotton yarn (1.5%), carpets (2.5%) and other products (5.3%). Knitted and woven clothing, therefore represent over 60% of total T/C exports.

An important key feature is the industry's **high share of SMEs** (ca. 49 000 companies). Many of those, especially in the clothing sector, produce in the **grey zone**, which is prone to illegal production of counterfeited goods and tax evasion, and compete mainly on the advantage of cheap labour.

The industry's main strength is the **proximity to the European market**. This crucial competitive advantage plays an important role in times of short fashion cycles and the need for quick-response and flexible production modes. This should allow forward thinking companies to maintain and even improve their position after quota liberalisation.

Furthermore, Turkish companies have gained valuable reputation in providing good customer service and rely on a **strong entrepreneurial spirit** that has made them increase market share, despite lack of government support and within difficult economic conditions. Turkey is known for its **flexible production modes** that allow companies to produce large as well as small orders and to do so quickly, and to service their buyers' demands by producing both commodity *and* specialised products.

Another key advantage is self-sufficiency in **raw material production**, with Turkey being one of the world's leading cotton producers, but also covering the whole fibre spectrum from cotton to synthetics and wool. In addition, it is able to offer production along the entire textile chain from raw materials to clothing. Quality cotton and wool together with reliable synthetic fibre and quality provide an optimal basis to produce value-added knitted and woven garments, as well as a large quantities of home textiles.

Despite difficulties in obtaining investment capital, T/C companies can make optimum use of their working capital. The so-called "**pipeline function**" allows companies to pay for their raw material after having produced, sold and received payment from foreign buyers for the finished fabric or clothing. The "pipeline function" provides companies with an important cash-flow advantage and decreases the negative impact of high interest rates. However, due to economic recession, many companies use the advantages of the "pipeline" hesitantly, and investment in new machinery has decreased as a result, particularly in 1999 and 2000.

⁹⁷ Statistics ITKIB 2003.

Finally, Turkey has a **young and motivated workforce**. Unlike in other developed countries, where the industry suffers from a negative image of a “sun-set industry”, Turkish textile and clothing companies can choose from a large pool of well-skilled and qualified workers. The young workforce is generally bi-lingual and low(er) skilled-workers are motivated to develop their skills. This is a precondition for a sector which needs to upgrade products and production methods. However, the relatively high level of **wages** does not allow T/C companies to compete with low-wage countries on a price basis only.

Despite these advantages, the industry suffers from several **weaknesses**, and improvements are needed in several areas for the industry to survive in a more competitive environment. Firstly the sector’s **strong focus on Europe at its main export market**⁹⁸ make it more vulnerable to changing sourcing trends after 2005. As ATC quota removal will lead to much fiercer competition on the EU market this over-reliance on the EU constitutes a considerable risk for many T/C companies. **Diversification of export markets** is therefore a must.

Secondly, most of the industry is still relying on standardised commodity products that are unlikely to be able to compete with cheaper imports, e.g. from Asia. Therefore, **product diversification becomes a matter of survival** and manufacturers will need to improve on quality rather than on price. Especially the **home textile** sector with its production of commodity products such as towels and bathrobes with little design elements is expected to **lose market share** both in Turkey and in export markets.

Clearly, one of the major challenges for the Turkish T/C industry is to move from standard production on a contract basis to original design manufacturing and eventually to **original brand manufacturing**. While Turkey has all the necessary elements, such as a complete textile chain and sufficient raw materials, to move to a “**Made in Turkey**” own-brand and own-design producer country, it will have to lift productivity and quality of its products. However, investments in brands and image to compete effectively with other suppliers, e.g. from Italy or the US, can be very costly and reserved to a limited number of larger Turkish firms with the necessary creativity and investment capabilities. In addition, the development of a strong “Made in Turkey” image is highly dependent on external factors, such as economic and political stability that are difficult to control. Some experts believe that Turkish companies should rather focus on producing high quality goods and invest more in R&D to maintain their competitive edge rather than spending too much money on developing their own brands.

Thirdly, while Turkish manufacturers will have to upgrade their design and production capabilities and need to produce higher value-added quality products, the challenge is to **increase the quality of domestic fabric** to equal the quality of European / Italian fabrics, which today are often imported to produce high-value-added clothing, such as men’s suits.

Fourthly, there is a lack of structured vocational **training**, which is particularly needed in middle-management and supervisory functions. Also, companies are still hesitant to enter into practical training programmes with university students and there is a lack of co-operation between employers, universities and governments in joint-R&D programmes. Today, only a few companies are investing considerably in education of their workforce and in initiatives such as the recently created Textile Research Centre, or the vocational training schemes, such as the ones co-financed by EU structural funds.

⁹⁸ In 2002 Europe accounts for some 63% of all T/C exports down from 65% in 2001.

Another weakness of the Turkish economy as a whole is the **small amount of Foreign Direct Investment** accounting for only 0.8 billion US\$ in 2001. Considering the size of the Turkish economy, which rates as the 20th biggest economy, the country ranked only as number 32 for Foreign Direct Investment in 2001, and slipped back to rank 123 in 2002. This limits companies' ability to invest in new machinery and to benefit from exchange of know-how and expertise with foreign companies.

SMEs suffer from limited access to financing. Over the past years many companies accumulated heavy **debt burdens** as a result of investments into new machinery some 6 years ago, when the industry was wrongly expecting an important surge in production as a result of the CU. Today, especially SMEs with small own resources are suffering from high interest rates, volatile currency fluctuations, unfavourable economic conditions, high energy prices and overcapacity. As a result, many can not make full use of the "pipeline function" to generate their own cash flow. As a result some 50% of machinery in the Turkish textile industry is older than 5 years and there is an urgent need of modernisation to stay competitive. Only some of the larger companies have been able to invest in new machinery, R&D and to meet environmental standards, while many others experience difficulties in raising necessary capital. However, this trend may have started to change given a strong increase in investments in 2002 (2.761 billion Euro; 2001 : 990 million Euro; 2000 : 445 million Euro). According to observers, this increase is partly aimed at renewing and modernising technology of existing installations, partly due to new investments in spinning, weaving, and textile finishing, aimed at increasing competitiveness vis-à-vis imports from the Far east and China in particular.

A further way forward would be to seek **joint-venture** or merger agreements with foreign investors to increase access to investment capital, improve cash-flow, and capitalise on foreign expertise. Yet, only few companies are seeking joint-venture agreements and only some have started to invest outside of Turkey.

Finally, **Government** support in Turkey is very limited. The reason is insufficient government spending capacities, as well as traditionally poor communication between government officials, ministers and T/C companies. However, the government is well aware of the importance of T/C and is supporting ITKIB, the federation of textile and clothing exporters in promoting Turkish products. Some government-funded programmes exist in the area of vocational training and in creating company clusters and a Fashion Centre in Istanbul. However, due to the weak economic climate, the government was forced to decrease e.g. spending on the restructuring projects that were co-financed by the EU, and **no special textile programme** is foreseen, apart from a recently adopted EU-funded programme focussing in particular on SMEs, technological innovation, fashion development and textile clusters⁹⁹.

➤ MAJOR SUB-SECTORS

Turkey has the advantage of producing its own **raw materials** and the country is an important world cotton grower, ranking sixth in the production of cotton with a total amount of 791,000 tons in 2000.

As a result of the Southeastern Anatolia Project (GAP), a large infrastructure and irrigation project, cotton production in Turkey has begun to increase and is expected to double by 2005. GAP is expected

⁹⁹ This specific textile project (« Fashion and textile Cluster ») is one of 28 projects to be financed under the EU's Pre-accession Financial Assistance for 2003 (2003 National Programme for Turkey).

to strengthen the country's competitive advantage due to self-reliance in cotton. Yet, despite large domestic production, Turkey imports a large amount of cotton each year because of the high demand from the Turkish textile industry as a whole. In future, the challenge lies in further upgrading the quality of domestically produced cotton. While cotton is considered to be of a sufficiently good quality for the present production requirement, in future, as textile and clothing producers will produce higher value added products, Turkey's cotton production will also have to be improved.

The **spinning industry** is an important sector in Turkey which is the world's sixth largest producer of spun yarns, and the third biggest outside Asia - behind the USA and Brazil. Today, Turkey is one of the largest countries in the world in terms of its cotton yarn production capacity and ranks as the 13th largest exporter of yarn with a 2.8 % share of total world yarn exports in 2000. The total value of yarns exported in 2001 was US \$ 812 million, with the main products exported in 2001 being cotton and man-made yarns. Approximately, 275 companies are engaged in the production of cotton yarn (30% ring-spun; 45% open-end; 25% ring and open-end). The spinning industry is one of Turkey's main strengths due to high quality production and a large production capacity. However, since 1996 due to misinterpretation of the advantages to be derived from the Customs Union, new open-end yarn and ring yarn facilities have been established in the sector, leading to capacity utilisation rates of 60-65%¹⁰⁰, low productivity, and difficulties in paying back debts.

Given domestic cotton production, the **weaving industry** based on cotton accounts for a large section of the sector. Production of **woven cotton fabrics** amounts to approx. 1.7 billion meters (in 2000) and the cotton weaving industry has a 2.5% share of the world capacity. The weaving industry consists of two segments. One is composed of large companies with vertically integrated production in all stages of fabric production, from fibre processing, spinning and weaving to dyeing, printing and finishing. Many also produce ready made clothing or home textiles. The largest 41 companies are dominant in the sector of woven cotton fabrics and have 55% of all production capacity. The second segment is composed mainly of smaller non-integrated companies. These companies co-operate with the Turkish finishing industry which is one of the most important sub-sectors of the T/C industry.

The Turkish **weaving sector based on man-made fibres** is also well-developed. Having the sixth largest capacity of synthetics in the world, Turkey is a large producer of **synthetic fabrics** based on 100% polyester and polyester blends (cotton, viscose, nylon, polyamide, wool, linen) and/or multi-blends. 62% of the companies have finishing plants and 75% of their raw material needs are met by domestic production. The total production of synthetic fabrics was about 430 million meters in 2000. The key product groups among synthetic fabric exports are woven fabrics of synthetic filament yarn (146.8 million US\$ in 2001) and woven fabrics of synthetic staple fibres (195.3m US\$ in 2001).

The **wool weaving sector** is oriented to meet the demands of clothing producers and exporters. In 2000, production of woven wool fabrics was about 81 million meters. In addition, Turkey also has the world's largest production of mohair. The total value of woven fabrics exported in 2001 was about 1.6bn US\$.

Many of Turkey's fabrics are well-known in international markets by their **trade marks** (Aksu, Güney Sanayi, Altýnyýldýz, Yünsa, Ýpeker, Deba and Ýpeki). Also, in recent years, both production and exports of **technical textiles** have gradually developed in Turkey. The total value of technical fabrics exported in 2001 reached to 146.3 million US\$. Finally, many Turkish manufacturers are striving to

¹⁰⁰ UNEP, Textile Industry Sectoral Study, Ankara April 2000.

move into **environmentally-friendly products** and production processes, some having obtained international standards such as the “Oko-Tex Standard 1010. This trend is expected to accelerate.

The Turkish **home textile** industry is one of the most important sub-sectors of the textile industry and its export performance. With an export value of 1 billion US\$ and a 9.7% share in Turkey's total exports in 2001, the sector has been an important sub-sector for the Turkish economy. However, production is still too much focused on mass production of lower added-value goods, e.g. bathrobes and with little design elements. The price competitiveness has been lost to Asian producers, who have taken full advantage of some recent quota removal (e.g. surge of Chinese imports of bathrobes to the US). Despite good quality, Turkish manufacturers need to be aware of new fashion trends and upgrade production with more modern and innovative designs to secure their market position. Without that, Turkey's **home textile industry will suffer great loss** as result of ATC quota removal as many of their commodity products have until now been protected by quotas vis-à-vis other competitors such as India.

The **clothing industry** [knitted and woven] accounts for 8.9 billion US\$ of total T/C exports. The industry benefits from domestic raw material and fabric production and has been slowly moving into higher value-added production by upgrading its machinery and its design and R&D capacities. While Turkey's future strategy is to move into own-brand production, today, most production can still be classified as subcontracting-based production (some 77%¹⁰¹) with a large share of basic and standard products (47%). One of the weaknesses of the clothing sector is the relatively high wage level (US\$ 2.14/hour) and high electricity costs (7.5 cent/kwh)¹⁰², while its strengths lie in good quality products, as well as in competitive delivery lead time and flexibility. With respect to 2005, the clothing industry will need to replace competition based on cost with competition based on quality, fashion, brand, creativity and innovation. Yet, in order to do so it needs to reduce its share in subcontracting-based production, its dependency on wholesalers and needs to move to higher-value added products, e.g. by investing in computerised production.

Within the clothing sector and the TC industry as a whole, **knitwear** is the biggest export performer. With a 36.7% share of all T/C exports, the total export value of knitted garments was 4,4 billion US\$ in 2002. Domestic cotton production delivers good raw materials and products are generally of a higher quality than in other parts of the industry. Knitwear manufacturers benefit from a well educated workforce, while buyers appreciate flexible production methods. As in home textiles, the sector needs to invest more in modern equipment, R&D and design capacities to stay competitive. However, the knitwear sector is well prepared for a liberalised market as it enjoys a good reputation for quality and flexibility. On the other hand, competition will increase both in Turkey and the EU as many knitwear products are still under quota – a protection that is going to fall away in 2005.

➤ **MARKET ISSUES AND MARKETING PERSPECTIVES**

Some retail activity is emerging, but a large number of clothing production is still basic assembly production for export, not for domestic consumption. A majority of clothing manufacturers use a combination of domestic and imported cloth to produce finished non-branded goods. Some of the companies are then marketing their products through third party retail chains. In the clothing sector a few companies with own-brand and own-design capacities have managed to obtain top global reputations. Companies such as Beyman and Vakko train their design staff in European fashion capitals to use the latest fashion trends in their collection. These companies are able to compete against

¹⁰¹ Figures provided from Turkish Clothing Manufacturers' Association

¹⁰² By comparison China has labour costs of US\$ 0.61/ hour and electricity costs of 2.1 cent/ kwh.

foreign competitors on the domestic market, where consumer spending is increasing. In addition some Turkish own-brand producers have recently experienced considerable success in participating in foreign fashion shows and in selling their branded goods both inside and outside Turkey.

Most of the imported **textiles** are used for producing higher value added clothing. Textiles make up the majority (90%) of T/C imports, with the EU taking a share of 45% of all T/C imports. European fabrics, especially from Italy¹⁰³ are used to produce high quality clothing, particularly men's wear. In addition, population growth and an increasingly fashion-conscious group of young consumers is likely to increase spending in clothing. With no tariffs as a result of the Customs Union, this should provide good opportunities for EU high quality and branded products as well as for textile products – as many Italian companies show.

➤ **OUTLOOK 2005**

The current industry **strategy** to prepare for ATC quota removal is the development of own brands and fashion capacities, reducing the reliance on commodity and standard products. Yet, this strategy will be difficult to realise, given the dominant position of firmly established US and European brands. Another strategy is to improve quality and focus on customer service and flexibility.

Among the sectors having a competitive advantage are mainly branded ready-made products. **Knitted goods and woven clothing** are generally of high quality and enjoy a good reputation among foreign buyers. Especially large textile companies that have put in place effective product quality measurement systems and satisfy the needs of quick-response and a high level of customer service in a world of very short product-cycles are likely to maintain their market share after 2005. However, the development of exports after quota removal will also depend upon **quality improvements in the downstream sectors**. If this does not happen clothing manufacturers are expected to use ATC quota removal as an opportunity to source yarn and fabrics on world markets rather than in Turkey or Europe.

Among the **weakest sectors**, is the **home textile** sector, that has been producing too much standardised mass commodity products with insufficient design elements. Parts of the **spinning sector** are also vulnerable due to overcapacity and in spite of generally good quality of their products.

In order to leverage on Turkey's main advantage – proximity to the EU market, good quality products and flexible production methods –, companies need to follow a strategy of product diversification and upgrading coupled with delocalisation of some of their more labour intensive production. If they can **live up to the challenge of quick-response** and professional customer service, international buyers are likely to continue sourcing from Turkey, in order to meet the ever-faster changing customer demands for new designs and good quality at a reasonable price.

The country has therefore the potential to continue being an important player in international T/C trade in a portfolio of goods that are sourced from around the world. In addition, depending on the progress made towards the **PanEuroMediterranean Free Trade Area**, Turkey will be able further leverage on its T/C experience, both through regional sourcing / production and through exporting to Area's Arabic countries. Slow progress in setting up bilateral FTA's and in harmonising origin rules within that Area could, however, reduce the actual benefit that Turkey could derive from this Area.

¹⁰³ Italy is the country with the largest import share of 12.2% followed by Germany (8.5%) of all T/C imports worth 4.1 billion US\$ in 2002.

Appendix A : Sources TURKEY

Statistical data :

Unless otherwise specified statistics used in this chapter have been taken from :

- ITKIB (Representation of Turkish Textile and Ready-made Garment Exporters Association) : Turkish Textile and Apparel Industry, 2003
- Turkish Ministry Under Secretary of Trade : Trade Flows, 2003
- Journal of Textile and Apparel, Technology and Management : Changing World Trade Conditions Force the Turkish Textile and Apparel Industry to Create new Strategies, Fall 2002
- Turkish Garment Manufacturers Association : Turkish Clothing Industry Horizon 2010 Road Map; 2003
- PWC Consulting : Textile, apparel and leather sector in Turkey, 2002
- UNEP / Zeynep Yöntem : Textile Industry Sectoral Study, Turkey, 2000
- Turkish Textile Employers Association (TUTSIS) : EU-Customs Union- Impacts on Turkish Textile and Apparel Industry, 2002 ; The Future of the Textile and Clothing Industry in an Enlarged Europe, 2003.

In addition, statistics and estimates provided by the professionals and experts interviewed have been used. One will find hereunder the list of these persons.

Interviews :

When meetings have been conducted with one leading interviewee and his or her staff, only his or her name is mentioned hereunder.

Organisation	Name of interviewee	Position
ITKIB	Tuncer Ogun	Secretary General
ITKIB	Esin Usta	Head of EU Department
ITKIB, Brussels	Haluk Ozelci	Head EU Representation
TUTSIS	Turker Arslan	Deputy Secretary General
TUTSIS	Lutfu Paker	Member of Board
TGSD - Turkish Garment Manufacturers Association	Umut Oran	President
DTM (Undersecretariat for Foreign Trade)	Rustu Okcu Necmi Ugurlu Yuksel Akkuzugil	Head of Department Deputy General Director General Directorate of Exports

Organisation	Name of interviewee	Position
KOSGEB	Dr. Husniye Guler	Co-director of Turkish Vocational Training in Clothing Sector
Representation of EU to Turkey	Oskar Benedikt Dr. Oytun Deliktas	Economic Counsellor Commercial and Economics Officer
Delegation of Turkey to the EU	Ugur Ozturk	Deputy Commercial Counsellor
Boyner Sanayi	Osman F. Boyner	General Manager
Debant Grup	Ertug Yasar	Deputy General Manager, Sales
AK-PA	Hakan Sozen	Asst. General Manager, Mktg.
ER-FUN	Erhan Ozkan	Manager
Textile Research Center	Ertekin Ashaboglu	Chairman
Jan Steenlaan Beheer BV	W.F. Harrems	Director

Appendix B : Turkish Customs Duties

1. Imports into Turkey of T/C products originating in the EU

Under the provisions of the Agreement on the Customs Union between the EU and Turkey, products of chapters 50 to 63 originating in the EU are imported into Turkey duty free.

2. Imports into Turkey of T/C products originating in non EU countries

Imports from EFTA countries, GSP countries, Bosnia – Herzegovina, Bulgaria, Czech Republic, Estonia, Hungary, Israel, Latvia, Lithuania, Macedonia, Poland, Romania, and Slovenia may be eligible for preferential treatment.

Applied Customs duties for products of chapters 50 to 63 are as follows¹⁰⁴ :

- **Raw materials** : from 0% up to 4.5%.
- **Yarns** : from 0% to 5.4%.
- **Fabrics** : from 3% to 8.9%.
- **Carpets** : from 3.3 to 8.6%.
- **Apparel** : from 8 to 12.2%.
- **Made-ups** : from 0 to 12.2%.

Product	Silk (chapter 50)	Wool (chapter 51)	Cotton (chapter 52)	Synthetic (chapters 54-55)	Flax/others (chapter 53)
Raw materials	0%	0%	0%	0 – 4.5%	0%
Yarns	2.5 – 5.1%	3.2 – 5.2%	4 – 5.4%	0 – 5.1%	0 – 5.1%
Fabrics	3 – 7.5%	5.3 – 8.9%	8.2%	8.3%	4 – 8.6%

Product (all types)	
Carpets (chapter 57)	3.3 – 8.6% or specific duty ¹⁰⁵
Special woven fabrics (chapter 58)	5.2 – 8.7%
Impregnated fabrics (chapter 59)	3.9 – 8.4%
Knitted fabrics (chapter 60)	8.4%
Apparel (chapters 61-62)	8-12.2%
Made ups (chapter 63)	0 – 12.2%

3. Additional taxes

18% VAT on duty paid value.

¹⁰⁴ www.gumruk.gov.tr (Turkish Customs Tariff as of 1st January 2003).

¹⁰⁵ Maximum 2.8 EUR/sqm.

➤ **UNITED STATES OF AMERICA**

▪ USA	Value 1995	Value 2001	Evolution 1995-2001 per annum
GDP billion US \$	7 400	10 445	+3%
GDP per capita US \$	27 412	35 888	+2%
Imports textile (million US \$)	10 305	15 305	+7%
Of which EU:17%;China:15%;India:6%;Pakistan:6%;SK:6%; other Asia ¹⁰⁶ :10%			
Imports clothing (million US \$)	32 873	53 682	+9%
Of which EU:4%;China:16%;India:3%;SK:3%;other Asia:16%			
Exports textile (million US \$)	6 829	9 709	+6%
Of which: EU:11%;Japan:2%;China:3%;other Asia: 4%			
Exports clothing (million US \$)	5 948	6 021	+0.2%
Of which EU: 4%;Japan:4%			
% Textile in total exports	1.3%	1.5%	
% Clothing in total exports	1.1%	0.9%	
Inflation (GDP deflator in annual %)	2.1	1.2	
Gross domestic savings (% of GDP)	17	14.5	
Cost of capital (lending rate source: IFS)	5.51	1.63	
Population (million people)	270	291	1%

General economic data are taken from IMF. Trade data come from CHELEM (CEPII).

▪ **1 - SUMMARY**

Despite decades of import protection, large parts of the American T/C industry are not well prepared for the lifting of the ATC quotas on 1 January 2005. Given that the most sensitive product categories are still under quotas restraining trade, the industry looks particularly vulnerable to what is generally described as a liberalisation shock. A number of particularly hard recent years, accompanied by massive job losses, weak balance sheets and declines in production, mean that many companies will probably exit the market in the wake of 2005. While the clothing industry will come under pressure from direct imports, the textile industry will suffer both from direct imports and to a large extent indirectly, i.e. from a gradual erosion of its customer base in the US.

In view of increasing imports from formerly quota-restrained countries, and in particular China, both pro-free trade lobbies (retailers, importers and clothing manufacturers) and the textile industry and trade unions will be active in 2004 and thereafter. In particular the textile industry is expected to strongly lobby in favour of wide-ranging import protection. As 2004 is an election year and as imports from China are likely to further increase, Congress and the Administration are likely to be sympathetic

¹⁰⁶ excluding Japan and countries detailed here

to such demands. Further safeguard measures against China – and possibly anti-dumping measures against other suppliers can not be excluded, with potential implications for the European T/C industry and EU decision-makers.

▪ 2 – DETAILED ANALYSIS

➤ CONTEXT

The relevance of the United States for international textile trade mainly stems from its importance as a major consumer market for T/C manufactured in other parts of the world. While being little engaged in exports - apart from sending textiles to neighbouring countries for processing and subsequent re-importing as finished articles (outward processing) – the US is the world's number one importer of clothing (ca. 32% of world clothing imports). Hence, the way US textile trade policy evolves after 1 January 2005 - and the forces shaping this policy – will have a important impact upon textile and clothing trade flows in a post ATC world. In particular, US policy can be considered as a key element for European T/C industry and EU decision-makers as to what policy to pursue in the EU, especially if the policy chosen by the US would risk leading to trade diversion towards the EU.

➤ THE SITUATION OF THE TEXTILE AND CLOTHING INDUSTRY

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RISING IMPORTS – FALLING EMPLOYMENT

Like in other industrialised nations, American T/C industry is characterised by a steady decline both in production and employment over the past decades, and particularly during the past few years. Despite a wide-ranging set of protective measures, such as a large number of binding ATC quotas and restrictive origin rules, imports have continued to grow while production and employment went down. Although imports are not the only factor responsible for the sector's downsizing, textile industry associations and trade unions identified imports as the main factor behind this development.

The contraction of the industry is most visible in the employment figures. **Textile employment** has been shrinking substantially over the past decade and reached 428,000 employees in December 2003 - the lowest level since the late 1930s.¹⁰⁷ Since late 2000, when employment stood at 773,100, the number of textile workers therefore fell by 336,000 with 2001 and 2003 having been particularly tough years. In April 2003, a series of sharp monthly job losses started, with an average of 6,500 textile workers losing their employment each month (April-July). In July alone, 8,900 textile jobs were lost (not including the 6,450 jobs due to the closure of Pillowtex that was announced in late July).

The main reason behind these developments are rationalisation and modernisation measures undertaken by the industry since the late 1990s, as well as an increasing number of companies closing down their US operations due to stiff competition from abroad.¹⁰⁸ This downward trend is expected to

¹⁰⁷ Figures used are mainly based on industry sources (ATMI, AAFA)..

¹⁰⁸ In 2003 alone, almost 50 companies closed down, while production (textile mill shipments) fell by 8% to \$ 39.8 bn, and sales went down by 3% down to \$ 47 bn.

continue over the next years ; according to industry observers 200,000-230,000 textile jobs are considered to have a long-term future.¹⁰⁹

Job losses in the **clothing sector** have been considerable, too, with a monthly average of 4,250 (April-July), confirming and continuing the trend of previous years. While in 1992 about 1 million people worked in the US clothing industry, five years later this number had gone down to 824,000 to reach around 505,000 at the end of 2002 (out of which 386,800 are involved in actual production). In 2002, clothing production continued to fall to \$ 27.8 bn down from \$ 38.4 bn in 2000.

Much of this decline is due to increased import competition on the US market as well as relocation of clothing manufacturing to nearby low-wage countries that benefit from preferential access to the US (Mexico, Caribbean basin, etc.). Again, this trend is due to continue over the coming years, accelerating after 1 January 2005 when the remaining binding quotas are lifted.

As regards the US' role in world T/C trade, it becomes apparent that while being not very export-oriented (2002: \$ 10.7 bn textiles; \$ 6.0 bn clothing) America is a giant in terms of imports of clothing with were at almost \$ 66.7 bn in 2002 (\$ 17.0 bn textiles). For many years, Mexico had been the largest source of clothing imports – many of them re-imported after processing in neighbouring countries – followed by China and Hong Kong. However, this has changed in 2002 when China overtook Mexico, providing 15.1% of all clothing import into the US (Mexico: 11.7%). This situation is widely expected to continue in the future.

The structure of large-scale US retailing combined with consumption patters of US consumers, i.e. the existence of an enormous mass market of largely undifferentiated casual wear, does indeed encourage imports of standardised products where developing countries are particularly competitive. Imports of more specialised clothing items from Europe are however relatively small (3.8% of total US clothing imports in 2002) and largely destined for the upper market segments where quality and a high fashion content are crucial success factors. It is only in textile products that European producers are really successful, with the EU being the US' second largest supplier of textiles (16.5% of total US textile imports in 2002), right after China (15.8%) and followed by Canada (11.5%).

Imports from China are expected to increase substantially once the remaining ATC quotas are lifted. According to a 1999 study of the US International Trade Commission (ITC)¹¹⁰, China's accession to the WTO could ultimately lift China's share in US' T/C imports to 30%. More recent data shows that in the 29 clothing categories for which quotas were lifted in January 2002, China increased its share in total imports from 9% to 53% within 18 months. Industry sources believe that this share could increase to 75% by the end of 2004, largely helped by an undervalued Chinese currency that provides, according to industry's estimates, for a cost advantage of up to 40%.¹¹¹

¹⁰⁹ Gary Shoesmith, economist at Wake Forest University, cited in an article in Wall Street Journal, 27 Dec. 2001.

¹¹⁰ Assessment of the Economic Effects on the United States of China's Accession to the WTO; Investigation No. 332-403, (Publication 3228, August 1999)

¹¹¹ "The China Threat to World Textile and Apparel Trade "; study commissioned by ATMI; ATMI press release, 12.09.2003.

As predicted by the ITC study, much of this increase has come at the expense of other suppliers in the developing world, particularly from countries that benefited from preferential access to the US, such as Mexico, the Caribbean region, Central America or Sub-Saharan Africa. Industry estimates foresee that developing countries other than China could lose up to \$ 42 bn in T/C trade between 2003 and 2006 if China's exports follow the same pattern once the remaining quotas are lifted.

As mentioned previously, China has overtaken Mexico as the number one supplier of clothing to the US. While in 2001 China supplied T/C worth \$ 9.5 bn, it increased its exports to \$ 10.9 bn in 2002 and might well reach close to \$ 13 bn in 2003 (Jan.-Oct. 2003: \$ 12 bn). This means that the US market is absorbing more than a quarter of China's total clothing exports (\$ 41.3 bn in 2002).

Vulnerable Industry

Despite decades of import protection, larger parts of the US industry are not well prepared to face a big increase in very low-priced imports. On the one side stands the **clothing industry** which is already today strongly involved in international trade. It either imports directly from China and other locations and/or has largely outsourced the labour intensive parts of its industry. Only very little manufacturing work is still carried out in the US. Quota removal in 2005 will, however, accelerate the shift from outsourced production (in neighbouring preference-receiving countries) towards more direct imports of finished articles from quota free countries in the wider Asian region. This will undoubtedly have an effect on remaining clothing jobs in the US.

On the other side stands the **textile industry**, which is still largely dependent on its US customers which – after 2005 – are expected to buy less US-made yarns and fabrics while gradually opting for more direct imports of finished articles from developing countries (rather than manufacturing them themselves in the US or neighbouring countries). The impact on the textile industry will therefore – to a large extent – be indirect, although there is a potential that imports of textiles into the US will grow as well, as developments in 2002 have shown.¹¹²

In addition, there are a number of **weaknesses** that make parts of the US textile industry particularly vulnerable to a more competitive environment. For example, during the late 1990s – when the industry was rather profitable – many textile companies invested heavily in new machinery and acquisitions by taking on huge loans. When the market turned more difficult due to the economic downturn and post 9-11 fall-out, many companies were too weak to service their high debt burden. As a result, many had to close down their operations.

Furthermore, only few textile companies have pursued strategies that would reduce their dependence from US customers, e.g. by developing exports and/or investing in growth markets in the developing world. Also, only few entered successfully the lucrative market of technical textiles where competition from low-cost countries is low and where margins are high. As a result, many US textile companies will be vulnerable when import quotas are lifted on 1 January 2005.

¹¹² In 2002, textile imports rose particularly from China which became number one supplier to the US sending \$ 2.68 bn to the US (15.8% of total US textile imports), up from \$ 1.93 bn in 2001 (12.5%, number three supplier). Other important developing country suppliers are India, Pakistan and South Korea.

➤ INDUSTRY INFLUENCE ON US TRADE POLICY

INTEREST GROUPS AND THE POLITICAL SYSTEM

Due to their vulnerability and the prospect of an increase of ever cheaper imports, the US textile industry is actively trying to shape US trade policy. The T/C industry is, however, not organised in one central industry body, but rather in a range of industry associations whose interests are not always identical.

The most powerful and outspoken industry body is the American Textile Manufacturers Institute (ATMI) which represents yarn and fabric manufacturers. Within ATMI it is particularly the weavers that shape the organisation's stance on trade policy, which has traditionally been a very protectionist one. The man-made fibre industry is organised within the American Fiber Manufacturers Association (AFMA) which is often supporting ATMI on trade issues.

On the other side of the spectrum is the American Apparel and Footwear Association (AAFA) whose members shared for a long time the protectionist views of the textile industry. However, as AAFA's members resorted increasingly to outward processing and direct importing, they shifted towards a more liberal stance, and today often support a free-trade agenda. One of the most vocal defenders of free trade is, however, the U.S. Association of Importers of Textiles and Apparel (USA-ITA), representing the retail sector, as well as importers and trading houses.¹¹³

Industry influence on US trade policy is facilitated by the political system, and particularly by the role of Congress. In principle, responsibility for foreign trade lies with the Congress. However, it delegates this competence to the US President (Trade Promotion Authority – TPA, formerly known as “fast-track”) who thereby becomes responsible e.g. for negotiating international bilateral or multilateral trade agreements. In the past, however, the so-called “Textile Caucus” within Congress regularly linked its agreement to the President's trade initiatives to specific concessions for the T/C industry. In general, such concessions were largely directed towards the protectionist demands of ATMI and its members, while AAFA's and USA-ITA's free-trade interests tended to get less attention in Congress.

ASYMMETRY IN INTEREST REPRESENTATION

The asymmetric nature of influence on US textile trade policy is most visible in the following examples:

- **Agreement on Textiles and Clothing (ATC):** due to strong lobbying from the textile industry the lifting of the most sensitive textile and clothing categories, where quotas are generally strongly used, were left to the very end of the 10 year transitional period foreseen by the ATC;
- **Trade Promotion Authority (TPA):** Whenever TPA – or in the past “fast-track” – is to be granted by Congress, the textile industry successfully resists undesirable provisions and/or tries to

¹¹³ Other pro free trade associations include: American Import Shippers Association, the National Retail Federation, the International Mass Retail Association.

get special concessions for the sector. When most recently TPA was eventually reintroduced in 2002, it received only a positive vote when the concerns of sectors, such as textiles and agriculture had been taken care of.

- **WTO Doha Development Round:** At the launch of the Round, US negotiators strongly defended the US textile industry position not to accelerate the integration of ATC quotas, as had been requested by India and other developing nations. At the WTO Ministerial in Cancun (Sept. 2002), the US industry again tried to safeguard the protectionist interest of the textile industry (including on cotton). ATMI had demanded that developing nations open up their markets first before the US would offer tariff concessions to these countries.
- **Concessions to Pakistan:** After the attacks of 9/11, the US government considered to offer Pakistan special preferences to reward the country for its support in the war on terror. However, after intervention from ATMI and other industry associations, Congress opposed. No concessions were granted.

On the other hand, there are some signs that the influence of ATMI is not unchallenged anymore and that free-trade interests do get a slightly better hearing today than still a few years ago:

- With company closures and massive job losses in the textile (and clothing) industry, ATMI is inevitably losing economic weight. To offset this, ATMI is increasingly working through coalitions such as “AMTAC” (**American Manufacturing Trade Coalition**) which includes Fiber Manufacturers (AFMA), Trade Unions (UNITE), Spinners (AYSA), cotton producers (NCC), textile machinery producers (ATMA), etc. While such campaign coalitions can increase the industry’s impact upon political decision-makers, it is also a sign of ATMI’s relative weakness.
- When the **Andean Nations Preferential Trade Program** was renewed a few years ago, ATMI failed to exclude textile and clothing. Instead, the clothing industry’s and retailers’ free-trade interests ensured that this programme includes – for the first time – trade preferences for T/C. Similarly, AAFA and the retail sector were able to introduce various provisions in recent **Central American Free Trade Agreement** (CAFTA) which were strongly opposed by ATMI.¹¹⁴
- While ATMI had lobbied the government to ensure the new bilateral **US-Vietnam Textile Agreement** imposes restrictive import quotas, the agreement eventually struck in April 2003 was much more liberal than expected. ATMI described it as “an absolute disaster for this industry”.
- ATMI had lobbied for quick introduction of **safeguard measures against China**, but it was unable to accelerate the process of adopting the procedural rules necessary to launch such measures. It took the federal government 16 months (after the China textile safeguard clause took effect) to publish the relevant rules.

Despite these successes of the more liberal parts of industry, ATMI and its allies are still a powerful player in US trade policy-making, particularly in times of Presidential elections.

In fact, the most recent example for this is the US administration’s decision to impose **safeguard measures against imports from China**, against the opposition from retailers and AAFA. In mid July 2003, ATMI and other related associations filed three petitions to invoke the China textile safeguard

¹¹⁴ CAFTA (involving EL Salvador, Guatemala, Honduras, and Nicaragua) was concluded in Dec. 2003 and is now awaiting ratification in Congress.

clause to re-impose quotas on knit fabrics, gowns and brassieres. After studying this request and further to intense industry lobbying (incl. grassroots actions such as textile voters' registration, personalised e-mails and letters to Congress and the President, etc.), in November the government decided to give way on all three petitions and to impose safeguard measures for one year starting on 24 Dec. 2003. While welcoming this decision, ATMI announced that it will push for further such measures should China continue to flood the US market and to use its undervalued currency to gain market share in the US.

Finally, ATMI is a leading member and co-initiator of a coalition of manufacturing and agricultural associations (www.sounddollar.org) that presses the US government to initiate punitive WTO or IMF actions against Asian countries – and China in particular – that keep their currencies artificially low to improve their export competitiveness.

➤ CONCLUSIONS

Despite decades of import protection, large parts of the American T/C industry are badly prepared for and vulnerable to the lifting of the ATC quotas on 1 January 2005. As demonstrated by the last quota removal in 2002, particularly China has the potential to dominate many parts of the US clothing market – largely at the expense of other, less competitive developing countries. While the US clothing industry will come under considerable pressure due to direct competition with imports, the textile industry will also suffer to a large extent indirectly, i.e. due to a gradual erosion of its customer base in the US and neighbouring preference-receiving countries.

Ironically, one may consider that this effect will be – at least partially – due to the textile industry's successful lobbying over the past decade(s) which resulted in a delay of substantial liberalisation until the very end of the ATC. Many observers therefore expect a “liberalisation shock” in 2005, reinforced by the fact that US retailers and importers are known to be good at anticipating regulatory change and quick to make best use of improved import conditions. While the threat of safeguard measures against China already today reduces retailers' readiness to shift too much of their sourcing to China, their imports from China and other developing countries such as India, Pakistan and Vietnam are widely expected to start increasing in 2005, and to gain momentum in the years thereafter – once their sourcing strategies have been fully adjusted to the quota-free environment.

The possibility of increasing imports from formerly quota-restrained countries will undoubtedly increase the economic and political stakes of all players involved. Retailers, importers and clothing manufacturers will have a lot to gain from continued free-trade after Jan. 2005 and a lot to lose from safeguard measures against China. The reverse is true for the textile industry. Despite its shrinking economic weight, ATMI and its allies can therefore be expected to strongly lobby in favour of wide-ranging import protection. As 2004 is an election year and as imports from China are likely to further increase during that year, conditions for ATMI to get Congress and the administration to listen to their concerns are better than ever.

The recent introduction of safeguard measures against imports from China sets both a precedent and sends a political signal that the US government – i.e. a President who wants to be re-elected – is ready to help the US textile industry and textile workers. What happens *after* the election will largely depend

on the promises made to the textile industry during the **election campaign**, on the extent to which imports increase and import prices decrease after quota removal, and on which position China chooses to adopt (i.e. a co-operative, self-restraining stance, possibly accompanied by an appreciation of its currency, or a self-assertive stance combined with a credible threat of retaliation in other sectors). While the longer-term future is widely open, US textile trade policy over the coming 2-3 years is likely to create controversy both within the US and abroad.

Appendix: Sources USA

Unless otherwise specified statistics and related information used in this chapter have been taken from:

- WTO International Trade Statistics, 2001, 2002, 2003
- American Textile Manufacturers Institute (ATMI); publications and press releases 2002-2003
- American Apparel and Footwear Association (AAFA); publications and press releases 2003
- US Department of Commerce, OTEXA, various publications 2002-2003

3.3 OTHER SIGNIFICANT PLAYERS

➤ BANGLADESH

Bangladesh	Value 1995	Value 2001	Evolution 1995-2001 per annum
GDP billion US \$	37.9	46.7	4 %
GDP per capita US \$	315	350	2 %
Imports textile (million US \$)	1 481	1 531	1 %
Imports clothing (million US \$)	n.a.	n.a.	
Exports textile (million US \$)	432	496	2 %
Exports clothing (million US \$)	1 969	5 111	17 %
% Textile in total exports	n.a.	8 %	
% Clothing in total exports	n.a.	78 %	
Inflation (GDP deflator in annual %)	7	1.58	
Gross domestic savings (% of GDP) (2000 instead of 2001)	13	18	
Cost of capital (lending rate is not reported Treasury Bill Rate source : IFS)	14.00	15.83	
Population (million people)	120.1	133.3	2 %
Employment in agriculture (% of total employment)	63	n.a.	

General economic data are taken from IMF. Trade data come from CHELEM (CEPII).

T/C industries are key sectors for the Bangladesh economy. These largest manufacturing sectors account for 9.5% of the GDP and 50% of industrial employment. A key feature of the development of the T/C industry is the **free access** for Bangladesh products to the **EU and US markets** (duty free and absence of quotas). The industry has developed after the liberalisation of the industrial policy along with the development of export processing zones at Dhaka and Chittagong.

Important investments have been made in the **ready-made garments** sector by setting-up large plants with important economies of scale. This has enabled Bangladesh to achieve a phenomenal growth of ready-made garments from 32 million US\$ in 1983 to above 5 billions US\$ in 2001. Bangladesh became the 5th largest exporter of ready-made garments to the European Union and 6th largest exporter to the US. Today, garment exports represent 75% of the total exports of the country.

➤ TEXTILE AND CLOTHING INDUSTRY : STAKES AND PERFORMANCE

• Production

The **production** is mainly concentrated on **T-shirts, shirts, trousers, jackets and sweaters**. In 2000 and 2001, these five products accounted for the 70% of the ready-made garments exports. The sector intends to gradually diversify its production towards high quality items, such as quality suits branded jeans, sweaters and embroidered wear. Fabrics are produced mainly for domestic use. The textile industry is also trying to produce higher quality fabrics. In 1999, Bangladesh became the largest Least Developed Country (LDC) exporter of finished, woven fabrics with 85% cotton or more, weighting up

to 200g/m². Fabric production increased from 615, 000 million meters in 1987 to 1800 million metres in 2001-2002. Yarn production capacity also has increased to 350 million kg during 2001-2002.

Availability of input materials for the ready-made garment production is a **main problem** for the clothing industry. The quality of fabrics domestically produced does generally not meet the standards required for ready-made garments for exports. Therefore, the exporting ready-made garment industry depends for 80% on imported woven fabrics and for 30% on imported knitted fabrics. The domestic fabrics are mostly used for domestic consumption, with the exception of some recent investments in the production of woven fabrics for export. The textile industry supplies 20% of woven fabrics and 70% of knitted fabrics requirements of the ready-made garment industry. The rest of the demand for yarn and fabrics is met through imports mostly from India, Pakistan and China. It is estimated that Bangladesh will meet only around 33% of fabric requirements of export sector in the year 2005.

Textile industry consists of 1 972 spinning units, 2 232 weaving units, 282 dyeing, printing and finishing units. The number of units in the textile industry has increased by 30% since 1997. Ready-made garment factories however more than doubled since 1992 and their number was estimated to be 3 618 in 2002.

The government has implemented measures to promote the production of cotton. It has increased in 2003 the price of cotton on the domestic market. The main concern of the industry is that its major fabrics suppliers - India, China and Pakistan – could stop supply after 2005 while developing their own garment industry to take advantage of the quota liberalisation. It is important to stress that the **production of ready-made garments** has been developed as a **consequence of the quota regime**. Restricted countries such as China and India using fully their quotas, Foreign investors in the ready-made garments sector have chosen Bangladesh due to its favourable access to the EU and US market and its low-cost labour. Hence, the removal of quotas could have negative impact on the Bangladesh garment industry.

- **Exports**

In 2001, **exports of ready-made garments** from Bangladesh accounted for 5 billion US\$ in 2001, representing 75% of the country total exports, thereby being extremely important for the country's economy and employment. Given its preferential access to the European market, 45% of the Bangladeshi T-shirts exports are being imported into the EU. Between 2001 and 2002, ready-made garment exports declined from 5.1 to 4.58 billion dollars due to global recession and the reduction of exports to the US due to September 11.

Exports of other textiles products are not significant, although in the recent years Bangladesh started also the export of woven fabrics. The export of woven fabrics has increased from 106 million kg to 114million kg. The export of knitted fabrics has increased from 36 million kg to 39million kg.

- **Imports**

In 2001, **total imports** of textiles reached 1.531 billion US\$ ¹¹⁵. These figures cover yarn and fabrics. Majority of the Bangladesh clothing production is exported and need good quality imported fabrics. The local demand for fabrics is estimated to be 1,325 million meters annually.

¹¹⁵ Important discrepancies in import data exist, as Bangladesh Bank seems to indicate the figure of 7.697 billion US\$, which might cover all direct and indirect (for OPT) imports.

- **Employment and labour costs :**

It is estimated that 800 000 women work in the textiles factories in Bangladesh. The industry is one of the largest employers in the country and is particularly **vital for female employment**. The average salary for the textile workers is around 22 to 60 Euros/month. Although the literacy rate is still only around 64%, the trend towards education is noticeable. The government has implemented since 2 years a programme for the eradication of child labour, which also aims to decrease illiteracy.

The employment in the sector is very unstable and sensitive to international crises. The recent decrease in exports after 2001 has provoked job losses for thousands of workers. The crisis after September 11 and the war in Iraq have caused a decrease in the textile employment by 1/8.

➤ **INDUSTRY ANALYSIS**

The **ready-made garment industry** is considered to be a highly **dynamic sector** with an impressive growth over the recent years. However, the sector is very dependent on raw material imports, which can be negative for its further development.

Progressively, the industry of Bangladesh has become highly concentrated on low-value added products and heavily dependent on imported inputs. The industry must develop vigorous market access strategies that include diversification in production, strict quality control and innovation. Further investment in workforce training must also be done in order to maintain market shares after 2005.

- **Competitive analysis**

The textile industry in Bangladesh is losing competitiveness due to the **low diversification** of the sector and the **over-reliance on import** for inputs. The recent crises have shown the sensibility of the sector to changes on the international market. For example, the liberalisation of the access to the US market for gloves and silk trousers in 2002 had a very negative impact on the Bangladesh exports. A comparison of the first nine months of 2002 data with the precedent year shows a 32% drop in Bangladesh's glove exports to the US. Concurrently, China's gloves exports have gone up by more than 67%, whereas India exports grew by almost 62%. A similar tendency may be observed for silk trousers.

- **Main Strategies**

The **government** has started the implementation of several **initiatives** in view of the quota removal. Incentives are given to companies for the development of yarn and fabrics production. However, these measures do not seem sufficient to reach sufficient production able to satisfy the needs of the domestic industry by 2005. The government has also started actions for the improvement of the port infrastructure. The poor port infrastructure constitutes a serious obstacle to increasing exports by provoking numerous delays. This gives an important advantage to competitors from other textile suppliers countries (e.g. Sri Lanka, Indonesia, China ...).

The **“Action Programme 2001-2010”** foresees strategies and actions for the T/C sector. These include the modernisation of production plants, the diversification of production and exports, the standardisation and improvement of quality, infrastructure investment, improvement of price-quality ratio, some incentives for foreign investment, the development of high-value production, the

improvement of the work force capacities and the drafting of a study with the Asian Development Bank on the competitiveness of the Bangladesh industry.

- **Assessment of future competitiveness in view of quota removal :**

Without profound changes in the countries' textile industry and the implementation of specific provisions in the WTO to protect the Least Developed Countries after the quota removal, Bangladesh risks therefore to face drastic losses in market shares after textile **liberalisation**.

In comparison with its main competitors, Bangladesh is **too dependent on imports of inputs materials**. Bangladesh risks to face a significant shortage of supplies if their traditional suppliers decide to develop their own industry. In addition, the domestic production might be affected by the eventual rise of price of the raw materials on the international market.

Asian competitors will become more competitive after 2005 and gain market shares on Bangladesh's key export markets, such as the EU and US. For example, the Chinese industry will take advantage of lower wages, higher labour productivity and quicker response to the demand. In Bangladesh, labour productivity is estimated to be 20% lower than in China and Sri Lanka. At present, Bangladesh exporters take 90-120 days delivery time, whereas the delivery time for Chinese exporters is only 45-60 days.

To face a quota free world, Bangladesh must address the **supply-side constraints** and **improve the port infrastructure**. After quota removal, the importance of the labour costs will decrease and other factors will gain in importance, such as the availability of raw materials and "delivery on time" capabilities (dependent on the efficiency of ports and other infrastructure facilities). The improvement of import-export facilities and the maintenance of a constant quality will be essential for the evolution of exports after liberalisation.

In order to maintain its market shares or reduce losses, Bangladesh needs to implement a **product diversification strategy** with the introduction of products in the medium to higher market segments and development of sufficient inputs material production. The modernisation of production, better upstream industries (spinning and weaving), the training of workers will be extremely important issues on view of trade liberalisation.

The limited time remaining until 2005 is the crucial challenge for the Bangladeshi industry, and many observers fear that the country will suffer important losses of market share after the quota liberalisation in 2005.

➤ **BULGARIA**

Bulgaria	Value 1995	Value 2001	Evolution 1995-2001 per annum
GDP billion US \$	131	127	- 1 %
GDP per capita US \$	15 602	15 651	0 %
Imports textile (million US \$)	319	622	12 %
Imports clothing (million US \$)	100	260	17 %
Exports textile (million US \$)	154	147	- 1 %
Exports clothing (million US \$)	380	1 078	19 %
% Textile in total exports	3 %	3 %	
% Clothing in total exports	7 %	19 %	
Inflation (GDP deflator in annual %)	63	7	
Gross domestic savings (% of GDP) (2000 instead of 2001)	14	11	
Cost of capital (lending rate source : IFS)	58.98	11.11	
Population (million people)	8.4	8.1	1 %
Employment in agriculture (% of total employment)	24	27	

General economic data are taken from IMF. Trade data come from CHELEM (CEPII).

The textile and clothing industry is one of the most important sectors of the Bulgarian industry. With 24 % of Bulgaria's total exports, the sector is presently **the first exporting sector**, while its share in total exports was only 10% in 1996.

The textile and clothing industry in Bulgaria represents 6% of the total industrial production. The sector is composed of around 3000 enterprises, mostly SME. 85% of companies employ less than 50 workers.

Since 1990, the companies were mainly specialised in the inward production of ready-made garments for European companies. However, recently, the companies have **diversified** their production. This is mainly due to the investment in the textile sector by foreign companies. After several years of decrease until 1999, the production of textile fabrics is now constantly growing. In 2001, the production of woven fabrics registered an increase of 4,7%. The production of knitted fabrics experienced an increase of 2,6%. The main reasons for this growth are the investments realised by the Italian group Miroglio and the Turkish group Maser. Some of the local companies, such as Katex and Vitex, have also reinforced their production due to the higher demand from the EU countries.

In 2002, the increase trend in exports of textile and clothing products has been confirmed. Exports of knitted fabrics increased by 82%, while woven fabrics exports increased by 72 %. Exports of synthetic fabrics and impregnated fabrics raised respectively by 49 % and 46 %¹¹⁶. Majority of the textile and clothing products are exported to the EU (85%). Greece and Germany are the main importers, followed by France and Italy. The US is the first non-EU customer of the Bulgarian textile industry,

¹¹⁶ Source : Bulgarian Statistical Institute, www.nsi.bg

accounting for 10% of total exports. However, the Bulgarian quotas for the US are under-utilised. In 2002, quota utilisation for woven fabrics was only 36% and 5% for woven women suits.

➤ **TEXTILE AND CLOTHING INDUSTRY : STAKES AND PERFORMANCE**

• **Production**

In 2001, the production of the main textile and clothing articles in Bulgaria was as follows :

Product	Production
Cotton fibres (in tons)	14 970
Cotton fabrics (in thousand m ²)	44 534
Wool fabrics (in thousand m ²)	44 500
Silk fabrics (in thousand m ²)	4 543
T-shirts (in thousand pieces)	2 461
Knitted clothing (in thousand pieces)	1 199
Work clothing (in thousand pieces)	1 277
Men's suits (in thousand pieces)	120
Men's coats (in thousand pieces)	244
Women's suits (in thousand pieces)	159
Women 's coats (in thousand pieces)	529
Dresses and skirts (in thousand pieces)	2 727
Women's shirts	1 344

Over the recent years, the production has been constantly growing. However, 80-90% of the production is **processed for foreign brands**. Few companies produce under their own brand and they are only competitive in the domestic market. As far as the garment sector is concerned, there are two different markets. The first segment is composed by garments produced under contract with the EU companies and exported without entering the national market. These garments are considered too expensive for the Bulgarian market. The second segment is composed by garments produced by Bulgarian companies, trying to follow the European fashion trends, which are only distributed in the Bulgarian market.

The majority of the State owned companies existing before 1989 were **privatised** in the early 90s. The big companies were bought by foreign companies and produce mainly for export. Other companies were divided into smaller production units, producing mainly for the domestic market on affordable prices. The industry is not organised and has no representative organisation, which could lobby for crucial issues (reduction of dumping imports, export strategies for the industry). The Bulgarian textile industry does not benefit from specific State support and State aids. Only the large foreign companies, which have invested in Bulgaria recently, have benefited from various tax reductions.

The protection of the Bulgarian textile sector is assured mainly by tariffs. There is no quota for textile and clothing products. The imports of textile products originating in EU countries are exempted from duties in application of the "Europe Agreement". Imports from CEFTA ¹¹⁷ countries and from Turkey

¹¹⁷ (Central European Free Area).

and the Former Yugoslavian Republic of Macedonia are also exempted from customs duties. The MFN tariffs for textile products range from 0 to 35%. For almost all clothing products, applied tariffs are 35%.

- **Exports**

The Bulgarian exports in the past three years (in millions US Dollars) are as follows :

Year	Exports textiles and clothing (in million USD)
1998	583 000
2001	1 058 000
2002	1 787 000

Over the past years, exports have been constantly growing. In 2002, increase was 62%. Another important feature is the diversification of production and exports. The export of yarn and fabrics has grown for the first time in 2001 and in 2002. This is due to the foreign investments in the yarn and fabrics industry and the increase and development of production by some Bulgarian companies.

- **Imports**

A large number of Bulgarian companies are specialised in the inward production for European companies. This explains the high volumes of textile imports in Bulgaria. The import of textiles and clothing products in 2001 and 2002 was respectively 925 million and 1 052 million dollars.

- **Employment and Labour Costs**

The sector employs around 174 000 workers. The cost of labour is 0,09 -0,10 Euro/minute. The unemployment in the textile industry sector is one of the less important in the Bulgarian industrial sectors. The number of persons employed in the textile and clothing sector has increased from 108 000 (3,8% of the labour force) in 1995 to 174 000 (7,5% of the total labour force) in 2002. According to the Ministry of Industry, the average annual salary in the textile sector was 985 USD in 2002, which represents an increase of 10,7% in comparison with 2001 (890 USD). In 2002, the number of persons employed in the textile industry has increased by 9% in comparison with 2001.

Unemployment is a major problem for the government, which explains that foreign and domestic companies, investing in the regions of unemployment exceeding 50% of the country average, enjoy some tax incentives.

➤ **INDUSTRY ANALYSIS**

The Bulgarian textile industry is a highly dynamic sector. It is an important part of the country's industrial production and is the first export industry. The diversification in the textile production with the increase of the fabrics and yarn production assures greater self-sufficiency of the Bulgarian industry. It also makes it less dependent on the inward processing for the European companies.

However, the industry remains highly dependent on international investment for the modernisation and the increase of the production in the textile industry. The country is often preferred to the other countries of the region due to the low wages and the stable investment climate. In addition, important investments have been made in Bulgaria by Greek and Turkish companies.

Few Bulgarian companies producing garments under their own brands are competitive on the international market. However, in the recent years, more companies have participated in international fairs, with the help of the industrial associations.

The domestic consumption of textile and clothing products has also increased respectively by 7.9 % in 2001 and 8.6 % in 2002.

The main problems for the Bulgarian textile industry are :

- lack of legislation enabling the development of industrial organisation
- foreign investment below the possibilities of the sector
- lack of preparation for the quota liberalisation

• **Competitive Analysis**

The Bulgarian textile industry remains competitive compared to the other countries in the region and at the international level. The main reasons are :

- low wages in comparison with other competitor regions in the Mediterranean and East European Area
- good qualification of workers (network of high schools and technical colleges)
- good quality and quick response to the demand
- proximity to the EU, which is the main customer for the Bulgarian textiles
- diversification of production
- quota free and duty free access to the EU market

However, the industry relies strongly on the international investment. Research and development are often neglected.

• **Main Strategies**

The Bulgarian government has not prepared a specific plan regarding the quota liberalisation. According to the Ministry of Economy, Bulgarian textile producers will lose market share for woven fabrics and the foreign investment in the textile industry will be negatively affected.

According to the Bulgarian Association of Textiles Exporters, the absence of a national plan or a strategy for meeting the challenges of textile liberalisation in 2005 is likely to have serious consequences for the industry competitiveness on the international market, and especially on the EU market, which accounts for 85% of the export. On the other side, representatives of the Bulgarian textile industry consider that the liberalisation will not have serious consequences on the internal market. Its impact will be comparable to the textile liberalisation (duty free) with Turkey. While the

trade with Turkey was liberalised, the imports of Turkish textiles and clothing into Bulgaria increased by 10% but Bulgarian exports to Turkey also increased.

According to a recent official economic analysis¹¹⁸, the costs of workforces will be a major factor after liberalisation. Bulgarian companies will remain competitive due to low wages applied in the sector.

- **Assessment of Future Competitiveness in View of Quota Removal :**

The liberalisation is believed to be neutral for the Bulgarian textile and clothing sector - or not to have a negative impact on the sector's position in the European market. The competition on the EU market will increase. However, it is expected that both the proximity of Bulgaria to the European Union and the absence of duties will favour the Bulgarian competitiveness. On the other side, the sector will probably be negatively affected on the US and Canada markets where it is expected 50% losses due to the increased competition with the Asian products.

The country has to invest more in research and development and in modern technology. A clear strategy on the further development of this sector should also be elaborated in order to keep the position on the European market and to increase exports.

¹¹⁸ Ministry of Economy : « Textile Industry : current state and perspectives » (in Bulgarian), 2003.

➤ **MOROCCO**

Morocco	Value 1995	Value 2001	Evolution 1995-2001 per annum
GDP billion US \$	33.0	33.7	0 %
GDP per capita US \$	1 250	1 156	- 1 %
Imports textile (million US \$)	1 201	1 463	3 %
Imports clothing (million US \$)	177	365	13 %
Exports textile (million US \$)	182	182	0 %
Exports clothing (million US \$)	2 148	2 766	4 %
% Textile in total exports	3 %	2 %	
% Clothing in total exports	31 %	31 %	
Inflation (GDP deflator in annual %)	8.0	1.0	
Gross domestic savings (% of GDP) (2000 instead of 2001)	14	18	
Cost of capital (lending rate source : IFS)	10.00	13.25	
Population (million people)	26.4	29.2	2 %
Employment in agriculture (% of total employment)	6	6	

General economic data are taken from IMF. Trade data come from CHELEM (CEPII).

➤ **TEXTILE AND CLOTHING INDUSTRY : STAKES AND PERFORMANCE**

• **Production :**

Textile production in million Euros (2001)

Spinning	247
Weaving	291
Finishing	55
Textile product	53
Carpets and other products	71
Knitted fabrics	27
Knitted products	125
Total textile	867

The overall textile production amounted to 9.3 billion Dirhams (867 million Euros) in 2001. Among the different textile sub-sectors, weaving represented 33 % of the overall textile production, spinning had a total of 28 % while knitted products reached 14 %.

Production in billion Dirhams

Year	Textile	Clothing	Total
1995	12,1	8,1	20,2
1996	12,4	8,8	21,2
1997	13	10	23
1998	12,7	10,5	23,2
1999	11,9	10,7	22,6
2000	10,4	10,3	20,7

Sources : the information of local data are from AMITH and the international data are from WTO.

Although the total production of textile and clothing has been stable (about 20 billion Dirhams) during the 1995-2000 period, the textile production decreased by 14 % while the turnover of the clothing industry was increasing by 27 %.

- **Exports :**

The production of textile and clothing in Morocco was in the region of 2 billion Euros in 2001 (a slight decrease from the year before), divided in almost equal measure between textile-knitwear and clothing.

The textile and clothing industry is one of the sectors which generates the most currency for Morocco, contributing to more than 34 % of all exports, at a value of 27.7 billion Dirhams (almost three billion Euros) in 2001. Textile and clothing exports have thus seen a sharp increase (+ 5.5 %) in 2001, boosted by the excellent performance in manufacturing (+ 6.5 %). As is expected France remains by far Morocco's first market, receiving around 32 % of all Moroccan exports. The UK is the second destination, followed by Spain. It is worth mentioning that Moroccan exports doubled towards Spain since 2000, nearly representing half of the amount of exports to France in 2002 and now represent 25 % of Spanish T/C imports.

- **Imports :**

Moroccan textile and clothing imports soared by more than 12 % in 2001, achieving a value of 41.5 billion Dirhams. The majority of imports come from the European Union, as is the case for Tunisia.

- **Employment :**

The importance of the textile and manufacturing sector in Morocco is illustrated by its considerable economic weight, since it represents almost 40 % of the country's industrial labour force, with almost 195 000 jobs divided between 1 440 production units. Apparel manufacturing represents nearly 66 % of the total textile and clothing employment, i.e. more than 127 000 jobs.

Recent years have seen the restructuring of some segments of the industry which involved several thousands job losses. For the future, as part of an ambitious textile-production development project, industry professionals are committed not only to maintain employment but also to create more than 100 000 jobs by the year 2010.

- **Labour costs :**

In 1999, according to the KSA, the cost per minute of making-up in Morocco raised to 0.117 dollars, against 0.098 in China, 0.123 in Tunisia, 0.146 in Turkey, 0.165 in Portugal and 0.159 in Poland. Eastern European countries (Romania and Bulgaria) have more attractive labour costs, those in Romania being, for example, almost 20 % less than those in North Africa.

➤ **Industry analysis :**

Due to its geographic proximity, cultural and historic links with Europe, Morocco has multiple characteristics in common with Tunisia. Similarly it is a country that specialises in subcontracting. The majority of apparel manufacturing businesses are solely exporters and their principle clients are European. Practically all materials used by Moroccan apparel manufacturers are of European origin. Home textiles production is more oriented towards the local market.

For the most part apparel manufacturers are sub-contractors, although “co-contracting” has developed over the last few years. Like Tunisia, Morocco signed a bilateral agreement with the European Union, which allows its products (apparel) to enter European markets with no customs duties, as long as the fabrics come from the European Union. This measure, joined to geographical and cultural proximity, has urged the European firms to increase investment in the Moroccan industry.

Moroccan authorities, conscious of this sector’s importance for the country’s development have increased advantages relating to it, such as encouraging investments, allowing greater liberty of imports and granting tax privileges. Thus businesses which export benefit from a complete tax-exemption from the profits made from exportation, for a period of five years counting from the first export operation. At the end of this five-year period, businesses then benefit from a 50 % reduction on tax, which brings the rate of taxation down from 35 % to only 17.5 %.

• **Competitive analysis :**

Morocco has suffered a loss in price-competitiveness in relation to its competitors due to the Moroccan monetary policy, which links the Dirham to a currency basket giving an important rate to the dollar. In effect, the value of the Dirham has shot up in compared with competitors’ currencies. This has severely penalised Moroccan textile and clothing exports in recent times and contributes to explain its performance in muted colors. The devaluation occurred in spring 2001 thus gave a salutary help to Moroccan exports, which contributed to a consequent increase in GDP. The growth rate of 6.1%, was relatively high compared with those of the two former years.

As can be seen in Tunisia, the range of fabrics on offer is not very developed, which is a major handicap for clients wanting to source material close to the apparel manufacturing location. The competitiveness of the knitwear industry however appears to be less penalised by the absence of a global offer, due to the fact that businesses have integrated in cutting and sewing activities.

Turkey, benefiting from an integrated textile industry, is a hefty competitor for Morocco. Central and Eastern European countries, specialised in tailored clothing and urban apparel, might become serious competitors because of their development in sportswear production. The Moroccan industry is diversified, with fabrics, jeanswear denim and knitwear sectors being the stronger parts. As to the CEECs, as well as Mediterranean countries, Moroccan industry needs to move towards differentiation and logistics optimisation to face Asian competition.

- **Main strategies and Assessment of Future Competitiveness in view of Quota Removal :**

The government and the Moroccan professionals of textile (AMITH) concluded an agreement on August 25, 2002 aiming to the financial reorganisation, development and maintenance of the sector competitiveness at the horizon 2010. This foresees different supporting mechanisms for the sector (namely investment incentives, the funding of financial-restructure programmes, raising the standard of technology, decreasing the energy costs at the international standart level, supporting production and granting fiscal and financial advantages for the acquisition of land and real-estate) to support the industry development and commitment.

In return, sector professionals must make consequent investments in several domains. These investments cover the production tool (for a sum of 22 billion Dirhams) as well of the training the workforce (in the region of 30 000 interns and 45 000 graduates) or even the promotion of the textile and clothing industry abroad by means of large-scale publicity campaigns

It is established that the impact of the entry of China into WTO is at least as significant as that of the abolition of quotas. Countries like Morroco and Tunisia could lose market shares, all the more as their textile upstream industry is rather weak. Therefore an important challenge is the reducing of delivery times, in order to fully maximize the advantage of Morocco's proximity, in a context where negotiations could lead to a reinforcement of free trade. This has been made possible by an important reform in the customs in 2000 including administrative simplification and the creation of custom platforms.

More globally, the Moroccan textile Organisation (AMITH) has conducted a large strategic study in order to reinforce the competitiveness of the sector for the next years. This has led to the "white paper" of the textile and clothing industry, which includes the diagnosis of the industrial competitiveness of the sector and the formulation of a new strategy and action plan. Concerning the industrial aspects, the study emphasises the necessity of an improvement in the fields of productivity, flexibility, reduction of delivery time, co-contracting, design and collectioning. It also recommends the development of the upstream textile offer, more specially the finishing industry, along with the development of sourcing capacities. Another major point deals with the development of knowledge and competencies at all the levels of the industry, including managers. The study also insists on the opportunity of creating an economic observatory and a fashion school.

➤ **ROMANIA**

Romania	Value 1995	Value 2001	Evolution 1995-2001 per annum
GDP billion US \$	355	397	2 %
GDP per capita US \$	15 642	17 732	2 %
Imports textile (million US \$)	923	1708	11 %
Imports clothing (million US \$)	223	690	21 %
Exports textile (million US \$)	185	269	6 %
Exports clothing (million US \$)	1 310	3 227	16 %
% Textile in total exports	2 %	2 %	
% Clothing in total exports	16 %	27 %	
Inflation (GDP deflator in annual %)	35.3	37.0	
Gross domestic savings (% of GDP) (2000 instead of 2001)	19	14	
Cost of capital (lending rate is not reported Treasury Bill Rate source : IFS)	51.09	42.18	-3 %
Population (million people)	22.7	22.4	0 %
Employment in agriculture (% of total employment)	40	42	1 %

General economic data are taken from IMF. Trade data come from CHELEM (CEPII).

The textile and clothing sector is one of the most important sectors for the Romanian industrial production and exports. In 2001, T/C exports accounted for 26% of the total exports. If the industry started to recover after the big drop in industrial production in the early 90s, it is due to the important investments from the EU companies. Romania is now the first partner of the European Union for the outward processing of garments¹¹⁹. In 2001, for example, Romanian exports to Germany have grown by 9%. However, the development of processing has negatively affected the fibre producing companies, which were the main partners of the garment companies before 1989.

➤ **TEXTILE AND CLOTHING INDUSTRY : STAKES AND PERFORMANCE**

In 2001, the overall number of textiles companies in Romania was 7536. The majority of these companies are micro-enterprises with less than 10 workers (4.762 companies). The number of workers ranges from 250 up to 4000 workers in 299 companies. It ranges from 50 up to 249 workers in 594 companies. The majority of the companies are private, only 52 companies are still mostly state-owned.

The **clothing sector** is much more important than the fibre and fabric production sectors. The modernisation of the garment sector is also higher, due to EU recent investments. As a matter of comparison, only 17% of the fibres and fabrics units have invested in modern technology, whereas this percentage is 80% in the garment production units.

¹¹⁹ It is mentioned « Outward processing » while taking the point of view of EU companies and « Inward processing » while commenting on the production of Romanian companies.

- **Production**

The production of the main sectors presents as follows :

Production	Units	1999	2000
Fibres	Million tons	50,7	50,1
Fabrics	Million m ²	214	204,8
Knitted garments	Million pieces	34,2	33,8
Textile garments	Million pieces	136,9	181,2

According to these data, only the woven apparel sector is growing in Romania due to the inward processing production. In the other sectors, the production is decreasing. One of the main problems is that yarn and fabric companies are mainly searching niches for exports in order to have working capital for new investments, whereas the garment companies lack in working capital to buy imported fabrics and become dependent on the inward processing production. Due to the major crisis in the local chemical production, some companies are also lacking in raw materials – synthetic fibres, dyeing, etc.

- **Exports**

Total textile and clothing exports have been increasing, since 1999, mainly due to the growth in garments exports. Exports figures for the period 1999-2001 are as follows (in million US Dollars) :

Year	1999	2000	2001
Total T/C exports	2.199	2.500	2.998
Garment exports	2.033	2.082	2.493

In 2001, 93% of the Romanian garment exports were destined to the European Union, and in particular to Germany, Italy, France and the UK. As a result, Romania became the first ready-made garment supplier of the European Union.

- **Imports**

Imports are also significant, due to the high percentage of **inward processing trade** for European companies. Almost 100% of the orders are placed in the “lohn system” for which the buyer delivers all necessary material to the producer. This trade is of capital importance for the Romanian industry, due to the high number of employed people in the clothing industry and the important share of the industry in total industrial production and exports.

Data of the overall T/C imports and the imports for processing in Romania show how the Romanian industry is dependent on “the lohn system”. The imports in million dollars are as follows :

Year	1999	2000	2001
Total T/C imports	1.942	2.500	2.998
Imports for processing	1.749	N.A	N.A.

The products for processing are originating mainly in the European Union. The **major advantages** of the Romanian industry are the rather qualified work force, the low wages, the proximity to the European Union, the absence of quota and the duty free access to the EU.

The **main disadvantages** are the low development of the raw material industry, the low level of modernisation of the fibre and fabric sector and the absence of economy of scale due to the small production lines.

- **Employment**

The textile and clothing industry is one of the **main employers** in Romania. 216 000 persons are employed in the textile sector, accounting for almost 20% of the Romanian work force. The wages are around 100-150 Euro/month, which represents between 0,06 and 0,09 Euro/minute. The number of persons employed in the sector is constantly growing, due to the growth of the contracts for inward processing production with European companies. The wages have not significantly grown over the recent years and remain significantly lower than EU wages.

Low wages, combined with the **proximity to the European market** in comparison with the South-Asian countries, and the qualification of the labour force render Romania attractive for the European companies. Several specialised schools and Universities exist, which assure also the good quality of the products.

- **INDUSTRY ANALYSIS**

The majority of the products processed for European companies are not distributed in the Romanian market. The Romanian market is mainly supplied by the **micro companies**, which produce exclusively for the domestic market. They have often less than 10 workers and lack modern technology. Therefore, the products are often of poor quality. Some small and medium companies have also started production under their own brand and try to follow the fashion trends.

The main problem of the Romanian textile industry is the weakness of the **inputs material**. The yarn and fabrics producing companies are mainly large companies with under-utilised capacities. 80% of these companies are public-owned and have experienced serious financial difficulties. The sector is not modernised and use backward technology from the 70-80. Fibres produced are non-competitive on the domestic and export markets.

Recently, the government started to encourage the **investment** in the textile sector, and stimulated the industry to produce their own collections for the domestic market and for export. The aim is to reduce the dependency of the Romanian industry on external orders. On the other side, some public-private partnerships have been created in the fibre sector. For example, in the hemp fibre sector, important investment has been made by a German company, in order to increase the Romanian production of hemp fibres for the domestic and German markets.

The textile distribution sector is experiencing an important development, several international groups are present on the Romanian market such as Naf-Naf, Kookai, Benetton, Stefanel, Steilmann and Mango.

- **Competitive analysis**

The competitive analysis of the Romanian industry is highly dependent on the sub-sector considered. The **clothing sector** can be considered as highly **competitive** on the international level. However, the **fabric sector** has been **losing competitiveness** in the recent years. The situation of the primary production sector should be improved in order to reduce the dependency of the Romanian clothing sector on imported materials. In fact, the competitiveness of the clothing sector could be reduced if the prices of raw material were increased on the international market.

The clothing sector is one of the most competitive in the region, along with the Bulgarian clothing sector. These countries have gained competitiveness in comparison with other Central and East European countries, such as Poland and Hungary, mainly due to the lower wages. On the other side, they offer more stable investment environment compared to countries such as Russia, Ukraine and Moldova. The Romanian industry is able to ensure quick response to the demand. According to European companies, which have invested in Romania, the fast delivery time is one of the main advantages of the Romanian industry.

- **Main Strategies**

The government has not prepared a specific action plan for the quota liberalisation. However, in its Strategy 2001-2002, the government foresees the valorisation of the SME potential as the main providers of jobs to the economy, by easing their access to reasonably evaluated credits for the working capital, electrical power and transport and also loans for the development of equipment leasing especially for the industrial sectors that can influence the development of the production of raw materials for the primary textile industry (woven and finished materials).

The Romanian textile industry is still not well organised. This strongly hampers its capacity to lobby for the elaboration of specific programmes and strategies for the forthcoming liberalisation.

- **Assessment of Future Competitiveness in view of Quota Removal**

The quota removal is likely to have **neutral** or **negative impact** on the Romanian textile industry. The EU is Romania's first trade partner. The country has no quotas for exports to the European Union. However, the removal of quotas for Asian countries will increase competition among suppliers. Romania could probably retain its current position on the European market. Nevertheless, the growth of sales and exports might be impeded by the growth of the Asian imports into Europe. The Asian countries have greater production facilities and availability of raw materials. On the other side, the Romanian products are not subject to customs duties in the European Union. The Romanian industry can ensure very fast response to the demand, which renders the country a more attractive destination not only for European investments but also third countries investments (Indian or South Asian companies willing to benefit from a tariff free access to the EU market).

➤ **TUNISIA**

Tunisia	Value 1995	Value 2001	Evolution 1995-2001 per annum
GDP billion US \$	18,0	20,0	2 %
GDP per capita US \$	2 008	2 071	1 %
Imports textile (million US \$)	1 293	1 623	4 %
Imports clothing (million US \$)	391	470	3 %
Exports textile (million US \$)	185	252	5 %
Exports clothing (million US \$)	2 308	3 016	5 %
% Textile in total exports	3 %	4 %	
% Clothing in total exports	44 %	42 %	
Inflation (GDP deflator in annual %)	5.0	2.5	
Gross domestic savings (% of GDP) (2000 instead of 2001)	21	24	
Cost of capital (lending rate is not reported local market Rate source : IFS)	8.81	6.04	
Population (million people)	9.0	9.7	1 %
Employment in agriculture (% of total employment)	n.a.	n.a.	

General economic data are taken from IMF. Trade data come from CHELEM (CEPII).

• **Production :**

The share of clothing represents 74 % of total Tunisian textile production in 2002, compared to 62 % in 1997.

PRODUCTION DATAS

Million Tunisian dinars

	1997	1998	1999	2000	2001	2002
Spinning	209	188	145	175	212	169
Weaving	465	504	551	607	673	263
Knitting	625	682	751	833	931	927
Finishing	30	33	36	40	45	55
Clothing	2 347	2 579	2 855	3 189	3 596	4 478
Other textiles	125	138	152	167	188	139

PRODUCTION DATAS

BREAKDOWN BY TYPE OF PRODUCTS (value)

	1997	1998	1999	2000	2001	2002
Spinning	5 %	5 %	3 %	3 %	4 %	3 %
Weaving	12 %	12 %	12 %	12 %	12 %	4 %
Knitting	16 %	17 %	17 %	17 %	16 %	15 %
Finishing	1 %	1 %	1 %	1 %	1 %	1 %
Clothing	62 %	63 %	64 %	64 %	64 %	74 %
Other textiles	3 %	3 %	3 %	3 %	3 %	2 %

• **Exports :**

In 2001, Tunisia exported the equivalent of 4 billion dinars (3.1 billion Euros), a 23.4 % increase compared to 2000. Tunisian T/C exports are for the majority (96 % of value) destined for the European Union and represent 45 % of the total exports of the nation's manufacturing industries.

Tunisia is the fourth clothing supplier of the European Union and its first supplier for trousers and jeans, bathing suits, corsetry.

- **Imports :**

In 2001, Tunisia imported the equivalent of almost 3 billion dinars (2.3 billion Euros), a 23.3 % increase compared to 2000. The majority (90 %) of imports come from the European Union.

- **Employment :**

The T/C sector constitutes (along with tourism) one of the pillars of the Tunisian economy, employing approximately 200,000 people. The sector currently comprises 1,910 companies with more than 10 employees (of which two thirds export part of their production). Amongst these companies, 869 benefit from foreign investment (of which 536 with 100 % foreign capital, principally European in origin).

- **Labour costs :**

In 1999, according to the KSA, the cost per minute in the clothing industry in Tunisia rose to 0.123 dollars, compared to 0.117 in Morocco, 0.098 in China, 0.146 in Turkey, 0.165 in Portugal and 0.159 in Poland. Oriental European countries (such as Romania and Bulgaria) have significantly more attractive salary costs (in the case of Romania about 20 % less than in the Maghreb region).

➤ **Industry analysis**

Tunisia, which benefits from its advantageous geographic proximity to Europe, has specialised itself in subcontracting. The majority of apparel manufacturers are fully export oriented with their first clients being European (Tunisia signed in 1976 an agreement with the European Union granting duty-free access to Tunisian products). Moreover, “the investment incentive code” (off shore system) allows corporations that export the totality of their production to benefit from specific advantages : investment incentives, tax advantages, freedom to import, etc. These totally exporting companies are thus exonerated from profit taxes for ten years (compared to five years in Morocco).

The structure of T/C exports in Tunisia is dominated by woven clothing (75 % in value), knitted clothing representing a lesser share (18 %).

- **Competitive analysis**

While the apparel sector in Tunisia is quite substantial, the up-stream textile sector comprises fewer than 200 companies. The textile spinning mills have 165,000 spindles compared to 520,000 in Morocco and more than 6 million in Turkey. The weaving sector comprises approximately 6,000 looms, (more than half shuttle-looms). For comparison’s sake, Morocco has 7,000 looms, and Turkey more than 60,000.

Thus, clothing firms in Tunisia for the majority call upon imports to supply their fabrics and trimmings. Imports of fabrics account for more than 60 % of the total value.

Tunisian clothing manufacturers are far from being capable of proposing to European clients a comprehensive offer with both textile and clothing integrated. As a consequence, the recent development of co-contracting (case in which the clothing manufacturer purchases the fabric on behalf of the client) hardly benefits local industrials.

It is worth noting that Tunisia offers a specific advantage to customers as customs controls may be organised in factories themselves.

- **Main strategies and assessment of future competitiveness in view of quota removal**

The progressive ending of ATC and the consequent reinforcement of competition have urged Tunisia to try and surpass its simple role as an subcontractor by proposing a more complete offer to clients. Certain Tunisian suppliers find themselves at the head of true platforms composed of satellite subcontractors. The head of the network centralises the entire scope of services (grading, cutting, grouping, packaging, dispatching...) in such a manner as to only present to the principal a single representative.

Such a development of services should permit Tunisia to move from the mass production of basics, which is the strong hold of Asian production enjoying a competitive advantage that Tunisia simply cannot rival. On the other hand, the development and promotion of national brands is difficult, because of the financial weakness of the clothing sector and of the small size of the domestic market.

**STUDY ON THE IMPLICATIONS OF THE 2005 TRADE
LIBERALISATION IN THE TEXTILE AND CLOTHING SECTOR**

Tender N° ENTR / 02 / 04

**CONSOLIDATED REPORT
Part 2**

Paris, February 2004

**4 – LIKELY DEVELOPMENTS OF RETAILERS’
AND BRANDS’ SOURCING STRATEGIES**

Summary

*Apparel and home textile consumption in the EU is largely **driven by retailers**. They are the largest importers of extra-EU merchandise. The sector is still less concentrated in the EU (58%) than in the USA (86%) or Japan (83%) but this **concentration ratio is rising**. Even though the consumer market is likely to remain more fragmented in the EU, the foreseeable consequence of this trend is a growth in imports, particularly in the low price segments*

*Few retailers and brands consider drastically changing their sourcing behaviour in 2005. Changes take time and will consist mainly in shifting **their sourcing locations** within countries and between countries, rather than in a substantial increase in overall import volumes from Asia. While in the medium- to long-term the share of total imports may increase slightly, the main change will consist in a substantial **increase of imports from China**, mainly to the detriment of other Asian supply countries. But due to various uncertainties, most retailers and brands will avoid any over-reliance on China. Near sourcing, i.e. from the PanEuroMed region, will remain important even after 2005, mainly for reasons of quick response, creativity and the need to keep stocks low. But **Asia is catching up** quickly and will force suppliers close to the EU to constantly renew their competitive advantages in order to keep their share in retailers' and brands' purchases.*

4.1 RETAIL AND BRAND STRATEGIES AFTER 2005

This chapter focuses on the strategic developments in the clothing and home textile retail industries and includes store and non-store retailing activities like selling on the internet. It also includes sales of technical items (e.g. protective clothing) which are designed for private consumption. As a whole, this represents some 70% of the EU market and roughly the same proportion for export markets¹²⁰.

Technical textiles for non-consumer oriented applications do represent a segment with better growth potential for the EU textile industry even though they are much smaller in value terms. However, as explained at the beginning of the present report, this segment is extremely fragmented as it serves many intermediate markets (e.g. the automotive industry, energy services and medical supplies) and is impossible to grasp in such a consolidated approach as the one chosen here.

➤ CURRENT STRATEGIC DEVELOPMENTS

GLOBALISATION OF EUROPEAN RETAILING STILL LIMITED

In Europe apparel and home textiles retailing is still largely done by national or regional players. Few companies make more than 30%¹²¹ of their turnover outside of their country of origin; although cases in point include French hypermarkets like Carrefour (which began globalising as early as the 1970's), franchises like Benetton and chain stores like Ikea, C&A and Décathlon.

Success is by no means a given, as evidenced by Marks & Spencer in 2001, with the closing of its stores abroad. It serves as a reminder of the difficulty involved in developing a retail brand within Europe where there still exist **great differences** in tastes for clothing, in the relationship to fashion, and in price and distribution structures. Therefore, the globalisation of retailing has been happening at a slower rate and remains less widespread than the advances made by a few trail-blazing brands might lead one to believe.

However there has undoubtedly been an acceleration in the creation of truly international point-of-sales networks recently, especially with chains like H&M, Mango and Zara sprouting up, gradually covering all of Europe and contributing to a certain amount of convergence in terms of fashion and price range. The success of these brands lies in their understanding of the usages and expectations of a well-identified target population of consumers, in their vertical control over their value chain – from the design of products to their commercialisation – and in their use of sophisticated information systems. Their development all over Europe has been speeding up competition at an unprecedented rate, and exerting ever greater pressure on price, turning these players' way of doing business into the new standard for fashion retailing for the great majority of retailers.

¹²⁰ See in chapter 1, sections concerning Market Trends.

¹²¹ Quantitative and qualitative data and analyses presented in this chapter are based on a series of approximately 25 interviews with retailers and brands in Europe made for the purposes of the present report. They are also based on the information and knowledge accumulated in many previous reports on T/C retailing in Europe by IFM/Ctcoe.

Thus, confronted with the saturation of most of the national markets and increasing pressure on prices, European retailers are trying to preserve and/or improve their competitiveness among others through sheer scale by means of **global development**. Initially, Europe – i.e. the E.U. and the 10 applicant Members – has constituted their natural area for expansion. The emerging markets in South America and Asia are being approached strategically mainly by the largest brands, and by some more modestly sized players as opportunities arise.

In addition, the unification of European markets and the institution of a single currency attract certain US retailers, among them the leader in the field, the giant Wal-Mart. Therefore, although globalisation of retailing has lagged behind that of the large brands, it is now becoming a reality.

GLOBALISATION OF SUPPLY

From the early 1980's on (at the latest), European retailers have been trying to increase their competitiveness by doing their sourcing in countries with low labour costs. The vast majority do mixed sourcing, split between the PanEuroMed zone (a Euro zone, encompassing the 15 EU Members, Eastern Europe, Turkey and North Africa) and sourcing further afield, in the dollar zone, e.g. Asia, Oceania, and the Americas.

Nowadays the European retailers most involved in globalisation think in terms of production and consumption areas, which can be divided into three major regions :

- Europe and the entire PanEuroMed zone, the major consumption area and leading manufacturer of products consumed in this zone,
- Asia, an emerging consumption area and the leading manufacturer worldwide,
- The Americas, an emerging region for Europeans, both in terms of consumption and, to a much lesser extent, production.

In every Member State, the market share held by organised retailers is expanding. Interestingly it has expanded from 1998 till 2001 everywhere, whatever the existing concentration level : in the UK (83 % concentration) as well as in Italy (27 % concentration), the gain was similar : 2 or 3 percentage points.

Table 32: Apparel retail concentration and import penetration

	Apparel/import growth (value) 1998-2001	Import penetration (2) ¹²² 2001	Organised retail / total consumer market	Concentration change in % points 1998-2001
Germany	+ 11 %	53 %	61 %	+ 1
France	+ 34 %	51 %	71 %	+ 3
Italy	+ 57 %	22 %	27 %	+ 3
Spain	+ 132 %	24 %	41 %	+ 4
UK	+ 62 %	46 %	83 %	+ 2
EU 15	+ 33 %	44 %	58 %	+ 2
USA		60 %	86 %	
Japan		65 %	83 %	

Sources : IFM database, national panel data.

This concentration corresponds to changing consumption patterns in the EU : retail chains and other **organised retailers** (hypermarkets, department stores, mail order) provide an adequate answer to

¹²² Imports valued at consumer prices level

consumers wishes for affordable prices. This concentration trend applies both for fashion apparel as for interior textiles.

Even though the overall rate of retail concentration reaches some 58 % in Europe (15), the situation remains quite different from the one in the USA (concentration : 86 %) and Japan (83 %).

This concentration phenomenon has a negative impact on consumer prices, as the offer of large retailers is generally both cheaper (economies of scale, sourcing expertise and power, etc...) and positioned around the lower price brackets of the market. European consumption is thus currently drawn into the Anglo-Saxon pattern (USA and Northern Europe) where consumers trade off quality, exclusivity and originality to the benefit of volume, "value for money" and "hot" fashion content.

As one consequence the European market is significantly penetrated by extra-EU-imports. The overall rate ¹²³ is 44 % in value, to be compared with fairly higher rates in the USA (60 %) and in Japan (65 %).

This difference in penetration rates between the EU on the one hand and the USA and Japan on the other hand, is partly accounted for by corresponding differences between concentration levels. However most of the gap lies in the very **homogeneity** of markets. Consumers in the USA and Japan are fed by nation-wide brands, ads, chain stores and fashion press : retailers' networks may reach thousand of stores, and each of their orders easily reach one million pieces of garment.

In Europe, no market is larger than the half of the Japanese one. Apart from H&M, C&A, Zara, Decathlon, IKEA and a few others, there is not much European-wide retail : such really EU-positioned chains represent one fifth to one fourth of EU consumption. Obviously the consequence of this fragmented market is a fragmentation of orders : 100,000 pieces (i.e. 10 times less than traditional US orders) make quite a high order volume for European buyers. This very fact constitutes the most effective barrier against mass import penetration.

Some limit to this concentration is set by the fact that the "European consumer", able to sustain European-wide retailers and brands does not exist yet. Converging trends are developing regarding the youth market and the luxury segment. H&M, Zara and luxury brands, each in their respective price-brackets, very successfully satisfy the need for fashion and brand image of a fairly European – if not international – consumer. But, for what concerns the very core and largest part of the markets, i.e. the mid-price, mid-fashion, comfort- and use- oriented consumption, it might take several generations until this largest segment becomes truly European. Marks and Spencer's recent retreat gives evidence that however professional and powerful organisations may be, they can hardly serve a non-existing EU standard consumer.

However, concentration within Member States is in particular in Southern economies, like Italy, Spain, Portugal and Greece. In parallel, firstly on those very markets. The consequence will be that the local industries will suffer from tougher competition on their domestic markets. Therefore those economies which presently provide textile items for the rest of Europe (the intra-EU trade represents

¹²³ Import value adjusted into consumer value equivalent

60 % of total EU textile trade and 67 % for clothing) will lose sales volumes on their domestic and export markets and imports will be tapped to satisfy customers' demands.

GROWING INFLUENCE OF RETAILING OVER PRODUCTION

European retailers and brands make use of **four major supply methods** :

- Manufacturing their own products : the clothing is produced in factories owned by the brands or retailers themselves, whether located in Europe or abroad. This holds true especially for retail companies which started out in the manufacturing business.
- Sub-contracting : the retailer or brand supplies the design and the fabric and essentially pays for the fabrication time.
- “Co-contracting” : the retailer/brand supplies the design but the manufacturer buys the fabric and sells a finished product. The choice of fabric may be made solely by the retailer or brand, or jointly, or maybe left entirely to the manufacturer's discretion.
- Finished product purchase : the design belongs to the manufacturer, even if it may sometimes be reworked by the contractor.

In practice, European retailers use several supply methods, as sub-contracting is essentially done in the PanEuroMed zone, whereas “co-contracting” and purchasing finished products are predominant in Asia.

The cultural background of the brand or retailer determines to what degree it will rely on the various supply methods : i.e., German, Scandinavian and British retailers and brands mainly use “co-contracting” or purchase finished products; they concentrate mostly on their added sales value and product range, avoiding fabric purchasing as much as possible.

In France, Spain and Italy, retailers/brands more often rely upon sub-contractors, purchasing their material directly from their fabric suppliers and thus steering production .

The changes forecast generally seem to be pointing in the same direction : Northern European players want to become more involved in leading production. In particular, German buying groups which have less of a preference for buying finished products are increasingly becoming prescribers in fabric choice in their dealings with sub-contractors. On the other hand, French and Southern European retailers and brands are disengaging from production somewhat, especially from fabric purchasing, and are developing “co-contracting”, as they concentrate more on the business of retailing.

However, throughout Europe, it is clear that there is ever greater crossover between distribution and production. Retail brands want to control the entire value chain in order to respond as closely as possible to consumers' desires, maximize their profit margins, and increase the security of their purchases.

In this context, direct control over the two extremes of the value chain – i.e. design and distribution – is considered strategic. Retailers are therefore becoming more active in designing and perfecting their products, while brands seek direct access to their customers by integrating retailing into their business. This is true for a number of Italian brands

which, faced with the weakening of Italian multi-brand retailers -as a result of the onslaught of chain stores from other European countries-, are developing their own networks of stores by means of franchises or branches.

Between these two extremes of the value chain, the choice of integrating or externalising intermediary operations is made case by case by each company depending on the product, and based on the following criteria :

- Everything that creates a **visible difference** for the consumer should remain under the direct control of the brand or retailer(e.g. jointly designing exclusive fabrics).
- Everything which does not create a visible difference for the consumer can be internalised as long as it is a **source of profit**, (e.g. direct purchasing of fabric for large series that is used in making different products).

In any case, analyses of the value chain are becoming more sophisticated and now successfully integrate various internal as well as external costs, e.g. buying offices, material quality control, and logistics.

➤ **MAJOR STRATEGIC ISSUES :**

Differentiation is the single most important strategic issue for European retailers and brands.

On a market where consumers are already well equipped with clothes, and competition among retailers is fierce, the strategic issue is not only to propose the right product at the right moment but also to propose a different product from one's competitors : a product that corresponds to and enriches the personality of the brand, and is different from the ones the customers already own.

These are the reasons why all European retailers and brands (except discounters) focus on style and fashion. It is also why they increasingly renew the offer in shops during the season, in an effort to seduce customers who are begging for novelty.

Minimum stocks are a major goal, the main driver being a reduction of costs.

Differentiation means smaller ranges because fashion design products have a shorter life expectancy than basics, and prove to be riskier : consumers' response to a novelty is often unpredictable. Series thus tend to be more short-lived and more numerous, and stocks tend to inflate because of more ends of series.

It is of the utmost importance that retailers restrain their stocks, thereby limiting the number of unsold products so that they can master their costs, margins, and selling prices.

Limiting stocks also concerns large series of basic and permanent products– such as lingerie and home linens– for which production now tends to be spread out over a longer time period so it can adapt to sales forecasts, with production capacities reserved over the long term and products designed as stocks change. Influenced by the logic at play in the food sector, retailers thus improve the profitability of their stockholders' capital by using the rotation of stocks as leverage, which is a better “pay-off” than increasing their mark-up.

Time is therefore a key issue for managing sales and stocks.

Retailers and some brands combine the long, mid and short term in the following manner :

- Long term is the classic rhythm of the profession, and more particularly of the brands: collections are generally developed approximately one year in advance. Production in Asia of low-risk basics or sometimes-special materials also requires this kind of advance planning.
- Short term or “Pronta moda” products are designed at the very last minute during the season, or restocked because of good sales. It makes it possible for the retailer not to miss a trend, or to surf on a theme that sells well by increasing the offer on one specific colour or style.
- Between the fashion risks involved in the long term (because of anticipation) and the production risks in the short term (because of the urgency of production), mid-term collections are developing around constructed themes.

Delivery times tend to decrease

On the one hand, mid term collections are becoming more numerous. On the other hand, buyers commit later and later, and split their big orders into several small ones that are delivered all throughout the season, in order to secure their purchases as mentioned above. If a product doesn't sell well, the stocks that remain are fabrics –which can be used for another design– instead of finished products that will end up selling for half their initial price. Pressure to speed up production time is continually increasing in the textile and fashion field.

Prices are not quoted as a major goal : they are market data.

Every retailer or brand, from the low to the mid-high range has to conform to a market price (and less to an industrial price these days). The low range sets the reference : H&M, for instance. Prices have continued to decrease within the European Community, especially in the UK and Germany. Until recently, with prices around 15 % higher than the European average, Italy was relatively well-preserved, but it now has to deal with this drop in prices due to the rise in chain store networks in Italian fashion retailing.

Other issues

Ethics –i.e. labour and environmental conditions– are considered mainly as a potential threat by many retailers and brands. Some retailers only try to protect themselves from scandal. Some also use ethics as an excuse for terminating a working relationship with a supplier who has become persona non grata.

Nevertheless, a rapidly growing minority of retailers and brands does go further, by setting up controls and drawing on independent monitoring organisations to verify that core labour standards are complied with by their suppliers. The increasing use of direct sourcing also facilitates the retailer's/brand's influence on the labour and health and safety conditions at production sites. Some go even further, by developing a company philosophy as a “good citizen of society”, thereby making ethics a strategic factor for differentiating themselves. Sustainable development is also a crucial issue in thinking about the future of luxury brands, whose imagery encompasses notions of timelessness and craftsmanship, which are in harmony with the idea of passing along a respect for the environment to future generations.

4.2 EVOLUTION OF SOURCING PRACTICES

Delocalisation

Delocalisation is the rule as the market is pulling prices down in Europe. This means that to keep up with the market price level, retailers and even brands – except at a very up-market range – have to delocalise their production to benefit from low labour costs, as do manufacturers.

Asia offers the lowest labour costs. It is used for launching a new collection or product range – more than mid season repeat orders or actualisation items- because the delivery time remains longer than for close production.

Firstly, new product development takes time, and cultural differences create additional distance. Secondly, transportation is either long (by boat) or expensive (by plane), though it is improving : Asian producers are able to work as fast as close suppliers, and speed vessels boats are reducing transportation time. Investments being made for further developing these speed vessels should make it possible to reduce transportation time from Asia to Europe from 5-6 weeks to 3 or 4. In addition, airline companies have invested in airfreight between Europe and Asia in order to lower costs. Nonetheless, air transport is essentially used for the following :

- Up-dating or short-term product ranges for products, which are lightweight and can be shipped folded; here Asia holds a price advantage over the PanEuroMed zone, especially when the dollar is weak in comparison to the euro. Also, mail-order houses extensively use air freight.
- Products which are behind schedule in the final design processes or production. When the supplier is held responsible, he may be forced to pay the additional cost of air transport, either partially or in full.

However, because of the added delays, Asian manufacturing requires anticipation, which is a fashion risk. Remaining stocks to be cleared in sales may end up being more expensive than close sourcing.

PanEuroMed Zone :

Close delocalisation in the North Africa, Turkey or Eastern European countries offers a good compromise : labour costs are lower than in the European Community, communication is easier (as there are fewer cultural differences), and delivery times are considerably shorter than with Asian suppliers. This makes reactivity possible on creative, or more generally, new products. It is used for mid and short time production.

Europe : making up is still done in Europe on high range products, specialty products, and urgent orders. Pattern-making among other pre-industrial operations is also partly done within Europe.

In practice, decisions concerning sourcing are made product by product, and involve other elements, such as availability of materials, ongoing partnerships with certain suppliers, and the possibility of relying on shipping products by air freight.

Most retailers and brands have found a balance between their long and short distance purchases : basics or less risky designs and items such as quilted coats with a long making-up time are made in

Asia. Riskier designs and fashion garments are made up in neighbouring countries. To secure their purchases, retailers and brands often keep the Asian purchases under 50 %.

Conscious of the impact of the euro-dollar exchange rate on the respective competitiveness of close and faraway sourcing – the cost of stocks being dependent upon currency exchange rates – and the great uncertainty created by volatility in currency rates, European retailers maintain their positions in both zones, especially by replenishing their local buying offices. The necessity of keeping a reliable portfolio of suppliers in the major production areas thus cushions the effects of short-term monetary variations. Over the longer term, the loss of competitiveness of a country eventually entails the partial or total withdrawal of supply as a matter of course.

Search for proximity of making-up and textiles

Optimising delivery time incontestably favours countries which have a local yarn and textile offer of “European quality” located close to high-performance making-up ; China and Turkey are the best examples of this type. Nevertheless, the idyllic picture of a production line that goes “from cotton field to tee-shirt” does not often materialise :

- Finding making-up and textiles in close proximity is more common in knitwear than in woven goods and is most common in basic knitwear,
- Products which necessitate creative or technical materials do not fit into this picture, as the fabrics concerned are still mostly produced in Europe and in Asian countries with high wage costs,
- In order to combine price and reactivity, retailers and brands sometimes have to import Asian fabrics (essentially undyed or in basic shades) to be made up in the PanEuroMed zone.

Concentration of Purchasing

With brands becoming more concentrated and global, European retailers are looking for economies of scale by concentrating their purchasing. Several changes point in this direction :

- Increasing use of centralized direct sourcing offices, rather than several offices and extensive use of agents.
- Reduction of portfolio of suppliers
- Creation of buying offices commonly shared among several brands which are often trans-national and which empowers each of the members in negotiations with the manufacturing brands. While concentrating purchasing is particularly common in the food industry, it is interesting for lingerie, sportswear and home textiles.
- Sharing buying offices in the sourcing country : e.g. offices belonging to a chain store may offer their services to other retailers or brands which are not in direct competition.
- Internet Buying Offices, e.g. GNX, GlobalNetExchange and WWRE (WorldWide RetailExchange). Even if the use of market places, and reverse auctions have developed, these are merely considered to be tools, and sometimes just a source of information for negotiating prices with regular suppliers. Used essentially for buying non-strategic basic products that can be easily specified and substituted, e.g. tee-shirts, basic shirts, jeans, home textiles, according to the retailers currently using them, these market places will eventually drain a direct purchasing potential of approximately 15% from total textile-apparel industry supply.

Reduced Size of Production Runs

On the one hand, concentrating retailers and creating mega-buying offices argue in favor of increasing the size of the series sold, but on the other hand, collections are being split up by theme and commitments upon entering the season are limited, and production runs for product ranges are getting smaller. Overall, production capacities reserved are increasing for the same contractor, while the volume of the unit order is decreasing.

More efficient practices

Retailers and brands focus on design and the renewal of design. Series are shorter. This necessitates tighter organisation and better reactivity. Under these limitations, the profession is becoming more and more professional. It shows a better understanding of the value chain. It also is more marketing-oriented.

- The reduced volume of unit orders necessitates ever-greater precision and follow-up in retroactive-scheduling.
- Collections are built around several criteria. First is fashion predictability. Collection building is spread out over time into long, mid and short term launching, instead of being one-shot as in the past.
- Second is category management, which integrates product positioning in the store and the consumer needs they respond to into the overall conception when the products are being designed : e.g. image products, basics, and margin raising products.

Relationships with suppliers are becoming more professional

- Practices are more transparent. Even if much business is done by word of mouth, fewer “arrangements” are made with suppliers. Specifications in particular are being written more carefully. Relationships are becoming more formal and organised.
- Buyers rationalise their suppliers’ pool : they have been reducing the number of their suppliers and will continue to do so, while turning them more into partners with specific responsibilities. Even if the quality of the partnership varies greatly from one actor to another in Europe, a mutual trust is developing between these partners, and business relationships are of a longer-term nature.

These partnerships vary in terms of volumes purchased. Often 60% of turnover or more is generated by 20% - 30% of the suppliers.

Finally, this desire to construct “win-win” partnerships still comes up against cultural obstacles, especially the reticence on the part of “partners”, primarily among retailers, to share information in order to better manage the future. Passing along sales forecasts is more deeply rooted in Northern European business, and is more recent in France and Spain, where confidentiality is the rule.

Retailers have also become more careful about not representing too great a chunk of their supplier's turnover to avoid creating a situation in which they are overly dependent; the “Marks & Spencer” system of the 1980's, where a brand could represent 80 to 100 % of a sub-contractor's turnover seems to be a thing of the past.

Lower prices are partially passed along to the customer

When supply costs decrease significantly, as has been the case for Asian goods, with the depreciation of the dollar in relation to the euro (30 % drop between late 2000 and May 2003) the repercussion on sales prices is naturally greatly lessened by the many activities carried out in the Euro zone itself, e.g. conception, marketing, and distribution. Beyond this objective element in price determination, the majority of retailers have decided not to pass along entirely the decrease in supply costs to consumers for three reasons :

- The sales price cannot follow the yo-yo swings of the currency exchange without undermining the consumer's trust. Brands and chain stores therefore sometimes mention their belief in an equal dollar / euro value over the middle term.
- Faced with a lifeless market, the financial cost of globalisation and pressure from shareholders, the need for making a profit margin prevails.
- The decrease in supply costs is frequently used by buyers to move to a higher range or greater creativity in their products, with, for example, more sophistication in the details, to create the differentiation the markets calls for.

Finally, the drop in price has had the most effect on basic products that are the most easily substituted and the most competitive, especially with the dramatic rise in hard discount.

4.3 EXPECTED OUTCOME OF 2005 LIBERALISATION

Generally speaking, European brands and retailers don't show a strong mid or long-term vision, thinking more in terms of one to two seasons. Nevertheless, they prove to be very flexible and to adapt quickly to external changes : they are constantly on the lookout for new opportunities or threats.

Retailers and brands do not see the upcoming market liberalisation in 2005 as a sudden shock that will change trade flows over night. Instead, they see it as an opportunity which will make their sourcing a lot easier and probably also cheaper. Crucially, they will move from a quota holders' market to a buyers' market, offering a much wider choice in where they buy and at what conditions, and all this with much less bureaucracy than under the complicated quota system.

However, the interviews conducted for this study reveal also a great feeling of uncertainty, e.g. :

- Will Asian suppliers – and in particular China, pass on the total suppression of quotas costs to Western buyers? If they do, the price of “sensitive” products – for which the price of the quota can equal the price of the product itself – will drop dramatically¹²⁴. This drop will be partly offset by a reduction in VAT refunds for exports. Also, Chinese quota costs may be replaced by some other mechanism, allowing the Chinese government to maintain revenues, while preventing prices to fall too much.
- Will the United States protect itself with a safeguard clause, as the American textile industry is demanding? Will Europe follow suit?
- What will be the changes in the US Dollar and the Yuan relation to the Euro?

Faced with these uncertainties, retailers remain cautious. The overwhelming impression is that there won't be a brutal shock, that changes will take place Gradually, as sourcing patterns don't change over night (but rather over 1-2 years), and that protection measures will continue to be taken, (like anti-dumping or safeguard measures).

Recently, the suppression of quotas for parkas has been accompanied by a concentration in purchasing in China to the detriment of other Asian countries like Bangladesh, Indonesia, Sri Lanka and Vietnam, while the fabrication time required has long made the PanEuroMed zone non-competitive for this product. Things may be different for certain basic knitwear products, which are still limited by quotas, and still partially made in Mauritius, North Africa or Romania.

However, the long term prospect of an **improvement of Chinese delivery times** –combined with improving infrastructure and high productivity levels– is more attractive than the mid term prospect of market liberalisation. The vision shared by retailers and brands interviewed is that :

- The abolition of quotas will increase the share of imports from China, but to the detriment of other Asian countries such as Bangladesh, Vietnam and others. The share of far imports as a whole would not increase significantly.
- If Chinese delivery times decrease, (due to faster production, better infrastructure, lower air costs or speed vessels,) and if the quality of Chinese products continues to improve, far import will increase. Late differentiation could then be operated from a distance.

¹²⁴ Based on the quota prices in China in 2001, (table in appendix). Categories most concerned are knitwear, trousers, hosiery and dresses.

But a large majority of retailers and brands agree on one point : even if China becomes the best factory in the world in terms of quality and price, they will do no more than 35-40% of their total purchasing in China to minimize their dependence and the risks of “putting all their eggs in one basket”. For some, India will act as a possible counterbalance while others wonder what the European Union will do for example for Bangladesh, a very poor country overwhelmingly dependent on the textile trade.

In any case, changes will not happen in one day, and retailers and brands are realistic about the fact that working with China demands time, and a mutual process of learning and comprehension, which it would be suicidal to rush into.

As the retailers and brands have expressed, a purchasing department in the fashion world is a constellation of players (the buyers) and of relationships that have been forged over time, even if the tools for quality control are increasingly highly developed (with ERP for example). If each player has goals to reach, his performance remains largely dependent upon his intuition and on his network : thus it evolves as a whole, by adapting to the limitations and to the opportunities encountered and by avoiding sudden turnarounds.

5 – CASES AND LITERATURE ABOUT LIBERALISATION

Summary

Three different cases of T/C liberalisation are analysed. They present features which are quite similar in terms of the consequences of the liberalisation.

In the USA, in the EU and in Australia, despite a large gap in time between the Australian opening and the other two events, the major and most immediate consequence was a **surge in imports**. It should be noted in this respect that in the case of Australia (early 90s) the surge is still going on ten years later.

In all three cases the **major winner of the event was China**, which succeeded in gaining many market share points on those three markets. In the USA the surge in imports between 2001 and 2002 from Greater China – i.e. Mainland China plus Hong Kong plus Taiwan, an area which represents the direct sphere of influence of China – was 51 % in export value for the categories concerned, while it was 37 % in the case of the EU during the same time period. These important increases were accompanied by **drops in unit prices**: some 28 % for the USA and 41 % for the EU.

In the case of the EU the consequence of the export surge was a significant decrease in intra-EU imports (- 23 %) and in imports from the rest of Asia (also -23 %), while imports from the PanEuroMed zone remained almost stable (-4 %). **Production of the EU industry** was also hit hard: - 7.5 %, whereas the 1995-2001 trend had been positive.

One positive consequence was a **development of extra-EU exports**, particularly in a cheaper price range.

The drop in Chinese prices is partly attributable to the end of quota rents, even though speculation on quota prices in recent times makes it nearly impossible to evaluate its actual impact on the price decreases. There is also a simplification process due to the fact that these particular products may now be directly ordered by international buyers from any factories in China and directly shipped by the most convenient and economic routes. To this simplification should also be added fiercer competition within China due to the very liberalisation of exports.

5.1 RECENT EVIDENCE REGARDING LIBERALISED CATEGORIES

This chapter focuses on three moments and circumstances of the ongoing world trade liberalisation. The first two sections analyse the impact in the T/C sector of Chinese accession to the WTO (November 2001). They study Chinese growth into US and EU markets in all categories for which quotas were removed between 2001 and 2002.

The third section deals with Australia and what happened when T/C quotas were dismantled in 1992-93.

These three examples provide empirical evidence upon the effect of quotas phase-out and should help clarifying some of the consequences of 2005 expected liberalisation of T/C trade.

➤ LIBERALISATION IN THE US MARKET

All MFA Apparel categories

In 2002, the value of US total imports of MFA Apparel is 56.9 billion dollars¹²⁵, up 0.9% from 2001 value. Over the period 2001-2002, the volume of imports has increased by 7.2%. This evolution corresponds to a decrease in the unit value (average price in US \$, per square meter) from 3.51 to 3.30 (down 6%).

China (Mainland)'s MFA apparel enjoys a market share in the US imports of 9.8% in 2002 (up from 8.1% in 2001) in value. In volume, market share figures are 6 and 9% respectively. US MFA apparel imports value from China amount to 5.6 billion dollars in 2002, up 22% in value from 2001, while imports from other areas have stagnated.

If one looks at the actual implementation and functioning of the quota system, one must realise that the system has been extremely lucrative for many intermediaries, such as local agents, subsidiaries, traders but also principals and buying offices, who could handle its complexities and helped “factories” – production oriented firms on the Mainland – sell their capacities, especially in apparel. Those intermediaries are located on the Mainland, in Hong Kong and in other outposts of Chinese decision-makers, like Taiwan. Therefore, whenever they may be bypassed by international buyers, better (i.e. lower) prices can be obtained. Based on this assumption, the following analysis observes the situation of imports from “Greater China” i.e. the consolidation of China Mainland, Hong Kong and Taiwan, which represents the first direct sphere of influence of China.

The market share of MFA apparel US imports coming from this wider area is 19.4% in value in 2002 (against 18.8% in 2001) and 17.2% in volume in 2002 (up from 15.6% in 2001). US MFA apparel imports value from Greater China amount to 11 billion dollars in 2002. It increases moderately, up by 4% between 2001 and 2002. Indeed, while the export value of China rises greatly, those for Hong Kong and Taiwan drop (by –8% and –13% respectively).

¹²⁵ Data on US trade are taken from the US Department of Commerce, Office of Textiles and Apparel (OTEXA).

The same pattern applies for MFA apparel volume. The corresponding increase of imports volume from China (Mainland) amounts to 60% while US imports volumes from Hong Kong and Taiwan go down by 10 and 6% respectively. The volume of imports from “Greater China” thus increases by a more limited 18%.

The impressive rise in US imports from China thus results from a double phenomenon : a pure increase effect and a substitution effect between imports previously coming from Hong Kong -or through- Taiwan and imports coming directly from China. As such, the decrease in unit value reflects the process simplification and the disappearance of a number of middlemen.

Table 33: Evolution of US import volume and unit value

Category	US Import volume (square meter) Growth rate 2001-2002 in %			US Import unit value : average price per square meter Growth rate 2001-2002 in %		
	Mainland China	Greater China	Rest of World*	Mainland China	Greater China	Rest of World*
MFA Apparel	60	18	5	-24	-12	-5
Liberalised categories	417	110	-7	-49	-28	-4

Source : US Department of Commerce, Office of Textiles and Apparel (OTEXA).

*Rest of the World includes all countries except Greater China (China+Hong Kong+Taiwan)

Interestingly, the average price per square meter of Chinese (Mainland) products is higher than the average US imports : it reaches 4.72 US \$ in 2001 and 3.57 US \$ in 2002 for China against 3.51 and 3.30 for US total imports. When considering “Greater China”, the downward trend is similar however less drastic : the unit value goes down by 12%, from 4.24 dollar in 2001 to 3.73 dollar in 2002¹²⁶. Over the same period, the average price per square meter of MFA apparel from the rest of the world (other than Mainland China) decreases only by 5%.

Liberalised categories

Eleven apparel categories were liberalised between 2001 and 2002. Quotas were removed at the end of 2001 for Babywear (239), Cotton dressing gowns and bathrobes (350), Gloves Mmf (631), Bras (649), Dressing gowns and bathrobes of Mmf (650), Gloves silk¹²⁷ (831), Silk men’s coats (833), Silk Women’s coats (835), Silk dresses (836), Silk woven shirts (840), Silk skirts (842), Silk trousers (847).

These 11 specific categories represent 8.4% of US total Apparel MFA value (up from 8.2% in 2001). These products in the bilateral US import value from China Mainland account for 22.8% in 2002, up from 10.4% in 2001. A similar, though less dramatic evolution can also be found when one considers the US import value from “Greater China” : from 9.1 to 13.3%.

¹²⁶ The lower unit price for Greater China than for mainland China is due to low unit values of Taiwanese exports (2.95 and 2.74 respectively in 2001 and 2002).

¹²⁷ Silk corresponds to silk and vegetable fibres.

Table 34: Evolution of US import volume and value

Category	Share in US Import volume				Share in US Import value			
	Mainland China		Greater China		Mainland China		Greater China	
	2001	2002	2001	2002	2001	2002	2001	2002
MFA Apparel	6	9	16	17	8	10	19	19
Liberalised Categories	6	29	18	34	10	27	21	31

Source : US Department of Commerce, Office of Textiles and Apparel (OTEXA).

Following the removal of quotas for these 11 categories, the average Mainland China's share of US imports volume increased fivefold (threefold in value). This rise is far greater than the average progression of Mainland China's share of US imports value for all MFA apparel (multiplied by 1.5). When taking "Greater China" into account, the average share of US imports volume increased only twofold.

The rising importance of the liberalised categories in the US imports from China and the increasing import shares reflect the surge in US imports of these products from China. The volume of US imports increases fourfold between 2001-2002. Again, this huge figure masks a pure increase effect and a traffic substitution process from middlemen in Hong Kong and Taiwan and direct exporters in China. Indeed, US import value from "Greater China" is "only" multiplied by 1.5.

Table 35: Evolution of US import volume and unit value for liberalised categories

Category Code	Category	Import volume (square meter) Growth rate 2001-2002 in %			Import unit value : average price per square meter Growth rate 2001-2002 in %		
		Mainland China	Greater China	Rest of World*	Mainland China	Greater China	Rest of World*
239	Babywear	826	102	-10	-57	-26	-8
350	Cotton dress. gown	524	279	7	-44	-44	-16
631	Gloves, mmf	260	36	-32	-59	-22	21
649	Bras	618	229	3	-54	-24	2
650	Mmf dress. gown	571	153	0	-43	-37	-16
831	Gloves, silk	58	58	11	-11	-11	-42
833	Silk mens' coats	290	290	-11	-59	-59	-1
835	Silk womens' coats	132	44	-29	-38	-27	-7
836	Silk dresses	76	35	-34	-35	-34	-5
840	Silk woven shirts	257	94	-17	-32	-27	-2
842	Silk skirts	110	64	-26	-34	-32	-1
847	Silk trousers	134	78	-3	-23	-20	-7
Total	Liberalised categories	417	110	-7	-49	-28	-4

Source : US Department of Commerce, Office of Textiles and Apparel (OTEXA).

*Rest of the World includes all countries except Greater China (China+Hong Kong+Taiwan)

The decrease in unit value therefore in part matches the fact that the system is becoming less complex with less middlemen. It also reflects the elimination of quotas prices.

The average price per square meter of US total imports for these 11 specific categories has dropped by 11% between 2001 and 2002, from 3.69 to 3.30 dollars. This fall amounts to 49% for imports from China Mainland (from 3.23 to 2.79 dollars) and 28% for imports from “Greater China” (from 4.17 to 3.01 dollars). When only considering unit values from US imports from the rest of the world (excluding “Greater China”) the decrease is only 4%.

The contribution of the elimination of quota price in the drop of recently liberalised categories can thus be computed. The change in unit value between 2001 and 2002 for the considered products is measured and compared with the change that would be expected based solely on the disappearance of quotas price.

A large part of the observed decrease in unit price appears to be attributable to the sole elimination of quotas. For Silk Gloves and for Mmf. Gloves, the observed reduction in price is even lower than the applied quota price in 2001. On average, half of the price decrease of Mainland China’s exports to the US market (and even 81% of Greater China’s exports to the US market) can be explained by the fact that quotas do not have to be paid anylonger.

Table 36: Evolution of US import unit value with respect to quota price

Category	Filling rate of quotas 2001	Average quota price in 2001 (US \$ per pair or piece)	Average unit value in 2001 (US \$ per pair or piece)	Import volume (m ²). Growth rate 2001-02 in %.	Unit value change 2001-2002			
					in % of 2001 level		After elimination of quota price (% of 2001 unit value)	
					Mainland China	Greater China	Mainland China	Greater China
Babywear	93.18	8.5*	37.3*	826	-57	-26	-34	13
Cotton dress. gown	93.45	1.9	7.2	524	-44	-44	-18	-18
Gloves, mmf	91.45	0.4	1.6	260	-59	-22	-37	28
Bras	89.09	0.7	5.0	618	-53	-24	-50	-18
Mmf dress. gown	87.99	1.9	10.2	571	-43	-37	-25	-16
Gloves, silk	69.30	0.1	0.2	58	-11	-11	13	13
Silk mens' coats	n.a.	n.a.	15.2	290	-59	-59	n.a.	n.a.
Silk womens' coats	57.21	1.4	18.8	132	-38	-27	-30	-19
Silk dresses	36.22	1.3	13.9	76	-35	-34	-25	-25
Silk woven shirts	58.81	1.4	10.5	257	-32	-27	-18	-13
Silk skirts	33.51	0.4	10.8	110	-34	-32	-30	-28
Silk trousers	51.22	0.4	8.0	134	-23	-20	-18	-15

Source : US Department of Commerce, Office of Textiles and Apparel (OTEXA) and Chinaquota.com, site delivering information on behalf of the Chinese quota authorities (MOFTEC. *Unit is Kg.

Some correlation appears between the highest quota pressure (i.e. higher filling rate in 2001), and the magnitude of the export rise between 2001-2002. Import liberalisation of categories with filling rates above 88% have experienced considerable import surges from Mainland China. This evolution means that trade became increasingly direct, the part of the flows transiting through Hong Kong and Taiwan being largely reduced in proportion. Surges from the latter places on most categories were below a doubling of 2001 quantities.

➤ LIBERALISATION IN THE EU MARKET

All MFA Apparel categories

In 2002, the value of EU total imports¹²⁸ of T/C is 69.5 billion Euros, stable with 2001 value.

Greater China¹²⁹'s market share in the EU in T/C equals 21% in 2002 (up from 20% in 2001) in value. EU T/C imports value from Greater China amount to 14.6 billion Euros in 2002, up 4.7% in value from 2001, while imports from other areas have gone down by 2%. Traffic substitution between Hong Kong and Taiwan on the one hand and Mainland China on the other hand is highlighted by the simultaneous increase in EU imports from Mainland China and decrease in imports from Hong Kong and Taiwan. While Mainland China T/C export value to the EU has gone up by 10%, export values from Hong Kong and Taiwan have gone down by 11 and 10% respectively.

Liberalised categories

○ Trade reorientations

Eleven apparel categories were liberalised between 2001 and 2002. Quotas were removed at the end of 2001 for Gloves (10), Underwear (18), Handkerchiefs (19), Parkas (21), Nightwear (24), Pile fabrics (32), Synthetic Filament fabrics (33), Artificial fabrics (37), Babywear (68), Track suits (73), Workwear (76).

Within the EU, the output of all liberalised categories has suffered from a sharp drop between 2001 and 2002 as shown in the table below. Data on the 1995/2001 evolution are reported in the Statistical Appendix.

This rapid decline (-7.5% of the output volume) in one year is clearly related to the liberalisation. Indeed, in the pre-liberalisation period (1995-2001), the average yearly growth for the 11 liberalised categories was negative but only by -2.5%. Over that period, three categories (Gloves +8%, Pile fabrics (+0.2%) and Synthetic filament fabrics (+2%)) even experienced a significant increase per annum.

Beside a decline in EU output volumes, the trade liberalisation has induced a **traffic reorientation of EU imports and a decline in import prices**. One shall however note that extra-EU exports by the 15 Member States underwent a rise by 7.5% between 2001 and 2002, in high progress compared to the

¹²⁸In this section, EU is considered as a unique market. As such EU trade refers to extra-EU trade.

¹²⁹Greater China corresponds to the consolidation of Mainland China, Hong Kong and Taiwan, which represents the first direct sphere of influence of China.

yearly increase of 0.9% between 1995 and 2001. This increase in exports volume is especially important for textile categories of Pile fabrics and Synthetic Filament fabrics (up by 30%).

Table 36: Evolution of EU imports

Categories liberalised in EU end of 2001		2002													
		EU output		Extra-EU exports		Intra-EU imports		Extra-EU imports		China (Mainland)		PanEuroMed (2)		Other Asia (3)	
		ton	E/ton	ton	E/ton	ton	E/ton	ton	E/ton	ton	E/ton	ton	E/ton	ton	E/ton
10	Gloves	2 238	2 830	26,02	16 280	9,27	36 517	8,55	16 675	6,82	1 967	14,73	14 103	8,74	
18	Underwear	12 241	4 384	32,82	13 185	19	55 830	12,52	18 267	12,09	19 758	13,98	12 077	9,5	
19	Handkerchiefs	464	333	14,2	847	12,51	2 189	11,83	1 016	8,48	487	18,97	328	12,49	
21	Parkas	9 620	5 495	43,24	36 524	31,08	164 522	14,5	100 975	10,54	20 368	27,19	37 134	17,78	
24	Nightwear	13 440	6 476	22,16	10 231	28,89	77 685	11,29	19 771	9,87	29 813	13,94	10 151	9,4	
32	Pile fabrics	68 423	38 512	11,43	37 202	12,67	32 956	6,28	18 335	5,33	9 831	7,56	1 116	8,57	
33	Synth. fil. fab	49 449	25 756	2,81	56 548	2,31	146 458	2,09	7 888	1,66	81 545	2,54	31 348	1,35	
37	Art. Fabrics	54 543	45 909	13,86	35 295	11,8	29 132	6,43	8 226	3,92	10 245	8,02	9 588	6,05	
68	Babywear	24 137	9 935	26,29	24 509	24,19	92 571	15,21	45 750	14,02	19 543	19,07	16 486	12,26	
73	Track suits	23 974	1 797	23,26	3 764	34,79	26 943	9,62	14 703	7,86	5 437	12,46	5 867	10,87	
76	Workwear	53 447	8 799	19,39	13 856	23,44	84 317	12,87	17 496	8,43	53 054	15,16	8 119	8,62	
	Total	311 975	150 226	14,82	248 241	15,75	749 120	10,35	269 102	9,85	252 048	11,47	146 317	9,87	

Category liberalised end 2001		2001/2002 EVOLUTION in %													
		EU output		Extra-EU exports		Intra-EU imports		Extra-EU imports		China (Mainland)		PanEuroMed (2)		Other Asia (3)	
		ton	E/ton	ton	E/ton	ton	E/ton	ton	E/ton	ton	E/ton	ton	E/ton	ton	E/ton
10	Gloves	-11.9	3.7	-12.9	12.2	-3.1	26.2	-19.1	180.3	-49.1	-1.8	-0.2	-2.2	-2.3	
18	Underwear	-12.5	-15.5	14.4	6.8	-8.9	26.4	-21.0	168.0	-55.4	6.4	0.1	2.4	-19.0	
19	Handkerchiefs	-10.8	-9.3	-11.3	68.7	-48.0	-14.1	-7.7	-18.5	-6.0	-25.4	-1.4	15.5	-11.2	
21	Parkas	-13.8	0.2	5.8	-62.2	174.3	64.4	-31.8	588.4	-56.2	-8.4	8.8	-23.9	-5.6	
24	Nightwear	-12.2	-11.5	17.3	-7.7	1.0	6.9	-9.2	38.5	-22.5	3.5	-4.6	-2.5	-3.0	
32	Pile fabrics	-5.3	28.1	-7.4	-6.1	6.4	59.0	-18.7	315.1	-41.7	6.3	1.5	-46.6	2.3	
33	Synth. fil. fab	-3.3	33.7	-9.1	13.5	-17.2	9.2	-4.6	-4.2	36.1	11.0	-5.6	34.8	-9.4	
37	Art. fabrics	-5.2	-3.9	-6.2	-35.3	16.7	-58.1	89.7	19.6	-10.7	-12.3	0.6	-80.7	210.3	
68	Babywear	-9.5	13.7	-16.6	3.1	-10.4	43.4	-30.2	123.2	-47.9	-4.9	0.0	35.0	-35.7	
73	Track suits	-10.2	5.8	5.8	-18.6	-9.5	26.8	-24.4	198.6	-41.1	-13.6	1.0	-31.3	-11.7	
76	Workwear	-10.2	-20.7	0.1	-2.9	1.9	8.8	-10.4	107.4	-42.7	-2.7	-1.9	-0.7	6.0	
	Total	-7.5	7.5	-8.5	-22.9	22.4	17.8	-12.8	179.3	-42.0	1.6	-3.5	-22.8	0.7	

Source : Eurostat

(2) PanEuroMed = 10 accession candidates, Bulgaria, Romania, Turkey, Morocco, Algeria, Tunisia, Libya, Egypt, Lebanon, Syria, Jordan, Israel, Gaza, Croatia, Switzerland, Iceland, Liechtenstein., Norway, Albania, Russian Fed, Armenia, Azerbaidjan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tadjikistan, Turkmenistan, Ukraine, Uzbekistan and ex Yugoslavia.

(3) Other Asia : South Korea, North Korea, Taiwan, Singapore, Indonesia, Malaysia, Philippines, Thailand, Vietnam, Bangladesh, Pakistan, Sri Lanka, Bhutan, Maldives, Nepal, Myanmar, Laos, Cambodia, Brunei, Mongolia, Hong Kong, Macao and Taiwan.

The increase in extra-EU export volume should be analysed in relation with the decrease in extra-EU exports unit price between 2001-2002. The average extra-EU exports unit price for the liberalised categories dropped by 8.5% between 2001-2002 in contrast to the yearly increase of 1.4% between 1995 and 2001. Price drops are the most important for Babywear, Gloves and Handkerchiefs (down by at least 11% between 2001 and 2002). These facts would lead to the conclusion that one positive consequence of increased cheap imports is a development of exports as re-exported goods allow the EU industry to penetrate lower price brackets of the global market. However there also seem to be negative consequences. The above table shows that liberalised categories are characterised by **a traffic reorientation of EU imports from intra-EU suppliers to extra-EU sources**. Intra-EU imports in volume dropped by 23% while they had increased annually by 4% between 1995 and 2001. Within the extra-EU suppliers, China (Mainland) clearly appears as the main winner. China (Mainland) has increased its exports to the EU mostly at the expense of the other Asian countries.

While market shares were respectively 15% for China (Mainland), 36% for PanEuroMed countries and 32% for other Asia in 1995 and remained stable at 15%, 39% and 30% respectively in 2001, they became 36%, 34% and 20% respectively in 2002. This evolution corresponds between 2001 and 2002 to an increase by 21 percentage points of the market share of China (Mainland) to the detriment of PanEuroMed countries (-5) and more importantly of other Asian countries (-10).

Greater rises in the import volumes from China are reported for parkas, pile fabrics and tracksuits. These products are those for which declines in unit value (price in Euros per ton) are the greatest. On average for the eleven liberalised categories, prices of extra-EU imports went down by 13% between 2001 and 2002. This decline is clearly driven by prices from China. The drop in prices equals to -42% for products from China (Mainland). Over the same period, prices decreased by 3.5% for PanEuroMed sources and increased by 0.7% for products from other Asian countries.

This evolution (increase in volume and decrease in price) emphasises that a **traffic simplification** process similar to what was discussed in the US case, is at work.

○ **Mainland vs Greater China**

The following tables investigate the impact of liberalisation on extra-EU import values. We consider successively China (Mainland) and Greater China which corresponds to China (Mainland) plus Hong Kong and Taiwan.

The value of EU imports for the 11 liberalised categories has increased slightly between 2001 and 2002 by 4% to reach 7.7 billion Euros. During the same time, imports from Greater China increased by 37% in value. In 2002, Greater China accounts for 36% of EU imports in these 11 categories, up from 27% in 2001. Mainland China market share has increased from 22 to 34% while Hong Kong market share has stagnated around 1% and Taiwan market share has decreased from 4% to 1%.

For all liberalised categories except handkerchiefs, synthetic filament fabrics and artificial fabrics, the increase of imports value from Greater China outperforms that from other countries.

The differential of import value growth between Greater China and the Rest Of the World¹³⁰ is especially impressive for categories such as parkas, pile fabrics and tracksuits. The rise of imports from Greater China between 2001 and 2002 has been even more pronounced in volume terms than in value terms. Import volume of parkas, tracksuits and pile fabrics have more than doubled over the period.

For parkas, import volume from Mainland China has almost increased fivefold while it has decreased by 40 and 71% respectively for Taiwan and Hong Kong. For tracksuits, import volume from Mainland China has increased almost threefold while it has been down by 72 and 35% for Taiwan and Hong Kong respectively. For pile fabrics the corresponding figures are +313% for Mainland China, -27 and -59% for Taiwan and Hong Kong respectively.

Table 37: Evolution of EU imports from Greater China

Categories liberalised in EU at the end of 2001		Greater China market share of EU imports value		Evolution of EU import value 2001-02 in %		Evolution of EU import volume 2001-02 in %	
		2001	2002	Greater China	Rest of World	Greater China	Rest of World
10	Gloves	34	40	22	-5	56	-8
18	Underwear	28	32	14	-6	145	2
19	Handkerchiefs	35	34	-24	-19	-18	-9
21	Parkas	28	47	92	-17	209	14
24	Nightwear	21	23	7	-5	28	-1
32	Pile fabrics	35	51	90	-3	203	-4
33	Synth. fil. fabrics	5	4	-3	4	-1	10
37	Art. fabrics	34	33	-23	-20	-9	-23
68	Babywear	43	47	10	-7	113	9
73	Track suits	30	47	58	-23	219	18
76	Workwear	12	14	15	-4	97	-1

Categories liberalised in EU at the end of 2001		China (Mainland) market share of EU imports value		Evolution of EU import value 2001-02 in %		Evolution of EU import volume 2001-02 in %	
		2001	2002	China (Mainland)	Rest of World	China (Mainland)	Rest of World
10	Gloves	5	25	384	4	608	6
18	Underwear	19	23	20	-1	168	22
19	Handkerchiefs	25	24	-23	-18	-18	-1
21	Parkas	11	30	201	9	588	2
24	Nightwear	15	17	7	-4	38	5
32	Pile fabrics	6	14	142	7	315	16
33	Synth. fil. fabrics	5	3	-6	1	-4	10
37	Art. fabrics	4	5	7	-23	20	-48
68	Babywear	27	32	16	-2	123	33
73	Track suits	15	30	76	-13	268	13
76	Workwear	9	10	19	-2	107	7

Source : Eurostat.

¹³⁰The Rest of the World corresponds to extra-EU partners excluding Greater China.

Interestingly, these categories are those for which the unit value has decreased the most and for which the applied quota in 2001 was really binding (i.e. licensed imports correspond to over 80% of the quota level). The filling rate of parkas almost reached 93%. It should be noted here that the filling rates of many of the quotas still in existence are well above the 95% threshold.

As in the case of US imports, the surge in EU T/C imports from Greater China can result from several causes. It is interesting to distinguish between the decrease in unit value which corresponds to the removal of quotas (and therefore the elimination of quotas price) and additional cuts in price.

The two following tables compute the respective contribution of the quota price abolition and price cut in the observed decrease in unit price. The first tables considers the direct sphere of influence of China (Greater China) while the analysis in the second table applies to China (Mainland) only.

The first two columns report the unit value of EU imports from Greater China. A large decrease is observed for each liberalised category. Greatest decreases are for underwear, track suits and babywear for which prices are down by 50%. Interestingly, larger unit value drops are found for categories for which Chinese prices were above the average price of the rest of the world (such as underwear, track suits, gloves and babywear). One can see there one **“mechanical” consequence of quota dismantling**, as constraints over quantities obviously foster the upgrading of exports. When quotas disappear, factories do not focus as intently upon unit values (to command high price) as they can **make money on the volumes**). Unit value decreases are far more modest for categories for which Greater China was already price competitive (handkerchiefs, synthetic filament fabrics and artificial fabrics).

Table 38: EU import unit value from Greater China with respect to quota price

Categories liberalised in EU at the end of 2001	Greater China's imports Unit value in Euros		Greater China's Unit value on Rest of the World Unit value ratio		Greater China Unit value change in % 2001-02	Existing Quotas in 2001			UV change 2001-2002 excluding quota price In % of 2001 Unit Value
			2001	2002		Filling rate	Quota price China 2001		
	2001	2002	In Euros	% of 2001 UV					
Gloves Pair	0.80	0.63	1.44	1.09	-21	81.75	0.07	8.26	-13
Underwear Kg	26.20	12.16	1.90	0.96	-54	81.96	1.35	5.16	-48
Handkerchiefs Kg	9.07	8.60	0.55	0.59	-5	62.06	0.19	2.09	-3
Parkas Piece	16.25	10.10	1.02	0.66	-38	92.70	2.20	13.53	-24
Nightwear Piece	4.28	3.60	1.00	0.86	-16	79.14	0.09	2.11	-14
Pile fabrics Kg	8.76	5.48	1.20	0.74	-37	87.79	0.55	6.24	-31
Synth. fil. Fabrics Kg	1.70	1.68	0.77	0.79	-1	41.65	n.a.	n.a.	n.a.
Art. Fabrics Kg	5.23	4.44	0.66	0.54	-15	38.13	n.a.	n.a.	n.a.
Babywear Kg	27.04	13.96	1.42	0.86	-48	88.17	1.43	5.28	-43
Track suits Piece	11.47	5.66	1.52	0.80	-51	81.87	n.a.	n.a.	n.a.
Workwear Kg	14.55	8.48	1.00	0.60	-42	77.26	0.47	3.22	-38

Source : Eurostat and Chinaquota.com, site delivering information on behalf of the Chinese quota authorities (MOFTEC).

Table 39: EU import unit value from China (Mainland) with respect to quota price

Categories liberalised in EU at the end of 2001	China (Mainland)'s imports Unit value in Euros		China (Mainland)'s Unit value on Rest of the World		China (Mainland) Unit value change in % 2001-02	Existing Quotas in 2001			UV change 2001-2002 excluding quota price In % of 2001 Unit Value
			Unit value Ratio			Filling rate	Quota price China 2001		
	2001	2002	2001	2002	In Euros		% of 2001 UV		
Gloves Pair	0.91	0.63	1.19	0.83	-32	81.75	0.07	7.22	-24
Underwear Kg	27.10	12.09	1.60	0.88	-55	81.96	1.35	4.98	-50
Handkerchiefs Kg	9.02	8.48	0.61	0.71	-6	62.06	0.19	2.10	-4
Parkas Piece	24.08	10.54	1.47	0.60	-56	92.70	2.20	9.13	-47
Nightwear Piece	12.73	9.87	0.87	0.74	-22	79.14	0.09	0.71	-22
Pile fabrics Kg	9.15	5.33	0.87	0.55	-42	87.79	0.55	5.97	-36
Synth. fil. Fabrics Kg	1.70	1.66	0.72	0.77	-2	41.65	n.a.	n.a.	n.a.
Art. Fabrics Kg	4.39	3.92	0.69	0.42	-11	38.13	n.a.	n.a.	n.a.
Babywear Kg	26.92	14.02	1.16	0.82	-48	88.17	1.43	5.31	-43
Track suits Piece	11.57	5.53	1.18	0.73	-52	81.87	n.a.	n.a.	n.a.
Workwear Kg	14.71	8.43	0.94	0.72	-43	77.26	0.47	3.19	-39

Source : Eurostat and Chinaquota.com, site delivering information on behalf of the Chinese quota authorities (MOFTEC).

The last column of the table computes the real evolution in unit price occurred between 2001 and 2002. It is computed in Euros as the difference between the unit value in 2002 and the unit value in 2001 after deduction of the quota price.

A negative sign reflects that the decrease in unit value is more important than what should have been induced by quota elimination alone. A decrease in unit value is found for all liberalised categories. The drop in prices are higher when China (Mainland) is considered instead of Greater China as it overlooks the traffic reorientation and simplification that occurred between the various territories of the Chinese sphere of influence. Greater decreases are experienced by clothing categories of underwear (-48%), babywear (-43%) and workwear (-38%).

A dramatic fall in prices has therefore followed the liberalisation of the 11 categories and allowed a large increase in market share (especially for parkas, gloves and pile fabrics). The cut in prices is far greater than the one that can be directly explained by the phasing out of the quotas. Indeed, although the effect of quota price abolition cannot be denied, it only accounts for a small share of the reduction of price. On average the abolition of quota price explains 22% of the observed decrease in unit price between 2001 and 2002. For gloves, handkerchiefs and parkas, 40% of the unit value decrease can be put down to pure quota price abolition.

It is worth noticing, as mentioned in a recent article of the South China Morning Post (June, 27 2003), that speculation over textile quotas has been soaring in the Mainland. Although the removal of export restraints should put an end to quota speculation, quota prices have recently risen in a dramatic manner

to the detriment of private companies. This phenomenon is due to the uneven distribution of the quotas (in favour of state-backed enterprises) and therefore the control of quotas prices by a few number of public companies. A big slice of textile quotas is usually granted to trading companies directly or indirectly under the ministries in the light of their long business history and large business scale. Although it is illegal for companies to sell unused quotas to other exporters, it is a widespread practice for quotas to be sold on the black market instead of being returned to the ministry. Speculation is believed to have more than doubled the production costs of private businesses, damaging the competitiveness of the goods they exported. The case of Tong Hui International Trading provides a instructive example : quota on a design of socks the company traded was originally priced at US\$1 per dozen in a government tender, but speculation had sent it as high as \$5, which is far beyond the product's base cost of \$2 per dozen.

Another explanation for the decrease in price already put forward in the analysis of the Chinese import surge in 2002 into the US market, corresponds to the simplification of trade. Trade rationalisation is at work for EU imports of T/C following liberalisation, as evidenced by traffic substitution between Hong Kong and Taiwan on the one hand and Mainland China on the other hand. One should therefore bear in mind that a further share of the decrease in unit value reflects the disappearance of a number of middlemen.

➤ **LIBERALISATION CASE : AUSTRALIA**

Australian quotas on textile and apparel imports were dismantled in 1992 and 1993. At the same time tariff rates were lowered with further reductions until 2000 (tariffs were cut by half over the period i.e. a decrease of 15 to 25 percentage points according to categories). A further cut is planned for 2005.

The first consequence of liberalisation was a large increase in imports : between reference years of 1991-92 and 2000-2001 clothing imports have grown by 229 % and the upward trend shows no sign of slackening. Textile imports also grew but in a more limited manner : only 39 % growth over the period and displays some signs of a recent slackening.

The surge in clothing imports has brought about a decrease in domestic output (- 23 % in value terms over the period) amounting to a loss equivalent to one half of the import surge. The other half was absorbed by a 17 % growth in the domestic market.

The import surge was much higher in volume terms : skirt imports were multiplied by 9, ladies trousers by 5, blouses by 4, ladies T-shirts by 3.6. Menswear growth factors were much lower : between 1 and 2 depending on items.

This flooding of cheap imported apparel resulted in a massification of the consumer market and a loss in item differentiation. Import penetration almost trebled in the clothing market, reaching a 52 % share in value terms, while it increased by 12 percentage points in the textile market (B to B) reaching a level of 46 %. For some mass-market categories like shirts, casual trousers and shorts penetration levels are above 95 %.

However consumer prices remained fairly stable as importers and retailers, at the least retained their operational margins in absolute terms, raising it significantly in percentage mark-ups.

The local industry severely suffered from the increased competition : its sales dropped by 23 % in clothing and knitting, by 6 % in textiles. Employment was also hardly hit : 4,000 jobs were lost in textiles, and as many as 23,000 in the clothing sector, these figures corresponding to respectively - 13 % and - 36 % off the employment existing at the beginning of the decade. And here again, the decreasing trend is not slowing down.

Jobs were held by a majority of migrants with somewhat limited alternatives : a research¹³¹ has shown that 30 % of laid off workers eventually found equivalent positions in other industries, 30 % found jobs which paid less while the remaining 40 % are still in search of a new employment.

The largest growth in imports was due to China¹³². In textiles import value was multiplied by 2.7, and by 4.6 in clothing. Some other supplying countries also benefited from the liberalisation : the Asean, the developing countries, New Zealand, the EU for textiles ; Asean, India, the EU and the USA for clothing.

Korea, Taiwan and Japan lost shares in the process. India and Pakistan were also winners on some categories, especially bed linen and cotton yarn. China imports now represent 25 % of all imports for textiles and 72 % for clothing and China's shares continue to grow in both sectors.

¹³¹ Source : Textile and Fashion Industries of Australia

¹³² Hong Kong and China have been consolidated for the purposes of this analysis

5.2-ANALYSIS OF EXISTING RESEARCH

➤ RESEARCH REVIEW

The objective of this section is to collect information and methodological “lessons” from research work already done on the subject of liberalisation.

To start with, it is useful to take up the major conclusions of a recent review on the MFA phase-out made by the OECD trade directory entitled “Liberalising Trade in Textile and Clothing : a survey of quantitative studies” by Peter Walkenhorst, published in May 2003.

The contents of P. Walkenhorst’s paper can be summarized as follows.

Out of the considerable body of analyses from national and international institutions that aim to quantify the economic and trade effects of textile and clothing market liberalisation, although different tools and approaches have been used, analyses using **general equilibrium models** have been dominant.

The modelling results consistently indicate considerable shifts in textiles and clothing production and trade as the Agreement on Textiles and Clothing (ATC) is implemented. There is pressure for a large-scale reallocation of resources, with production of textiles and clothing expanding in Asian and other developing countries. Textiles and clothing production in industrialised countries is expected to contract significantly, while imports of textiles and clothing from developing countries increase.

Concerning further regional integration, which has played a major role in textiles and clothing trade during the 1990s, the modelling results are rather negative for the former “preferred countries”.

All the reviewed studies foresee increases in **global welfare** as a result of ATC reform. But the estimates of welfare gains show **large variation**, with expected annual global benefits ranging from 7 billion US \$ on to 37 billion US \$. Some studies predict ATC reform to account for up to two-thirds of all gains from the Uruguay Round, while others estimate the contribution of textile and clothing liberalisation at a mere 5 per cent. There is similar discrepancy with respect to the distribution of welfare gains. Most recent analyses see developing countries as the main beneficiaries of ATC reform, while some expect the small ones to lose from the policy changes.

In this context of uncertainty regarding the reform outcome, it is striking that some developing countries have consistently been supporting the removal of the Multifibre Arrangement (MFA).

Another significant result from the empirical studies is that Canada, the EU and the USA are again and again expected to experience substantial increases in welfare from ATC reform, while these countries had been among the initiators of the MFA in the first place. The **optimistic modelling** results seem partly due to the implicit assumption that resources that are released from some activity can switch to another one without major disruption. In other words, any potential short or medium-term adjustment problem is assumed away. This assumption makes it difficult to properly understand the purpose of quotas. While substantial welfare gains for most OECD countries from lower consumer prices and

more efficient resource allocation seem likely in the longer run, potential adjustment problems following MFA phase-out are an important policy consideration and might warrant further analysis.

Some **other research** can also usefully be integrated in this literature review. One will find in the following section summaries of ten reference studies on the subject.

Among these studies one can distinguish between :

- general studies which give estimate of the impact of trade liberalisation world wide
- more specific studies which focus on a region,
- studies focusing upon a specific methodological aspect

Several conclusions may be drawn from them.

1. The literature review emphasizes that the **Computable General Equilibrium** (CGE) models are the best analytical tools available to grasp the world wide sweeping direct and indirect impact of ATC dismantling. CGE models perform a far more complete analysis than partial equilibrium analysis.

2. Most studies rely on rather poor measures of **the cost of quotas** and, may be more surprisingly, on poor estimate of barriers to trade, including tariffs. In the present research the issue will be addressed by building upon MacMaps¹³³ database and also A. Bouët's research calculations, for tariff estimates, except for China.

As far as quotas are concerned, the present research will build a new measure based on statistical data and empirical evidence, and in line with the USITC methodology (see further).

3. Studies focusing upon world trade make use of **GTAP**¹³⁴ database. The continuation of the present work foresees the use of the latest update of this global multi-sector database.

4. A key component of the studies reviewed here is the selection of a **number of scenarios**, which allow to understand how the various elements of protection do impact on global trade. In line with the research initiated by A. Bouët on practical ways of computing tariff reductions, the present study will integrate in the scenarios various options of tariff reductions.

¹³³ Market Access Maps have been constructed by CEPII and the ITC (WTO-UNCTAD). This database incorporates all the available information about applied trade barriers at the bilateral level in 1999, for 147 countries and 220 suppliers, at the most detailed level (5,000 to 10,000 products). *Ad valorem* tariffs are reported, and *ad valorem* tariff equivalents are computed for specific tariffs, prohibitions, tariff quotas and antidumping duties. In order to avoid any endogeneity bias, the aggregation procedure is not based on each country's imports, but rather on imports of the reference area the country belongs to (five reference areas are considered). This database allows trade barriers to be measured very accurately, as well as their possible changes.

¹³⁴ The Global Trade Analysis Project is to this day the most widely used economic statistical data base intended for modelling purposes. Most Multilateral Institutions such as the World Bank, IMF, WTO, OECD, the European Commission to name a few are members of the consortium GTAP, which includes also CEPII. In GTAP the world is divided into 66 regions and the international economy into 57 sectors and 5 production factors. For each country it includes a complete Social Accounting Matrix (SAM) which fully describes the interrelations between sectors, distribution of income between agents, openness to trade etc.

➤ **WORLD TRADE LIBERALISATION**

Francois J., Glismann H. and Spinanger D. "The Cost of EU Trade Protection in Textiles and Clothing", Kiel Institute for World Economics, August 2000.

▶ **Destination :**

The paper focuses on the estimation of costs of EU quotas and tariffs on T/C products. It estimates based on two different methods (partial equilibrium and CGE) the costs of EU trade policy (quotas and tariffs). The CGE model focuses on the short-term impact (compounded annual benefits over the 1999-2005 period) of complete abolition of EU quotas and implementation of all EU commitments for Uruguay Round.

The conclusion argues in favour of rapid (before 2005) abolition of quotas and tariffs reduction instead of backloading the obligations until 2005 in order to fully collect these gains as protection incurs high costs to the consumer and more importantly high wages to be paid for jobs which are not internationally viable

▶ **Methodology :**

The authors proceed to a partial equilibrium analysis to examine the impact of the liberalisation on the importation, production and consumption of T/C products. They compute the National deadweight losses, employment effects and the national total costs of trade policy (additional expenditures) induced by EU quotas and trade policies (quotas and tariffs).

The last part of the paper performs a general equilibrium analysis to cover the wide-sweeping indirect costs of ATC within the EU. The analysis uses data from 1997 (GTAP 1995 updated with IMF growth rates). Estimates of tariff equivalents of industrial NTB are taken from a variety of sources.

The authors have chosen to focus on 9 T/C categories to represent textile and clothing sectors accurately and to grant much exemplarity to the Hong Kong-Germany trade.

Quota prima are computed based on the trade between Germany and Hong Kong. They are assumed to be identical (*vis-à-vis* export prices) for all importers and all exporters. Similarly, for unit values, Hong Kong is considered to be a typical representative for a restrained exporter (although China appears to be more restrained (16 categories against 2 in 2002)) and Germany is assumed to be representative for entire Europe.

Computations are made using data for 1990.

Three scenarios considered :

- (1) Immediate lifting of EU quotas
- (2) Immediate implementation of all EU commitments for Uruguay Round
- (3) Combined 1 and 2

Two effects are supposed to compose the change in real welfare :

Direct change in nominal national income

Change in the cost of consumer goods

The model is static and therefore does not allow for dynamic processes.

► **Major conclusions :**

Partial equilibrium analysis : The authors find that transfers to foreigners (quota rents) are the largest components of the National deadweight losses (82% against 3% for pure welfare effects)

Welfare calculations of trade policy¹³⁵ are made for 1997 : (based on costs in 1990 and growth rates of imports between 90-97). They indicate that the EU total costs in 1997 amount **to 12 billion ECU** that is 130 ECU per year for a family of 4.

CGE Model : Net gains for the EU vary by scenario :

In scenario (1 : Immediate lifting of EU quotas) yearly welfare gain is 25 billion ECU

In scenario (2 : Immediate implementation of all EU commitments for Uruguay Round) yearly gain is 0.7 billion ECU

In scenario (3 : Combination of 1 and 2) yearly welfare gain is 25 billion ECU (of which 12.7 come from decreasing consumption prices and 6.5 come from recapture of ATC quotas rents) The discounted total amounts to 162 billion (1999-2005). This value corresponds to 270 ECU by year in EU family of four.

Authors find higher gains for Germany, France, UK and Italy.

The cost of saved jobs in T/C sectors (by delaying implementation) is estimated to 28 thousand ECU in textile and 41 thousand in industry per year and per job.

¹³⁵ The evolution of quota size and quota premium is not taken into account.

► **Destination :** The study was commissioned by DEFI, a T/C promotion organisation funded by the French Ministry of Industry. It has been largely discussed within the industry, professional as well as trade unions and political circles. Presentations were also made at numerous French and European administrative instances (among them the European Council Textile Committee133).

For the last ten to fifteen years, contrary to what had happened in the sixties and seventies, world trade in textile and clothing has shown a strong tendency to develop along regional lines rather than through intercontinental trade. This regionalisation trend was both the result of specific regional trade agreements like CBI and NAFTA in America, or the “accord d’association” with Mediterranean countries or Eastern European countries for the European Union. It was as well an effect of the Multi-Fibre Agreement (MFA), and of evolving comparative advantages in Asia between Japan, the former first wave of NIE’s (Hong Kong, Korea and Taiwan) and the second wave (China and South East Asia) or third wave of NIC (Vietnam, South Asia).

The dismantling of the Multi-Fibre Arrangement by the year 2005 and China’s forthcoming membership of WTO, as the world’s largest exporter of clothing, were supposed to alter profoundly international competition in textiles and clothing.

► **Methodology :**

A simulation of the two components of trade liberalisation as mentioned above using the GTAP5¹³⁶ system makes it possible to identify the broad scale of these two shocks.

In line with the Marrakech Agreement on Textile and Clothing (ATC) two scenarios of trade liberalisation are tested :

Quota removal except for China,

Quota removal with China included,

Then several scenarios on tariff reduction are simulated and conclusions drawn.

► **Major conclusions :**

The use of a standard Computable General Equilibrium (CGE) model was selected as efficient in showing the overall impact of ATC.

The main results of ATC are that only the major Asian economies among developing countries are expected to gain from T/C liberalisation. Their gains will have a positive effect on other local neighbouring economies, notably on their textile industries, whereas most other developing areas from Latin America to Africa and South Asia (except India) are expected to lose. The gains for developed countries occurring from better access to large Asian markets are also low. More significant for the developed countries, are the welfare gains due to the lower prices consumers pay for their clothing.

¹³⁶ Global Trade Analysis Project GTAP. Version 5 is currently developed at Purdue University by an international consortium.

A second part of the study is dedicated to the economic rationale of the creation of a PanEuroMed region.

This part of the study gives micro-economic evidence of the proximity advantage for developed nations' industry and particularly for the European industry, which are not taken into account in macro-economic analyses.

Micro-economic investigations include estimates of comparative production costs and a market survey investigating the purchasing behaviour of major retailers and brands;

The competitive potential of the PanEuroMed space for the high and medium quality products, legitimate the maintenance of a tariff preference for these countries, that would respect the contracted commitments to the countries of the south shores of the Mediterranean sea.

Yang, Y., Martin, W. and Yanagishima, K. “**Evaluating the Benefits of Abolishing the MFA in the Uruguay Round Package**”. 1997. Chapter 10 of *Global Trade Analysis : Modeling and Applications*. Edited by Thomas Hertel. Cambridge University Press.

► **Destination :** The paper is part of a global effort made by trade specialists and modellers to give a global and systematic view of the impacts of the Uruguay Round final package. It can be considered as a quasi-official reference on the subject.

► **Methodology :**

The paper starts by a short historical view of the MFA system.

It then presents theory of quota impact on trade and welfare. The authors compare the MFA system with a Voluntary Export Restriction (VER). MFA major effect is to create a rent for the restricted country in opposition to tariffs for which fiscal benefits go in the pocket of the importing country. For that reason it is thought as a way to compensate the exporting country for the export losses.

The paper considers four experiments of unequal interest :

(E1) : Quotas phase out

(E2) : T/C Tariffs reduction without quota phase out so that quota rents are supposed to increase

(E3) : Non MFA measures included in the UR package are added to E2

(E4) : Global UR package with the quota phase out

The estimations are performed based on a CGE static model, using GTAP database.

► **Major conclusions :**

E1 give a welfare gain of 27 billions \$ and E4 75 billions. The authors consider that these results are of a normal magnitude compare to other studies in that kind of exercise.

➤ **REGION SPECIFIC RESEARCH**

Xuesong, L. and Lejour, A. “**The Sectoral Impact of China’s Access to the WTO : A Dynamic CGE Analysis**”. Research Paper of Central Planning Bureau Netherlands and Bureau of Economic Policy Analysis. 2000.

▶ **Destination :**

This paper is the product of a long-term co-operation effort between the CPB Central Planning Bureau of Netherlands and the Chinese Academy of Social Science.

▶ **Methodology :**

This paper presents three original aspects for the analysis of the Chinese trade liberalisation :

First, it gives a description of the tariffs really applied to imports and takes into account very large tariff exemptions for import processing. The first part of the paper provides an overview of the past Trade Policy in China and describes the transition process from an almost completely closed economy toward a relatively open economy. Liberalisation began in 1979 but was rather limited to a few Special Economic Zones which were isolated from the rest of the Chinese economy. Liberalisation accelerated after 1992 up to 1997 starting date of the modelling exercise. Since that time China became a full member of WTO and took the decision to become a truly open economy.

Second, it gives a sector analysis of trade liberalisation,

Third, it is based on a relatively realistic long-term evolution (2010) of the Chinese economy.

The macro-economic impact of Chinese trade liberalisation is simulated relying on a CGE model. Four scenarios are considered : (S1) fall in sectoral tariff rates, (S2) non-tariff equivalents, (S3) elimination of the MFA and (S4) whole WTO package implementation. Evolution of major macro-economic indicators of China between 1997 and 2010 are reported (GDP, household consumption, government consumption, Gross fixed investment, export, import, exchange rate).

It does not give an analysis of bilateral trade protection as it only discusses average protection. The study is performed from the point of view of China. It is not a multilateral analysis. Chinese international trade liberalisation is conducted considering Chinese foreign trade with the rest of the world taken as a whole. It focuses on the macro-economic impact of trade liberalisation for China. It does not include the cost of quota in the analysis.

▶ **Major conclusions :**

In all four policy simulations, export, import, households consumption, gross fixed investment, and GDP increase, and GDP rises 0.8 percent in 2010 for S4, the whole WTO package. Because non-tariff equivalent falls more in S2 than both the tariff reductions in S1 and the MFA equivalent in S3, government income and so government consumption goes down more in S2 than that in S1 or S3. With the same reason, GDP goes up more in S2 than that in S1 or S3, and so are household consumption, gross fixed investment, export, and import. In all scenarios except S3, the exchange rate of Chinese currency is devaluated slightly. The difference is that the elimination of the MFA (S3)

increases China's competitiveness in Textiles and Apparel. Their exports in these sectors will surge which will exert an upward pressure on the Yuan.

In the other simulations (S1 and S2) import restrictions are lifted. This reduces competitiveness of China's producers, in particular on domestic market. Imports increase and the Yuan depreciates slightly.

Table 40: Some Macro Simulation results in 2010 (% change from base)

Simulation scenarios	S1	S2	S3	S4
GDP	0.20	0.34	0.27	0.8
Household consumption	0.09	0.16	0.04	0.3
Government consumption	-0.93	-1.50	-0.57	-3.1
Gross fixed investment	0.61	1.00	0.69	2.4
Export	0.47	0.84	0.33	1.7
Import	0.49	0.90	0.47	1.9
Exchange rate	0.47	0.67	-0.66	0.5

► **Destination :** This is a governmental evaluation, that is to say official, of the cost of protection for the USA. Although based on high quality professional analysis it is clearly written and readable by a large “educated” public.

► **Methodology :**

It uses a very large dataset on US economy. The study relies on a basic CGE model with 73 sectors selected on the basis of the level of import restraints.

Two scenarios are studied, (S1) considers the total elimination of quotas while (S2) considers total elimination of both quotas and tariffs.

The paper provides general results for the US economy as well as detailed sectoral results notably for textile and apparel.

One of the major interest of the report is their Export tax equivalent evaluation. ETE were calculated for individual T/C exports to the US for each of the countries restricted by these quotas in 1999.

These estimates provide some measure of the prices increase generated by these restraints before entering the US market.

The authors first define binding quotas as quotas with an 85% utilisation rate or with a positive price license. Generally they use the 85% threshold because there is little information on license price (China and Hong Kong excepted, and India for 1996 in Kathuria (2001)). The 85% threshold was chosen because in the case of Hong Kong and China the 90% threshold let a few products with a positive license price escape the list of bound quotas.

For other countries the methodological choice was, in case of binding quotas, to impute the same price as for China HK and India.

In the present report the choice was perhaps more realistic. They choose Japan as an unrestricted market to evaluate the relative cost of products from these exporting countries. These cost ratios were then combined with Chinese cost data to derive estimated license prices for each product and exporting country.

► **Major conclusions :**

The overall gains for the US economy of the total elimination of tariffs and quotas are very limited but textile and apparel accounts for the major part of it.

The reason is that agriculture which is often considered as the most highly affected sector by import restraint in developed economy, benefits more from direct assistance to the farmers than by international trade distortions, and export support schemes are not included in this study.

In 1999 T/C represent 1% (151 billions of \$US) of US gross output and 1% (1.31 million workers) of US employment.

Ad valorem import weighted average tariffs are found to be 6.6% on textile and 11.7% for apparel. Quantitative restrictions are considered as an average export tax of 3.3 % on textile imports and 21.4% on apparel import. Simulation suggests US welfare would have risen by about 13 billion US\$ annually had these tariffs and quotas been totally removed. Under UR Agreement US agreed to reduce its tariffs on most textile products by an average of 24% on textile and by 9 % on apparel products. Quotas apply to 48 countries which account for 84% of T/C imports.

The combined effect of both tariffs and quotas is a 34.4% increase in the price of apparel and a 10% increase in the price of textile. The rent attached to the quotas is transferred to the exporting countries and represent a loss of 10 billion \$ for the United States.

The author finds that the level of restrictiveness has increased between 1996 (base year of the former report) and 1999. One major reason is the very rapid growth in T/C trade. They estimate that in 1999 more than 50% of total US apparel imports were facing binding constraints against 25% in 1996. Overall the authors acknowledge that for various reasons these estimates should be considered as minima.

In scenario 1 the drop in prices is 11% in apparel but only with minor price impacts on textile, whereas on output the reduction is 12% in apparel and around 10% in textile, in that it is the consequence of the decline in apparel due to vertical integration of that industry. Imports increase by 17% in apparel and in home furnishing, while it is reduced for textile. Export also decrease by 12% for apparel.

In scenario 2 the drop in prices is 17% in apparel, output contracts by 26% in knit fabrics and 17% in apparel, imports increase by 26% in apparel.

► **Methodology :**

After a simple recall of the basic of MFA history and application principles, the authors made an estimate of the Export Tax Equivalent (ETE) of Indian exports to the US and EU. ETE are the usual way to consider the effect of a quota : it plays a role similar to a tax on the exporting country, the tax is estimate from the prices quotas available in the brokers books according to the formula : $[QP/(UV-QP)]*100$. Q/P is the quota price and UV is the Unit Value of exports (for details see Bhardwaj A.; Kathuria S. (1998). « Export Quotas and Policy Constraints in the Indian Textile and Garment Industries»; Working Paper n°2012, SASPR World Bank, New Delhi Office.

► **Major conclusions :**

The study finds that the US ETE for Indian exports was 40% in 1999 and varied across time between 24% and 40% and for EU the numbers are 18,8% and varies between 14% and 18,8% in both cases 1999 was on a high level. The difference between EU and the US is due to the fact that India is specialised in cotton made product which are more subject to restraint in the US than in EU, due to the fact that US is an important producer of cotton which EU is not.

Other factors are handicaps for Inda :

Disincentives in producing in the factory mode to protect small producers of clothing

Fibber cotton bias by overtaxing manmade fibber or synthetic ones, limiting cotton exports, Product reservation and Hank Yarn Obligation.

The authors conclude on the necessity to reform the T/C sector of India in order to improve productivity and reduce taxation bias. Reform could improve productivity in the clothing sector to bring it at the Chinese level by 67%.

The potential gains after 2005 quota dismantling are estimated to be around 2 billion dollars, half of the gains coming from increase productivity. Pure liberalisation effects are minor.

The original part of the paper relates to the analysis of India's possible or necessary action (reaction) to the abolition of MFA. Although the authors stress the importance and necessity of the abolition they are aware that there will be more competition from other constrained countries and that the benefits are not automatic for India.

► **Destination** : This study was co-financed by : BMWi (German Ministry of Economics), Gesamttextil (textile industry association), IVC (chemical fibre industry association), IG Metall (trade union). Its audience was Industry associations (Gesamttextil, IVC), Government (German Ministry of Economics), Trade Unions (IG Metall). Results were presented at EU Council’s 133 Textile Committee, wide circulation in Germany and in interested EU circles.

► **Methodology** :

The study is based on a combination of quantitative and qualitative analysis.

The **empirical-qualitative analysis** identifies the main characteristics of both the German textile industry and the chemical fibre industry, analyses recent developments and trends, and assesses the individual sub-sectors’ ability to compete in a more competitive environment. Moreover, the most significant supply countries are analysed with respect to the economic/industrial strategies they adopted to prepare for ATC quota removal. The qualitative analysis is based on a detailed assessment of available research, as well as a large number of targeted interviews in Germany and beyond.

The **empirical-quantitative analysis** is based on a scenario modelling exercise, which identifies the extent to which quotas are currently constraining trade, the importance of constrained imports in total imports, and the extent to which products from constrained suppliers compete with products produced in Germany.

The study distinguishes between binding (if imports exceeded 80% of the quota level), strongly binding (if imports exceed 95% of the quota level) and non-binding quotas. The research identifies categories sensitive to quota removal as those where there are binding quotas and the share of countries subject to binding or strongly binding quotas in total imports exceeds certain threshold levels. The analysis then applies various commonly used measures to assess the extent to which products sold by Germany on the EU market were competing with products from constrained suppliers in the rest of the world by application of a similarity index to compare the structure of EU imports of textiles and clothing. Measuring the comparative advantage permitted to estimate the extent to which products in which Germany appears to be an efficient supplier to the EU market were the same as the products in which, say, China appears to be an efficient supplier to the EU market.

Finally, an established economy-wide general equilibrium simulation model was used to directly quantify the impact of quota removal on trade, output and employment in the textiles and clothing sectors in Germany.

The study did not look in detail into tariff barriers and its focus lies on Germany, although it provides a detailed assessment of the state of play of the T/C industry in third countries and strategies to prepare for ATC quota removal.

¹³⁷ A full version of the paper is available online from CEPS publication shop (www.ceps.be) while a short version is available from Ministry and EPPA websites (www.eppa.com).

► **Major conclusions :**

The removal of EU quotas will have a very limited impact upon German textile manufacturers and their employees as most segments of the textile industry used the past decades to restructure and focus on new innovative products, such as technical textiles. However, clothing manufacturers are expected to come under pressure once quotas are removed, although most of their production has already been relocated to low-wage countries in Central/Eastern Europe.

The study finds that only a small portion of EU quotas does actually restrain imports :

- for textiles, in 2000, only 8% of the quotas were “strongly binding” (i.e. imports exceeding 95% of the quota level) and 17% were “binding” (imports exceeding 80 % of quota level);
- however, the situation is somewhat different for clothing where 20% of the quotas were “strongly binding” and 36% were “binding” (2000).

For Germany, the study identifies only two textile categories and four clothing categories as being sensitive to quota removal, as many German textile producers – and to a lesser extent clothing companies - have specialised in high quality segments and technical textiles where competition from the Far East is low.

The study spells out a comprehensive set of recommendations to ensure that textile industry and employment have a long-term future in Germany and an enlarged Europe. In particular, textile companies need to focus further on demand- and customer-driven production strategies, supported by continuous product and process innovation, co-operation between companies, increased flexibility and a strong focus on employee training. Technical textiles offer a particularly promising opportunity to escape the often-ruinous price competition in traditional textiles.

Despite being today a modern and innovative, high-tech oriented industry, many textile companies still suffer from the largely negative and outdated image of their sector as a sun-set industry, discouraging young people to seek their professional future in this sector. The study suggests a number of action points to ensure a continued availability of qualified employees.

A key for success will be further increasing exports. The study therefore recommends a strong focus on developing international marketing and sales strategies, combined with– where necessary – partial relocation of production to develop foreign markets and to secure domestic production and employment.

Policy makers should continue to pursue trade liberalisation, including opening up foreign markets for EU products, avoid safeguard measures on China and reassess origin rules, while at the same time re-evaluate risks and opportunities of environmental protection policies.

➤ **RESEARCH WITH METHODOLOGICAL FOCUS**

Bouët A. “**La négociation commerciale multilatérale dans le textile habillement : retour sur l’Uruguay Round et perspectives à la veille du Millenium Round**”. 2003.

▶ **Destination** : Union des Industries Textiles (French business organisation for the textile industry). The study has circulated among professionals.

▶ **Methodology** :

The author measures the protection level for six developed countries : European Union, Japan, Canada, United States, Australia, New Zealand and for eight developing countries : China, Thailand, Brazil, Argentina, Mexico, India, Indonesia.

The author also proposes to measure the impact of trade liberalisation between Ante and Post Uruguay Round.

▶ **Major conclusions** :

Average level of protection on T/C in 2000 is estimated for developed countries to 12,6% and to 19,2% for developing countries.

On the impact of trade liberalisation between Ante and Post Uruguay Round, the author finds that as an example for the European Union for textile the level of protection was reduced from 14,2% to 5,6% which could –under some assumptions- correspond to an increase in European imports of 1.3 billion US \$.

The author also shows that the level of protection in EU and Japan for the year 2005 is very well known, whereas for other countries there is a high degree of uncertainty due to the large gap between their bounded rates which are maximum tariffs for which they made commitments and applied tariffs which are much lower. For Indonesia for example the gap is particularly large : applied tariffs are on average 10.7% in 2000 and commitments for 2005 are 40% on bounded rates.

One country may decide to manipulate its rates at will (in theory) as far as it does not overcome its bounded rate. This is a very important factor of uncertainty.

So everybody knows very well the real tariffs (applied tariffs) of the past (e.g. for the year 2000) but for the future (e.g. 2004) only bounded tariffs are known. Then it may happen that bounded tariffs for 2004 are higher than 2000 applied tariffs. This shows that the value of the concessions made by different countries may represent a different degree of constraint.

The countries with the lower rates of protection are Japan (10.7 %), the European Union (10.9 %) (and South Korea (8.2 %)); these countries are also the countries for which applied tariffs are very close to the bounded tariffs so that one can measure exactly the real value of their tariff reduction commitments.

Another interesting result comes from the comparison of simple average rates and weighted average tariffs. For developed countries, simple averages are lower than weighted averages. This result means two things : first, that tariffs tend on average to be higher on categories with large import volumes and second, that tariffs do not hampered imports due probably to a very large price competitiveness of developing countries.

Simulations of tariff reductions are very interesting and should be used as such in our report.

One weak point lies in the fact that the author do not take into account the fact that in some countries there is a very large gap between official rates and collected taxes. In the case of China when we compare nominal rate and collected rate we found that the rate of protection is very low On average there was in 1995 a 59% rate on textile import which was reduced to 17% collected on ordinary imports. The reasons for such a gap are many : many exemptions, large imports for re-export (outward processing export), smuggling.

There is no genuine evaluation of quotas impact on trade. The report uses GTAPversion4 which was rather a very rough estimate compared to “scientific “measures of the cost of quotas. Version5 is an improvement but yet it lacks sufficient statistical information.

Given its tariff structure (low level with no tariff peaks) the EU should have an interest to propose a very progressive way to reduce tariffs in the Doha Round which would correspond to a bigger reduction for most of its partners and notably for the developing countries.

Baden, S. and Velia, M. “**Trade Policy, Retail Markets and value Chain Restructuring in the EU Clothing Sector**”, report published by the PRUS (Poverty Research Unit at Sussex), 2002.

► **Destination :**

The University of Sussex is notably a prominent university for development studies, the PRUS is concerned by the problem of poverty. Clothing export is one of the possible way for a poor country to start reducing poverty.

► **Methodology :**

The study is centred on the relationship between trade policy regime changes and the restructuring of the clothing « value chain » in the European Union (EU). The study highlights a series of key changes over the nineties in trade (regionalisation trends as shown by Fouquin-Morand (2001)) and also the prevalence of markedly different retailing structures across Member States. The study also provides a case study of South Africa.

Notice is given to the new comers in clothing : Bangladesh and Vietnam.

► **Major conclusions :**

The study gives a summary of what is the current hierarchy of preference in T/C with EU. The authors notice that the full consequences of China WTO membership will be delayed to year 2008 for textile and clothing due to safeguard measures.

They confirm that the major winners will be South East and South Asian countries and China.

The authors conclude the liberalisation part of their study by stressing the power of producers on the policy process in the EU. Consumers are almost absent from the discussion on implementation, while retailers are not well organised and have therefore limited impact on the policy process.

The next chapter is on EU market restructuring. Three forces shape the market :

- Outward processing in CEEC,
- The US clothing retailers and the Southern European specialist chains,
- Slow growth for demand exacerbates competition and tends to accelerate the decline in prices.

The report insists on the absence of a homogenous unified market. UK is moving toward a US model with a highly concentrated distribution while Southern countries will remain closed to large retail chains. But they have integrated chains of production and retail.

The final chapter is on the analysis of the types of value chain.

Three types are currently visible in the EU. They are associated with different sources :

1. Those with a proliferation of specialised small suppliers (smaller countries of CEEC, Yugoslavia, CIS, Baltic States).
2. Outward processing trade from longstanding and larger supplies (Turkey, East Europe).
3. North African and Asian sources.

UK and Scandinavia draw an increasing share of their imports by powerful retailers in a highly concentrated market.

Germany, France, Netherlands and Belgium rely more on OPT with long-term relations with suppliers in the Pan European Zone. Relative strength of the independent retail sector, geographic and linguistic proximity has limited the “buyer driven” process. In these countries manufactures are moving up the value chain, to become distributors and managers of OPT, producing design and sample.

Italy and Spain play the vertical integration strategy, based on small scale and flexible domestic industries and a relatively low degree of imports.

The three models can be characterised by their sourcing strategy : UK imports more from Asia, Germany imports from CEEC, Southern countries are modest importers.

There is also a tendency for big retailers (Walmart kind) to become exporters from global sourcing.

► **Destination :**

Both authors were economist from the World Bank and as such have an interest to attack the MFA system which “regulates” Trade in T/C and limits the expansion of some developing country to preserve the industry in wealthy countries.

► **Methodology :**

The focus of the paper is the political economy of MFA. The specific form of protection is the result of the intense lobbying activity and of the political power of Southern states of the United States in the Congress and in the Presidential election. Although the Executive was opposed to protecting that US industry, it chooses to accept “voluntary export restraints” (VER) with the exporting countries in 1955. These VER were the results of the Japanese industry proposals to solve the trade conflict which they feared could have more damaging consequences. That kind of agreement was extended to Hong Kong in 1959. But the Executive was reluctant to extend the limitations and tried to win time. It was President Kennedy election and the interest to win votes from New England and the South which made the Executive active in trying to implement a multilateral agreement. Which gave birth to the MFA.

► **Major conclusions :**

Was the protection effective? In fact the authors show that protection although impressive does not prevent very fast growth of imports and a hard decline in employment, no doubt that it was successful in limiting the decline but it cannot stop it.

Then the authors propose a model of the determinants of MFA protection, that is to say the endogenous determination of quotas allocation.

The model’s specifications are :

Determination of whether or not a quota is applied depends on product i and country j at time t .

Explaining variables refer to production characteristics of T/C industry.

The model shows that import penetration was the first explanation for quotas. Other determinants are net investment, low profits and exchange rates. On the side of the exporting countries exports to the US were not an effective threat on the contrary high level of US import was efficient to reduce the probability of a quota.

The size of the quota follows the same pattern.

As a conclusion they find that that high tariff on EU export to the US complemented by quota on Asian export was acceptable both for the industry and the Executive.

It was the result of :

1/ strong political power of the Southern States

2/ weak political influence of Asian countries over US foreign Policy.

3/ flexibility and pragmatism of the textile industry as it adapts its demand for protection to the possibilities of international politics.

The study gives a good picture of the political economy of MFA in the US and shows the key role that US played in the implementation of the system. They were, with the Japanese, the true fathers of the

System. As far as the future is concerned, the coming presidential elections may prove as hard to win as in the past and economic record of the Presidency will be as important as the results achieved in international policy. Until the last minute, the US will use all the possibilities offered by MFA, and after 2005 they will use as much as possible the safeguards options against China and anti dumping against the other exporting countries.

But in the end, it is clear that none of these measures will provide a protection equivalent to that granted under MFA.

6 – MODELISATION RESULTS AND CONSOLIDATED CONCLUSIONS

Summary

Whatever the outcome of the Doha Development agenda after the Cancun failure, the complete **abolition of the textile and clothing quota system** is due to take place on the 31st December of 2004. Thus, the economic simulation made for the present report evaluates the consequences of the quota phase-out on T/C flows. Everywhere the trade impact is much more important on clothing than on textile. Most of the benefits, in trade terms, are enjoyed by **China**, simply because it is by far the most quota constrained country. Conversely, the main loser, in trade terms, is the **EU** because EU quotas for clothing are much more constraining than those applied by the USA.

Since the first set of liberalisation took place for the EU in 2001, imports have significantly risen, (imports of liberalised categories have grown by some 30% a year in volume and only 5% in value, due to considerable price falls) mostly from China. Estimates based on this short term analysis lead to think extra-EU imports might increase by a total of 17% in Tons over the 2005 and 2006 period . The increase in value would be much lower (+4%) due to an 11% price fall by the end of 2006.

The EU countries which suffer less of a negative impact from liberalisation are those with a stronger extra-EU export base, as it demonstrates more clear-cut specialisation and differentiation in international markets.

Liberalisation **speeds up the decline** at work in the EU industry, accelerating it to twice the rate of the previous trend. The impact would be larger if EU products were not increasingly differentiated from low cost imports.

OPT countries lose significant volumes to China and other Asian suppliers in terms of apparel exports and production. As a consequence, EU textiles have to bear the decreases in export and production corresponding to the **weakening of their apparel manufacturing bases around the Mediterranean Sea**.

The total negative impact on EU production after 15 years ranges from -3% (textiles) to -8% (clothing). Declines are due to a steeper **drop in volumes and in prices**, as lower import prices (-1% in textiles and -5% in clothing) naturally translate into a drop in production prices and narrower margins, at least for the first years after 2005.

Mostly hit in terms of employment are likely to be the areas most depending on vulnerable production activities. This is partly correlated with the product categories which companies are focused on, as illustrated earlier in the research. However categories may be extremely heterogeneous and within the same product specialisation companies do display **very different degrees of competitiveness** and profitability. Similarly in terms of location, within districts some companies already are quite fit and ready to face liberalisation, while some others, only 20 km away, may be much more vulnerable to increased foreign competition.

6.1 MODELISATION RESULTS

➤ SELECTED SCENARIO

The scenario considered is based on several common general hypotheses. The most important ones are the following.

After 2005, the possible future occurrences are limitless -e.g. financial collapse in China, an oil crisis, a nuclear attack from North Korea or a major earthquake- and there is little reason to choose one catastrophe over the others. Thus, to ensure the analytical value of the exercise, only one specific shock can be simulated, under the assumption that all other factors remain unchanged, unless indirectly influenced by the shock itself. Therefore, a clear-cut post-abolition situation has been studied. The results are shown in variation to a reference which describes one unique global environment. This is the result of a dynamic simulation of the world economy generated by the model on the basis of constant investment intensity differentiated per country.

Whatever the outcome of the Doha Development Agenda (DDA) after the Cancun failure, the complete abolition of the textile and clothing quota system is slated for the 31st December of 2004. Although there are complaints from developing countries about the fact that up to now only non-constraining (or less constraining) quotas have been phased out, there is little doubt that the process will go on as previously decided. Therefore the simulation focuses on the **impact of quota elimination**.

Hypotheses concerning possible tariff cuts in any country or possible safeguard measures to be taken by the USA¹³⁸ or by the EU have not been integrated into the scenario.

➤ HOW TO INTERPRET RESULTS

One will find in appendix a detailed explanation of the model and how it works. However it is important to give **some warning here** as to how the results should be interpreted. They are not forecasts and do not give predicted values for trade flows, production or employment : they produce estimates for the **variations due to the simulated shock of quota dismantling**. For example, when the estimate produced by the model for a particular flow after 15 years, is – 30%, it means – 30% of the value the flow would have reached for that year, if no shock had occurred and interfered with the “natural” evolution.

Obviously in a context of **negative existing trends** in the EU concerning in particular T/C industrial volumes, employment, consumption prices, and ever increasing imports, the results produced by the model may appear quite optimistic if considered as forecasts in absolute terms. Unfortunately they only try to **measure the difference made between a shock / no shock situation in the long term**.

¹³⁸ At the time of the simulation the USA was just beginning the inquiry concerning Chinese exports of four textile and clothing product categories.

➤ AGGREGATED RESULTS

It should be noted that all macro-economic results presented here are expressed in constant prices, even for real exchange rate changes which express nominal changes deflated by price changes. The only exception naturally concerns the terms of trade effect. Detailed results on textiles and clothing are estimated at current prices which is the usual way to analyse international trade variations.

Impact on developed countries

- The first immediate impact of quota suppression is to decrease the developed countries import prices. As a consequence there is an improvement in their terms of trade¹³⁹. Export volume decreases due to the progress made by Chinese and Indian exports in textiles and clothing. The first impact on trade balance is negative which causes a slight depreciation of their currencies¹⁴⁰. This phenomenon consequently tends to increase non T/C exports and decrease non T/C imports.
- **EU intra-trade declines strongly** due to Chinese and Indian export progress. For example, in the case of France, there is a drop in exports, when Chinese and Indian exports strongly increase.

French Intra-EU exports :

for textile -4.2 %	China towards EU + 17.6 %
	India towards EU + 10.4 %
for clothing -12.8 %	China towards EU + 188 %
	India towards EU + 19.5 %

- 3 The impact on textile and clothing on production is negative : - 3 % and - 8 % respectively on average for EU, over the 15 year period.

But Germany and the United Kingdom register the biggest decline respectively -5, -13 % for Germany and -4, -15 % for the United Kingdom. This is because they have their largest export share towards the EU market.

For Germany, and to a lesser extent for the UK, the high percentage decline for clothing translates only in a minor reduction in production as only a very small proportion of stitching is still carried out there. For German textiles, the negative impact can be attributed to the suffering of OPT in Eastern Europe, much of which is based on fabrics made in Germany.

- 4 On the contrary the Italian, Portuguese and Spanish industries are relatively much more resilient with -6% decline in textile and -5% in clothing for Italy, and -2.5% and -5.9% for Portugal, and -0.5% in textile and -7% in clothing for Spain. For those countries clothing is a large exporting item, and there is a large trade surplus. Being therefore more diversified they tend to resist better to international competition.

¹³⁹ Terms of trade : this is the ratio between the value of exports and the value of imports for one country. It measures the purchasing power of exports in imports.

¹⁴⁰ In the case of China the nominal exchange rate between the US\$ and the Yuan is fixed and given that inflation is lower in China this “pegging” translates into a real depreciation of the Yuan. This tends to worsen the trade imbalance. One consequence is a risk of rising protectionism in the USA unless some flexibility is introduced in the \$/Yuan exchange rate. For the EU with an appreciating € things might even become more sensitive.

5. For each country specific factors also have to be taken into account :
- Italian clothing industry benefits for its large market shares outside EU and in non quota protected markets.
- For Portugal the clothing industry represents such a large share of its industry that the shock on Portugal becomes a macro-economic shock and therefore the decline in clothing export tend to reduce global employment which is compensated by a decline in real wages. That decline therefore re-establishes its competitive strength in clothing.
- For Spain what happens is the result of a major change in its terms of trade due in particular to its large imports of clothing, and to its strong vertical integration. Its large successful brands and chains still heavily source from Spanish producers. However feeling that the competitive pressure will increase they now consider buying outside Europe. Such a change in behaviour is not taken into account in the model. The new EU Members register similar results as those mentioned for EU 15. This reflects partly a modelisation choice to consider these countries as close to the other EU countries, especially in terms of product differentiation. Otherwise they would suffer much more from the quota phase out.
6. **For countries whose exports are more than ninety percent** of their production in textile the quota shock is even positive : Belgium and other EU countries show a positive impact of 6% and 3% on exports towards the world and slightly less so towards non EU-25 countries in textile with similar results on production. This is the result of their low market power. Being price takers¹⁴¹ contrary to the other EU producers with a domestic market they tend to lower their prices to international levels much more than the other EU countries.

Impact on the other countries

7. **The rest of Europe** (outside EU 25) is a rather heterogeneous zone including, among others, Russian Federation and CIS, Romania, Bulgaria. As a whole they compete on lower price segments and therefore lose a lot to China and India.
8. **For developing countries** losses are important except for China and India which were the only two countries with real constraints (due to the aggregation choice Pakistan, even though it has some remaining constraints, has not been singled out).
- Losses are important for Mediterranean countries** such as Turkey and North Africa. These countries were protected by the quotas, and now **lose part of their preferential situation**. First they register big losses on their terms of trade as they are strong exporters of textile and clothing. For the same reason their export decrease much more than their imports. As a consequence their exchange rate depreciate. Therefore the overall impact on macro economic results is negative.
9. **Explaining Chinese reaction mechanism.**
- China bears strong quota constraints on its textile and clothing exports. Those constraints have had a positive impact on prices paid to Chinese producers as quantitative limits on export raise the price of goods : the more stringent the constraints the larger the price increases.

¹⁴¹Economic term which describes the situation of countries with a low influence on world market prices, who have to adapt to world prices.

The phasing out of quotas therefore reduces the export price paid to producers while it raises the volume. So China registers a loss in its terms of trade which is overcompensated by a surge of export flows. Therefore the trade balance tends to improve which brings a real appreciation of the Chinese currency. This appreciation reduces the competitiveness of non textile goods whose imports increase rapidly. So on the one hand textile and clothing exports register very large increases while other sectors register large increases in imports.

Chinese textile world exports increase by 22% in value. Most of the increase concerns NAFTA with an increase of 99%, while **the EU increases its Chinese imports by 17%**.

Chinese clothing exports increase by 75%, most of it goes **to the EU with a tripling (+188%)** of its imports, while NAFTA imports are only doubling. This is due to the fact that textile quotas are more constraining in the USA than in the EU ,i.e. quotas with high filling rates represent a larger part of textile imports in the USA. This is the opposite in the case of clothing.

As a consequence of that tremendous increase in clothing exports, China increases its global textile import by 6%. As a consequence Chinese textile output increases by 12% and clothing by 33%.

10. Indian reactions

Trade gains in textile and clothing for India are moderate : 2% for textile export and 8% for clothing. India was less constrained than China by the quota system so its trade benefits are much lower. But India bears the price impact of the phasing out of Chinese quotas. This brings an important loss on its terms of trade and in the end a macro economic loss.

It is clear that such a result is based on the estimates made on India export constraints. Indian data on quotas are much less reliable than Chinese ones due to the fact that Chinese authorities keep a strong central control on the quotas system while for India it is in the hand of non governmental bodies. If the constraints were in reality more severe than has been considered in the present report, then the gains of India should be more important than the losses. However the industrial structure of India and its heavy regulations do not facilitate adaptation to a new competitive environment.

Impact on prices

The impact on prices differs depending on the nature of prices, on whether they are domestic prices (here marginal costs) or import prices.¹⁴²

▪ Domestic prices

Domestic prices reflect adaptation to competition and here specifically to international competition.

In the case of France, prices decline by 0.3% for textiles and 0.8% for clothing the first year, but fifteen years later there is a price rise of 0.1% for textiles and 0.1% for clothing. This phenomenon can be observed thanks to the dynamic nature of the model, and can be explained as follows :

In the first year, domestic firms have to support a price decrease due to the phasing out of quotas. This price decrease brings a decline in the operating results of the firm, which in turn reduces its investments for the coming years and therefore reduces its production levels. There is however a limit to this trend as domestic products are not the same as imported products and national consumers still

¹⁴² The detailed expected impact per country on production prices and import prices respectively are reported in appendix 3.

want to consume a minimum of national products ; in other words domestic consumers are still ready to pay higher prices for domestic products.

These changes are similar but vary in intensity among developed countries. French and Italian clothing producers are among the most able to maintain their prices. Germany, the United Kingdom, Belgium and the rest of EU-15 are the least able to do so. These reflect the differences in their capacity to maintain high differentiation product strategy.

In textiles on the contrary, German producers tend to do better than other EU countries.

Turning to China and India a different phenomenon is due to take place.

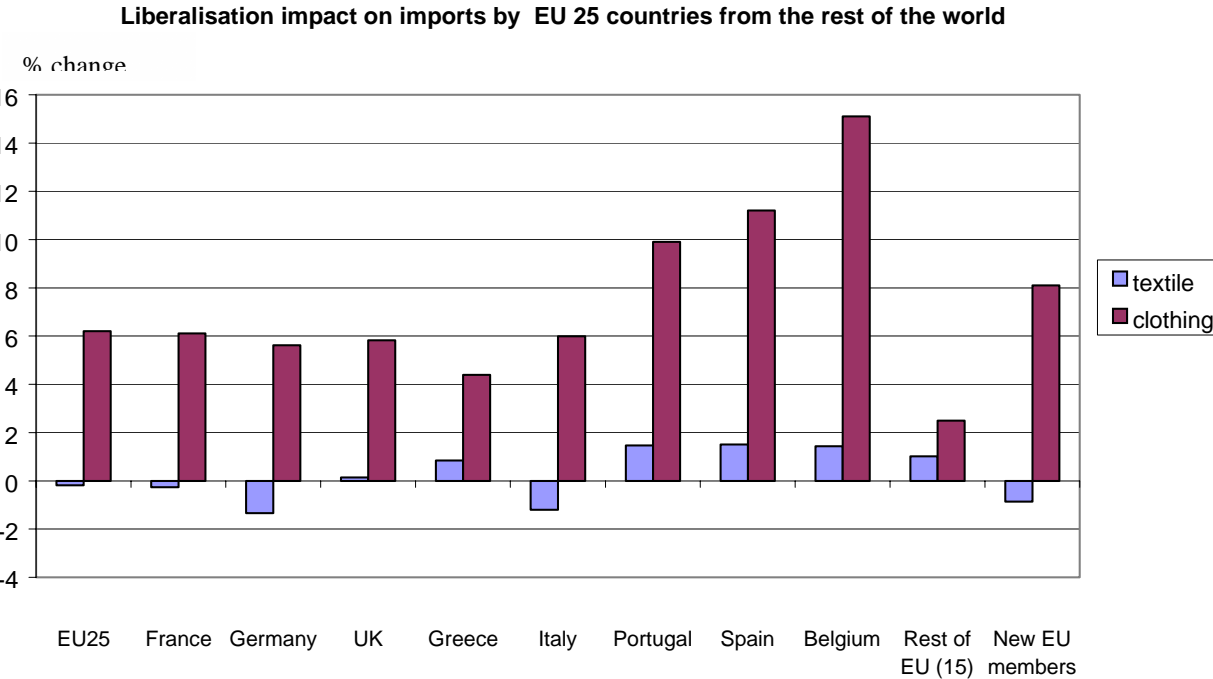
In the first year, prices increase due to an accelerating growth of 2.0% and 3.8% in China and 0.4% and 1.3% in India. The rise in prices allows Chinese and Indian firms to invest more over the following years. Consequently, supply increases which leads to a stabilisation of prices.

▪ **Import Prices**

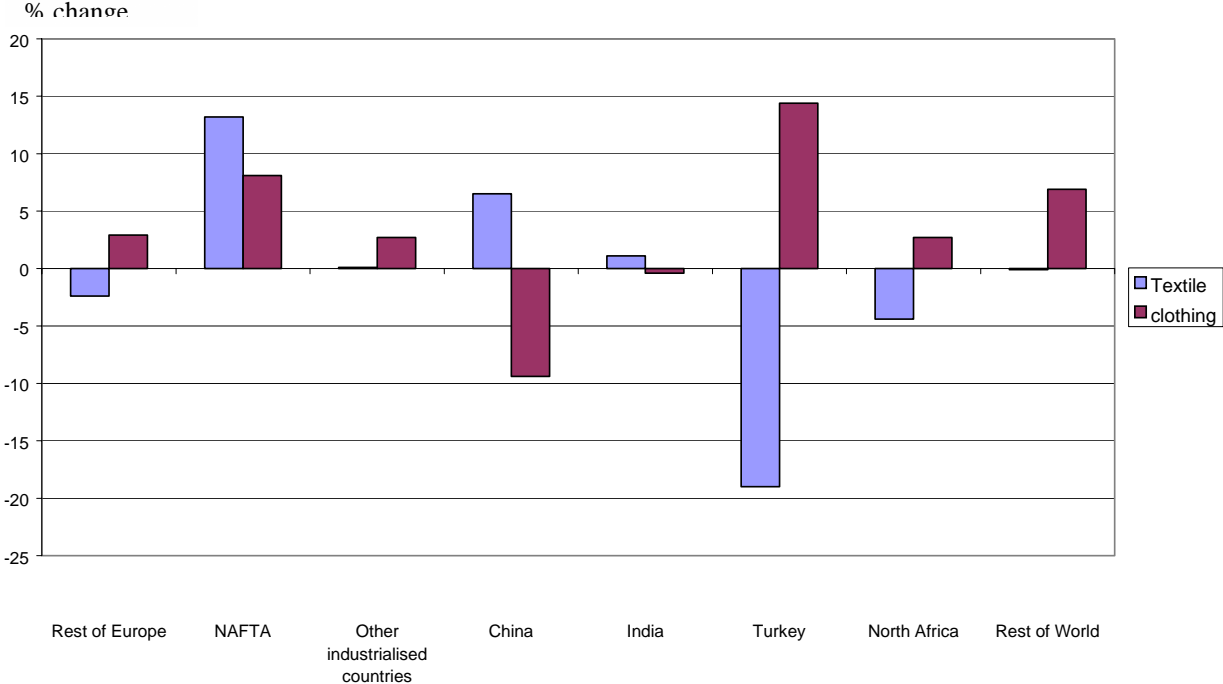
The impact of quota phasing out on import prices is around less than 1% for textiles and around 5% for clothing throughout the whole fifteen year period of simulation. The differences among EU countries are only due to different initial exposure to Chinese and Indian exports. Portugal and Greece are the least exposed while the United Kingdom, Germany and Italy’s clothing are the most exposed.

This **price erosion** may appear out of proportion with the price drops identified in Chapter 5, concerning the impact of liberalisations already effective on the EU market. However this criticism is contradicted by several points based upon recent evidence and macroeconomic trends in China which are developed in the following pages. (See Short term analysis).

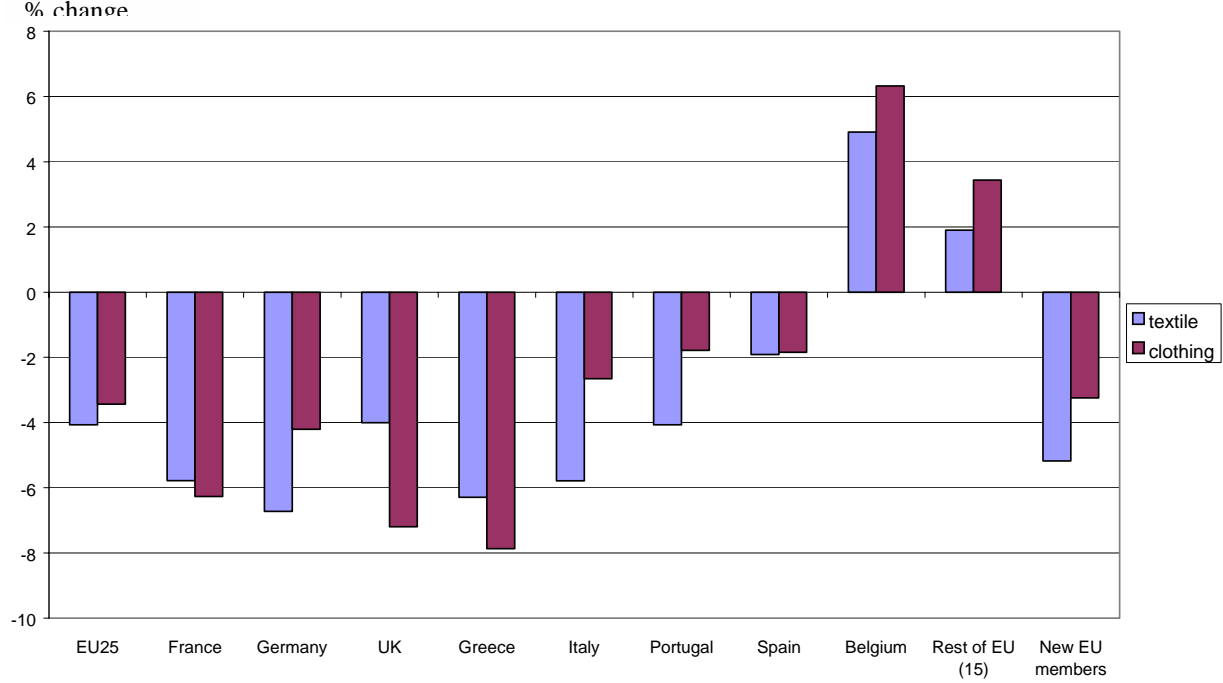
Graph 10



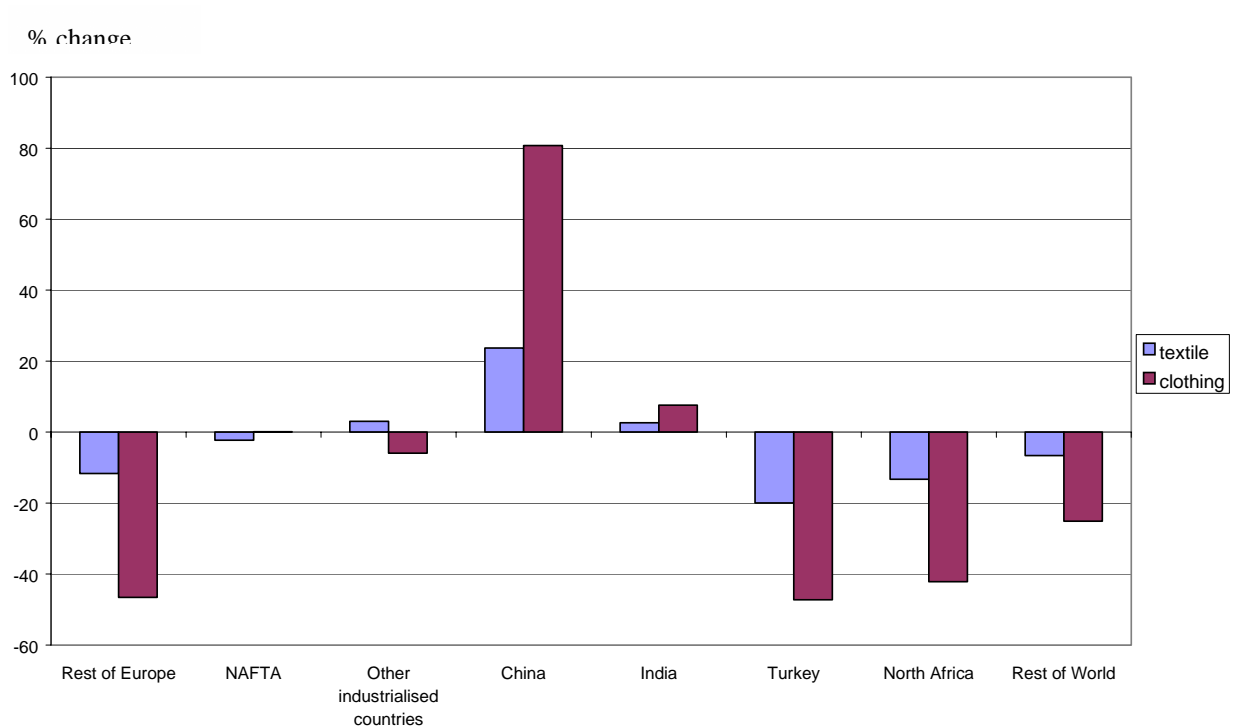
Graph 11 Liberalisation impact on imports by non EU 25 countries from the world



Graph 12 Liberalisation impact on exports by EU 25 countries to the rest of the world



Graph 13 Liberalisation impact on exports by non EU-25 countries to the world



6.2 SHORT TERM ANALYSIS

The results of the modelisation phase which are presented above may appear quite different from what could be **observed in 2002 and 2003** concerning the ATC categories which have been liberalised at the end of 2001.

Even though one must be **very careful with such a short term analysis**, the present section tries to give some evidence of what has actually happened. It elaborates upon prior findings described in Chapter 5.

Table 41 : Extra-EU import evolution 2001-2003

ATC Categories	Extra EU imports in value				Market shares in value			Extra EU imports in Tons				Unit values (Euros/kg)			
	000 Euros 2002	2002/ 2001	2003/ 2002	2003/ 2001	2001	2002	2003	2002	2002/ 2001	2003/ 2002	2003/ 2001	2001	2002	2003	2003/ 01
10															
Gloves															
China + Hong-Kong + Taiwan	125 785	20%	10%	33%	34%	40%	42%	18 010	94%	1%	96%	11,2	7,0	7,6	-32%
Total Extra - EU	312 149	2%	5%	8%	100%	100%	100%	36 497	26%	5%	33%	10,5	8,6	8,6	-19%
18															
Underwear															
China + Hong-Kong + Taiwan	225 112	14%	7%	22%	28%	32%	36%	18 514	145%	40%	242%	26,2	12,2	9,3	-64%
Total Extra - EU	698 454	0%	-3%	-3%	100%	100%	100%	55 786	27%	12%	42%	15,8	12,5	10,8	-31%
19															
Handkerchieves															
China + Hong-Kong + Taiwan	8 957	-21%	4%	-17%	35%	35%	45%	1 042	-17%	40%	17%	9,0	8,6	6,4	-29%
Total Extra - EU	25 933	-20%	-20%	-36%	100%	100%	100%	2 203	-13%	4%	-10%	12,8	11,8	9,1	-29%
21															
Parkas															
China + Hong-Kong + Taiwan	1 134 516	91%	36%	161%	28%	48%	60%	104 040	286%	55%	498%	22,0	10,9	9,6	-56%
Total Extra - EU	2 387 613	13%	7%	21%	100%	100%	100%	163 457	64%	29%	110%	21,2	14,6	12,2	-43%
24															
Nightwear															
China + Hong-Kong + Taiwan	199 787	7%	25%	34%	21%	23%	28%	17 592	20%	86%	124%	12,7	11,4	7,6	-40%
Total Extra - EU	876 317	-3%	0%	-2%	100%	100%	100%	73 755	2%	22%	24%	12,4	11,9	9,7	-22%
32															
Pile fabrics															
China + Hong-Kong + Taiwan	106 153	92%	-9%	75%	35%	51%	50%	19 353	206%	11%	239%	8,7	5,5	4,5	-48%
Total Extra - EU	206 894	29%	-6%	22%	100%	100%	100%	32 969	59%	6%	69%	7,7	6,3	5,6	-28%
33															
Synth. Filament fabrics															
China + Hong-Kong + Taiwan	13 501	-4%	9%	5%	5%	4%	5%	8 068	-3%	19%	16%	1,7	1,7	1,5	-10%
Total Extra - EU	305 732	4%	4%	8%	100%	100%	100%	146 646	9%	4%	14%	2,2	2,1	2,1	-5%
37															
Artificial fabrics															
China + Hong-Kong + Taiwan	61 833	-22%	-5%	-26%	34%	33%	37%	13 907	-72%	10%	-69%	1,6	4,4	3,8	140%
Total Extra - EU	187 440	-20%	-15%	-32%	100%	100%	100%	29 155	-58%	-2%	-59%	3,4	6,4	5,6	64%
68															
Babywear															
China + Hong-Kong + Taiwan	674 134	11%	4%	16%	43%	48%	53%	43 914	96%	42%	177%	27,0	15,4	11,3	-58%
Total Extra - EU	1 415 159	1%	-6%	-5%	100%	100%	100%	89 528	39%	13%	57%	21,8	15,8	13,2	-39%

ATC Categories	Extra EU imports in value				Market shares in value			Extra EU imports in Tons				Unit values (Euros/kg)			
	000 Euros 2002	2002/ 2001	2003/ 2002	2003/ 2001	2001	2002	2003	2002	2002/ 2001	2003/ 2002	2003/ 2001	2001	2002	2003	2003/01
73															
Track suits															
China + Hong-Kong + Taiwan	122 019	54%	32%	103%	29%	47%	56%	12 435	112%	104%	331%	13,5	9,8	6,4	-53%
Total Extra - EU	260 135	-4%	10%	6%	100%	100%	100%	23 024	8%	61%	74%	12,7	11,3	7,7	-39%
76															
Workwear															
China + Hong-Kong + Taiwan	149 582	15%	45%	68%	12%	14%	20%	17 645	98%	66%	227%	14,5	8,5	7,4	-49%
Total Extra - EU	1 083 830	-3%	2%	0%	100%	100%	100%	84 339	9%	16%	26%	14,4	12,9	11,4	-21%
TEXTILE + CLOTHING															
China + Hong-Kong + Taiwan	14 632 869	4%	3%	7%	19%	20%	22%	1 509 867	0%	22%	23%	9,4	9,7	8,2	-13%
Total Extra - EU	71 405 720	-1%	-2%	-4%	100%	100%	100%	8 774 348	-14%	4%	-11%	7,1	8,1	7,7	8%
TEXTILE															
China + Hong-Kong + Taiwan	3 130 690	1%	0%	1%	14%	15%	16%	671 774	11%	16%	29%	5,2	4,7	4,0	-22%
Total Extra - EU	21 106 793	-6%	-6%	-11%	100%	100%	100%	5 703 942	1%	-1%	-1%	4,0	3,7	3,5	-11%
CLOTHING															
China + Hong-Kong + Taiwan	11 502 179	5%	4%	9%	22%	23%	24%	838 093	-7%	28%	19%	12,2	13,7	11,2	-8%
Total Extra - EU	50 298 927	0%	-1%	0%	100%	100%	100%	3 070 405	-32%	12%	-23%	11,1	16,4	14,5	30%
LIBERALISED T/C 2002															
China + Hong-Kong + Taiwan	2 821 378	37%	22%	67%	27%	36%	44%	274 520	70%	47%	149%	12,8	10,3	8,5	-33%
Total Extra - EU	7 759 656	3%	1%	4%	100%	100%	100%	737 358	16%	16%	35%	11,9	10,5	9,2	-22%
LIBERALISED TEXTILE 2002															
China + Hong-Kong + Taiwan	181 487	22%	-6%	14%	22%	26%	25%	41 327	-36%	12%	-28%	2,3	4,4	3,7	58%
Total Extra - EU	700 065	2%	-4%	-3%	100%	100%	100%	208 771	-7%	3%	-4%	3,1	3,4	3,1	1%
LIBERALISED CLOTHING 2002															
China + Hong-Kong + Taiwan	2 639 892	38%	24%	71%	28%	37%	45%	233 193	140%	53%	267%	19,7	11,3	9,2	-53%
Total Extra - EU	7 059 590	3%	2%	5%	100%	100%	100%	528 588	29%	21%	55%	16,6	13,4	11,3	-32%
OTHERS (non binding or no quota) T/C															
China + Hong-Kong + Taiwan	11 811 490	-2%	-1%	-3%	19%	19%	19%	1 235 347	-8%	17%	8%	8,9	9,6	8,1	-10%
Total Extra - EU	63 646 064	-2%	-3%	-5%	100%	100%	100%	8 036 989	-16%	3%	-14%	6,8	7,9	7,5	10%
OTHERS (non binding or no quota) TEXTILE															
China + Hong-Kong + Taiwan	2 949 204	0%	1%	0%	14%	14%	15%	630 447	17%	16%	36%	5,5	4,7	4,1	-26%
Total Extra - EU	20 406 727	-6%	-6%	-12%	100%	100%	100%	5 495 172	1%	-1%	0%	4,0	3,7	3,5	-11%
OTHERS (non binding or no quota) CLOTHING															
China + Hong-Kong + Taiwan	8 862 287	-2%	-2%	-4%	21%	20%	20%	604 900	-25%	18%	-11%	11,3	14,7	12,2	8%
Total Extra - EU	43 239 337	0%	-1%	-1%	100%	100%	100%	2 541 818	-38%	11%	-31%	10,5	17,0	15,2	44%

The above table illustrates the fact that **significant increases in Extra EU imports** have been seen in liberalised categories when the quota filling rates of the categories before liberalisation were **really binding**, as measured by **a rate of 80% and more**¹⁴³.

This phenomenon already observed in Chapter 5 with the 2001-2002 evolutions is confirmed when 2003 imports (estimated upon actual import Eurostat data for the first 11 months of the year) are taken into account.

Categories 10,18,21,32,68,and 76 were really binding categories in 2001. Liberalisation brought an increase **after 2 years** in import volumes in Tons ranging from +33 % (category 10, Gloves) to 110 % (21, Parkas), with an average¹⁴⁴ increase of 66% over the 2 years, i.e. **some +30% per year in volume**. Except for tracksuits (category 76), for which most of the increase took place in 2003, volume increases for the five other categories were quite high in the first year after liberalisation and much lower during the second. In fact yearly increase rates were on average reduced by two thirds from 2002 to 2003. This can be interpreted as a gradual return to a situation of equilibrium after the turmoil brought by partial liberalisation events.

This increase in volume is correlated to a significant **drop in prices** as explained in former Chapter, representing on average 33% in Euros per imported kg (2 year time) . The overall result for those 6 categories thus is a much more moderate evolution rate in value, ranging from slightly negative figures (babywear,68, and underwear ,18) to +21/+22% for pile fabrics or parkas, over the 2 year period of time, corresponding to an average yearly increase of Extra EU import values by some 5% or less.

For the other categories (non binding or no quota), one can examine detailed data from the table hereunder. **15** categories display at the end of 2003 a filling rate above the 80% threshold.

Table 42 : Binding categories and others : situation at the end of 2002

ATC categories	Extra EU imports 2002				
	000 Euros	% of total imports (Euros)	Tons	% of total imports (Tons)	E/ kg
4	5 364 439	7.2%	376 629	4.2%	14.24
5	6 591 593	8.9%	433 336	4.8%	15.21
6	8 665 338	11.7%	544 756	6.0%	15.91
9	581 612	0.8%	94 184	1.0%	6.18
13	1 575 242	2.1%	82 897	0.9%	19.00
20	1 057 827	1.4%	160 958	1.8%	6.57

¹⁴³ total licensed imports / global working level of quotas

¹⁴⁴ arithmetic mean

Extra EU imports 2002					
ATC categories	000 Euros	% of total imports (Euros)	Tons	% of total imports (Tons)	E/ kg
31	1 320 131	1.8%	25 919	0.3%	50.93
39	400 877	0.5%	53 065	0.6%	7.55
41	1 017 261	1.4%	356 642	3.9%	2.85
83	662 545	0.9%	32 105	0.4%	20.64
115	86 334	0.1%	14 481	0.2%	5.96
117	156 372	0.2%	16 276	0.2%	9.61
118	41 496	0.1%	3 289	0.0%	12.62
157	190 485	0.3%	8 059	0.1%	23.64
163	102 440	0.1%	12 903	0.1%	7.94
Total of above=binding	27 813 993	37.4%	2 215 498	24.5%	12.55
Other cat (non binding or no quota)	38 717 596	52.1%	6 086 873	67.3%	6.36
Liberalised (jan 02)	7 759 656	10.4%	737 358	8.2%	10.52
<i>Total</i>	74 291 245	100.0%	9 039 729	100.0%	8.22

Source : Eurostat

These binding categories represent more than 2 million Tons (25% of total imported volumes in Tons) and 28 billion Euros (i.e. 37% of imports in value terms). Should they increase as much as the 2001 binding categories have done upon liberalisation, the increment on today's import levels for those categories could be estimated to amount to +66% in Tons and + 10% in Euros over the first 2 years after liberalisation. This hypothesis is simply based upon 2002-2003 evidence described above.

The overall impact on T/C Extra EU imports would thus be approximately + 17 % in Tons over the 2 years and + 4% in Euros. It would also bring an import price drop of some 11%.

Evidently this approach is oversimplistic as it does not take into consideration a number of phenomena, which might bring opposite consequences. Among the most important ones one must make some remarks on the following points.

Market distortion

Liberalising a small portion of constrained trade urges a large number of traders and foreign exporters **to focus on these categories** and makes competition all the fiercer on the items concerned, with major downward impact on prices. When every factory in Asia may ship as many parkas as they wish but not winter coats, they naturally will fight to sell those parkas at any price, even the factories which by tradition and know how were specialised on coats. To go on with the same example, there might also be a tendency among players to consider some coats as being parkas instead of coats for export purposes in such a context.

To back up this view one can observe that for the recently liberalised categories (2002 and 2003), while imports of liberalised items have significantly increased, **imports of other categories have decreased** by 14% in volumes and 5% in value, in contradiction with the long term trend of T/C Extra EU imports . These reductions cannot be attributed to a depressed market, as sluggish final consumption traditionally drives buyers to lower market prices and raise imports.

Price development

The present turmoil has an impact on prices which cannot be expected to go on for a very long time. The major exporter today for many items in the low price bracket is China. However inflation is now rising on Chinese production prices, after years of deflation. This is correlated with some overheating of the local economy and the increase of raw material prices.

One may also believe that the fierce competition which is at play in the T/C sector on the Mainland is likely to calm down as State-owned companies – which undoubtedly play a social role, keeping redundant workers etc- will either disappear or integrate market economy, i.e. they will implement price policies and profitability objectives dictated by the laws of business management. The process is already largely started and will progressively bring an upgrading of Chinese products and prices, even though the number of unemployed workers available for poorly paid jobs will prevent prices from escalating too fast.

6.3 CONCLUSIONS REGARDING PRODUCTION AND EMPLOYMENT

➤ PRODUCTION

When one tries and put together the results from the initial parts of the present report, the modelisation exercise and the short term analysis above, one may draw a number of specific and detailed conclusions regarding production and employment.

The total impact on production estimated by the model at the end of the 15 year period is -3% in textiles and -8% in clothing¹⁴⁵. The impact is stronger in the first five years after liberalisation : -0.5% a year in textile and -1.5% a year in clothing production. After 2010 the impact becomes marginal as the effect of quota liberalisation fades out. The impact is quite similar for the current EU 15 or the enlarged EU.

¹⁴⁵ One can find in Appendix 3 B 7 detailed results per Member States.

The impact is relatively limited for Italy in clothing, but stronger in textiles than the EU average. For the Belgian industry and the smaller EU countries (Scandinavia, Netherlands, Austria), the end of quotas gives a positive boost to textiles. One possible explanation for this phenomenon is that these countries are specialised in products that are less exposed to imports than the other EU Member States. For example, Belgium is a leading exporter of carpets which are not in competition with Asian exports.

The direct impact on clothing is of primary importance and stronger than on textiles as apparel quotas were more constraining than the textiles ones. This is due to the fact that a large part of textiles -including some apparel textiles, e.g. wool-based items- is not subjected to quota nor heavily exposed to imports (carpets, technical textiles), while most of clothing is faced with imports and binding quotas. However these products have shown to be highly sensitive to variations in demand¹⁴⁶. Therefore as post-2005 imports are likely to have a stronger negative impact on the production of necessity products, such as cotton linen and garments, this means that the EU industry will become more vulnerable to dynamics in demand and therefore more cyclical. Demand dynamism is as yet not included in the model.

Products most affected should be those with highly binding quota, little differentiation in price compared to imports and an already weak competitive performance. Overall **clothing and apparel textiles take most of the shock**, as one may assume that the impact will be limited in home textiles and technical textiles. This is supported by the better results obtained by the countries where these segments are dominant. The smaller EU countries and Belgium with a dominance of technical textiles register a gain, partly due to lower costs of inputs.

Yarns should be heavily affected, especially as yarns are an input into fabrics and knitted garments. One may suggest that the lower cost of imported yarns may benefit the textile industry. A positive effect, in the clothing sector, of lower cost of inputs for yarns and fabrics is also to favour export but it might be limited to Italy where clothing has a lower decline in production than textiles. In all other countries such a scenario can not be assumed from the results of the modelling phase. One may say **that the deindustrialisation of clothing production has already gone so far that the industry can no longer take advantage from lower costs of inputs**. However this positive linkage could possibly materialise in new Member States but the model gives no evidence of it.

¹⁴⁶ See Chapter 1-3 : Demand dynamism as a competitive factor. Demand is measured as the 1995-2002 growth in apparent consumption. It provides an indicator for the evolution of consumers' propensity to consume textile and apparel items.

On the whole **the OPT model will suffer**. This must be deduced from the higher rates of decline in clothing than in textiles, and the dominant influx of imports from China. This outcome of the model confirms initial findings that direct imports will grow substantially more than outward processing. The OPT model will only survive with fabrics wherein Europe has a dominant advantage. This is basically the case for wool based products.

Table 43: Consolidated analysis of EU vulnerability per ATC category

Product groups	Categories w. binding quotas	Description	Industrial performance	Global Filling rate	Ratio total export/extra EU import Price 2002	EU 15 Output value 2001 1000 euros	Binding quota/output 2002	Consolidated degree of vulnerability
Yarns, threads and filaments	1	Cotton yarn	99	51	1.0	3 129 012	9%	High
	23	Artificial yarn	na	76	1.4	618 869	19%	Medium
	41	Synth. fil. yarn	93	94	1.2	2 455 486	0%	High
Apparel fabrics	2	Cotton fabrics	104	62	2.1	6 898 968	16%	Low
	2A	Not bleach, not unbl	na	60	1.6	na	na	Medium
	3	Synth. fabrics	100	71	2.6	3 805 100	31%	Low
	3A	Not bleach, not unbl	na	30	1.6	na	na	Low
	35	Synth wovens	104	70	2.7	3 600 360	7%	Low
Technical fabrics and items	117	Flax fabrics	na	93	2.4	na	na	Medium
	76	Workwear	102	82	1.7	1 453 013	2%	Medium
	97	Nets	na	44	1.0	na	na	Medium
	163	Gauze	na	99	1.7	na	na	Medium
	Home textiles	9	Terry towel	101	79	1.5	682 779	31%
20		Bed & flax linen	104	76	1.6	1 491 616	46%	Medium
39		Oth house linen	na	60	1.7	614 114	15%	Low
Woven garments	6	Trousers	101	91	1.6	4 637 228	84%	Medium
	7	Blouses	95	66	1.3	1 245 905	119%	High
	8	Shirts	151	63	1.8	965 664	125%	Low
	15	Women's coats	97	47	1.9	1 753 955	51%	Low
	16	Men's suits	102	69	2.7	786 830	155%	Low
	26	Dresses	94	70	2.1	1 748 358	38%	Medium
	29	Women's suits	97	46	2.9	1 299 200	43%	Low
	31	Brassières	101	76	1.9	580 551	95%	Low
	78	Other wov garmts	na	61	1.7	545 421	241%	Medium
	161	Other wov garmts	na	58	6.4	na	na	Low
Knitted garments	4	T-shirts	103	80	1.3	2 299 551	63%	Medium
	5	Jerseys	99	56	3.7	6 828 138	65%	Low
	12	Stockings, socks	100	91	0.5	2 196 476	2%	High
	13	Underwear	100	86	2.2	996 110	96%	Medium
	28	Knitted trousers	na	46	3.5	268 308	0%	Low
	70	Tights	99	75	0.4	448 145	3%	High
83	Knitted jackets	na	91	2.1	844 626	69%	Medium	

In clothing the products most affected will be those under binding quotas : predominantly knitwear and also, but to a more limited extent, trousers. Highly binding quotas can predominantly be found in the cotton system : this highlights the current restructuring in the spinning industry. The wool system is less affected. In the Northern countries product differentiation explains most of the trends while in the Southern countries the macro-economic context plays a cushioning role, particularly in Spain and Portugal who are highly specialised in very vulnerable products.

➤ EMPLOYMENT

In terms of employment the impact is much stronger on the clothing industry as it is largely both a labour and an unskilled intensive industry : that is why the following analysis will be more focused on that category of workers¹⁴⁷.

Compared to past trends the shock of the quota phase out on **EU-15** employment represents an **acceleration of the decline** equivalent to one year: 2.7% (for unskilled labour) compared to 2.4% (yearly average of decline of employment in textiles from 1995 to 2001) For clothing the comparison gives a much larger impact with respectively a trend of -3.5% compared to a shock of more than 9%. In the country by country analysis one can see that to a large extent employment changes reflect production changes. However, at world level there is an impact of 1.6% on textile productivity and 0.6% on the clothing industry productivity.

One will find in Appendix 3 B 6 detailed data on employment.

The **United Kingdom** is the largest loser on unskilled clothing labour with -15.3%, followed by **Germany** with -12.2% and **France** with a loss of 10.5%.

Among developed countries NAFTA shows a stronger impact on textiles and a lower impact on clothing. This is due to the fact that quota constraints are more effective on US textile imports than on US clothing imports¹⁴⁸.

Among the winners **China** is by far the biggest with employment in unskilled labour in clothing increasing by 30.4% and textile employment by 12.2%, as the outcome of the shock.

Japan (along with other industrialised countries) remains largely unaffected.

Turkey is among the biggest losers : this is due to the fact that its main export market is under pressure from Asian exports and that it exports products which are not sufficiently differentiated from them.

General considerations

The impact on **textile employment follows production trend** while it is slightly **higher than production decline as such for clothing**. This can be explained by three factors. In the first place productivity growth results in job losses even with slightly growing production. In none of the European countries does production growth compensate through increased market share for productivity growth. In the second place specialisation in niche products reduces the labour intensity of production and favours a shift to non-manufacturing activities. However production of higher end clothing is more labour intensive so upgrading leads to higher labour input at similar volumes. On the whole specialisation in high end products does only lead to stable or growing employment with more or less stable production volume. In the third place job losses do not occur evenly across all companies. It often leads to closure or failures of entire companies, especially those with a weak

¹⁴⁷ One should remember that Standard General Equilibrium models are based on the assumption that all markets are in equilibrium before and after the shocks. A decrease in production in a given sector results in a proportional decrease in employment. This brings an overall (all sectors) wage reduction until the overall employment level is restored : labour markets are supposed to be perfect, so adjustment to shocks occurs through global wage flexibility and intersectoral changes.

¹⁴⁸ See above section : How to interpret results

capital base. This is sometimes compensated for by spin-offs, take-overs or restarts, but the redeployment of laid off workers varies between 50 and 70%¹⁴⁹ in districts with similar companies and the figure is much lower in places where T/C firms are the sole employers.

One has also to bear in mind the double impact of job losses : workers made redundant on the one hand and fewer employment opportunities in the industry in a region on the other hand. This has also to be examined against labour turnover in the industry. This is higher in clothing¹⁵⁰ (between 10-20%) than in textiles (between 5-10%) because of the skill level and gender patterns. However labour turnover can be mainly attributed to younger workers and younger female workers. This means that the onus of job losses falls on workers over 40 years old with less opportunities for adjustment or redeployment

Another effect is that with declining production and the shift to delocalisation a significant number of jobs would remain, related to design, logistics and sales/marketing. This trend is likely to be more important in clothing than in textiles and softens the impact in central regions and less so in peripheral regions. Peripheral regions that are relying on **subcontracting** or with a dominance of branch plants are more vulnerable to delocalisation effects. It is likely that the impact on employment will be lower in metropolitan areas such as Paris, London, Barcelona and Milan. Impact will be higher in regions such as Northern Ireland, Western France, East Germany and the regions in Italy that can not make a transition to still higher quality products. The vulnerability to further delocalisation is most extreme in the candidate countries and within those regions specifically depending on OPT such as Western Poland, Eastern Hungary and Eastern Slovakia.

This effect –**partial switch to non-industrial jobs**- may occur within the same companies and regions, but more often by the creation of new firms and through regional shifts in activities. Statistically speaking it may occur within NACE 18 but may also mean a reclassification of firms to NACE 59 (Trade). In that case the decline in employment is optically more severe than is the case in reality. The Dutch case¹⁵¹ shows that despite a decline in clothing employment, the growth of employment in wholesaling has allowed overall employment in the supply chain to remain stable. However these shifts create major regional imbalances as well as fundamental changes in the job profiles required. As long as the design/trading component remains competitive this does mainly favour metropolitan areas where designers are based or where retailers have their headquarters. The industrial component, concentrated in industrial districts or industrial cities is much more severely affected by the shift to trading activities.

Imbalances may however be significant at a regional and at a finer geographical scale. Milan may remain a fashion capital and the location of headquarters of textile and fashion companies with global activities. The industrial districts of Varese, Como and Bergamo may suffer from decline of production of cotton products. Barcelona may thrive, industrial cities as Sabadell, Manresa or Tarassa (each at less than 50 km distance) may suffer. Manchester has retained a fairly competitive design sector and a technical textiles cluster, but classic mill towns at less than 15 minutes' drive bear the brunt of downsizing. One needs to **examine employment impacts at a much finer level than NUTS**

¹⁴⁹ Estimates collected from interviewees in the districts (see District analysis in Chapter 2 of the present report)

¹⁵⁰ Same

¹⁵¹ Source : Fenecon

II levels. Especially restructuring in single industry districts in thriving regions may be very damaging to employment. The adjustment that regions may be able to achieve could benefit employment levels as a whole but not help displaced workers. Readjustment either involves shifts from production work to service work, requiring a different set of skills, or forms of deskilling in a manual work environment (e.g. from textile production to warehousing). Especially skilled textile workers are vulnerable to redundancy or to substantial decline in wages if they move to work in other industries as they have a very specific skill set.

The analysis by districts of employment impacts is however harder to make by category/district combination. This is partly because of the difficulty of assessing the quality in anticipation or reaction to an external shock of districts and companies. To some extent making combinations between categories and districts leads to making assumptions on individual companies. Here the **concept of “lock-in”**¹⁵² provides relevant help to the analysis. In districts with a strong lock-in, there is resistance to change and only specialisations outside the dominant group survive. This is the case for cotton companies surviving in wool districts. In districts with a weak lock-in and a greater reactivity to change, more employment is likely to remain. Nord-Pas de Calais and Nordrhein-Westphalen are good examples of regions where traditional wool and cotton textiles have almost disappeared while technical textiles have developed. In other regions the dominant industry in a district is able to react, e.g. Macedonia in Greece.

The present research has identified strong **adaptability to change** in Flanders, the Netherlands, Nordrhein-Westphalen, Choletais, and Macedonia. It has found many more barriers or lock-in phenomena in Lombardy, Northern Portugal, Catalonia, the Northern Czech Republic, Eastern Hungary and Northern England. Functional lock-ins dominate in typically subcontracting regions in combination with cognitive lock-ins. Institutional lock-ins dominate in traditional textile regions, also often in combination with cognitive lock-ins. The lock-in theory leads to the conclusion that the **production and employment impact will be the strongest in regions where lock-ins are important**. Characteristics of such regions are : a strong presence of the industry (in absolute terms and relative to regional employment), high level of specialisation in traditional products, little diversification in exports, strong linkages to dominant clients (e.g. Marks & Spencer), and traditional institutions. Sectors that are more vulnerable to functional lock-ins are generally at the early stages of processing (yarns) or where subcontracting relations are dominant. Cognitive lock-ins are strong in fragmented SME sectors (e.g. apparel textiles). Institutional lock-ins are strong in traditional sectors (spinning).

Employment losses in absolute terms are likely to be concentrated on textiles in the Northern half of Europe but in clothing on the Southern countries. In Belgium, Spain, Portugal and Greece losses are concentrated on a few products and industries (mainly spinning and apparel textiles). In all these countries but Spain losses and gains are in the same regions In Spain gains are more likely to occur in peripheral regions while losses are in the core regions (Catalonia). In the UK, France and Germany losses are likely to be spread over a greater number of regions while gains are concentrated on technical textile zones and metropolitan fashion districts. In Italy the peripheral zones (South) as well

¹⁵² Lock-in phenomena have been identified by Grabher (1993) and relate to resistance to change coming from functional barriers (investments, specialisation, relation to the market), cognitive barriers (lack of understanding, attitude, tools) or institutional barriers (relation between employers and employees, relations with public bodies).

as metropolitan fashion districts will be less affected while losses are likely to take place chiefly in the old industrial districts in the North. Italy and Germany are most affected by job losses in areas not covered by the EFRD. In accessing countries all rural and industrial regions are vulnerable to shifts in subcontracting while the metropolitan areas will benefit from increased local demand

➤ UPSTREAM/DOWNSTREAM

Upstream or downstream impacts are indirect impacts due to increased imports on other elements of the chain. They may be related to loss in access to raw materials for EU clothing manufacturers, or to deterioration in commercial conditions in access to materials. They may also be related to the loss of markets for upstream actors as clothing manufacturing is outcompeted by imports. Upstream impacts are likely to be quantitative while downstream impacts are mainly qualitative.

Upstream effects are fairly important as imported garments are essentially, made with non-EU fabrics. Growth of imports from Asia at the expense of E.U. production or at the expense of production in the PanEuromed region (more than 60% of it being with EU fabrics) creates a negative upstream impact on textiles. Upstream impacts are less dominant in home textiles and almost absent in technical textiles. In these two latter sectors upstream impacts are mainly on spinning and less so on weaving, and to a small extent on dyeing and finishing. This is due to the semi-integrated structure of EU production. The **spinning sector** accumulates the upstream impacts of both changes in garment sourcing as in fabric sourcing. This combined with increasing imports of yarns, makes the yarn sector as a whole the most affected.

Upstream impacts explain the majority of the impact of imports in the decline of textile production, especially for categories 1, 2, 3, 34, 35.... One may even assume that the **impact on textile production is chiefly an upstream impact**. Especially the cotton chain is affected by upstream impacts, simply because it is the largest imported category. Synthetic fabrics is the second category affected. The wool chain is much less affected by upstream impacts. It is hard to localise the geographical impacts of upstream impacts, but the main cotton fabric countries are likely to be affected. The upstream impact can only be alleviated by improving competitiveness of PanEuromed zone as a whole, its major advantage being a shorter lead-time over Asian production.

Downstream impacts are more limited in quantitative terms as far as direct impacts are concerned (declining clothing production as an effect of declining textile products). However the availability of fabrics determines the geographical orientation of sourcing. This means that if a supplying country has the fabrics base, garments are likely to be made in the same supplying country (for reasons of cost and of lead-time). Imports of fabrics to be made up in the EU will hardly happen except if these fabrics are dyed, finished or printed in the EU. This means also little favourable downstream impacts.

Downstream impacts are mainly qualitative and are more limited in magnitude than upstream ones. The weakening of the textile base means that the **clothing industry loses the benefit of a product development base nearby**. As larger volumes are being imported, the remaining textile industry can hardly live on small runs as the technology paradigm has been oriented to efficiency in mass-production. This reduces choice for clothing manufacturers. Moreover the textile industry often finances the clothing pipeline (credit fournisseur). A weakening of the textile base will thus also have consequences on the financial balance of clothing manufacturers. The impact of the three trends (loss

in product development, loss in choice, loss in financial support) will mainly affect **smaller clothing firms** with a weak financial basis and little competence in global sourcing. These impacts clearly appear as qualitative and can not be quantified.

However, as textile creativeness makes a large part of fashion appeal, weakening the EU textile base is likely to be quite detrimental to the future of a competitive fashion industry in Europe.

6.4 DETAILED ANALYSIS OF SELECTED EU MEMBER STATES

Liberalisation impact is not going to affect different EU Member States in a quite similar way. Corresponding shock will differ according to the marketing, export, industrial and price strategies countries have adopted. Those parameters are taken into account in the qualitative analysis of the following pages. The table below also provides relevant insight from a purely quantitative point of view.

Table 44: Share of ATC categories in terms of output (in value) in 2001 for EU countries

		Belgium & Luxembourg	Germany	Greece	Spain	France	Italy	Portugal	UK	15 EU
1	Cotton yarn	6.6%	4.4%	17.6%	2.7%	5.9%	3.4%	10.6%	0.5%	4.3%
2	Cotton fabrics	11.3%	14.0%	9.4%	10.0%	15.1%	6.5%	16.9%	2.1%	9.4%
3	Synth. fabrics	5.4%	10.6%	0.1%	5.4%	11.1%	1.9%	11.5%	3.0%	5.2%
4	T-shirts	0.7%	1.7%	25.1%	2.3%	4.3%	1.3%	7.1%	1.7%	3.1%
5	Jerseys	2.8%	1.6%	11.1%	8.9%	4.1%	12.6%	2.1%	21.7%	9.3%
6	Trousers	1.5%	3.8%	3.0%	14.5%	2.7%	5.7%	4.9%	8.7%	6.3%
7	Blouses	0.6%	1.9%	1.2%	2.1%	1.4%	1.2%	1.4%	2.9%	1.7%
8	Shirts	0.2%	0.1%	0.8%	3.3%	1.0%	1.3%	2.9%	0.8%	1.3%
9	Terry towel	6.5%	0.5%	1.4%	1.0%	0.7%	0.4%	3.5%	0.3%	0.9%
12	Stockings, socks	0.3%	1.2%	0.4%	2.2%	4.7%	4.4%	0.4%	3.8%	3.0%
13	Underwear	0.5%	0.8%	2.5%	2.2%	1.4%	0.7%	1.6%	2.2%	1.4%
15	Women's coats	0.8%	2.3%	0.6%	1.7%	0.7%	3.3%	0.9%	2.7%	2.4%
16	Men's suits	0.1%	0.7%	0.9%	0.3%	0.2%	1.2%	3.2%	0.9%	1.1%
18	Nightwear	0.2%	0.2%	1.2%	0.7%	0.2%	0.4%	0.2%	2.8%	0.6%
20 & 118	Bed linen and Flax linen	0.6%	2.7%	2.0%	1.3%	6.0%	1.5%	2.9%	0.5%	2.0%
21	Parkas	0.7%	0.4%	1.8%	2.2%	0.3%	0.5%	1.3%	0.5%	0.8%
22	Synth. yarn	7.5%	6.5%	2.6%	2.2%	2.9%	4.9%	1.7%	2.9%	4.2%
26	Dresses	0.5%	0.3%	0.8%	7.0%	1.4%	2.6%	0.7%	2.2%	2.4%
27	Skirts	0.5%	1.0%	1.4%	2.5%	1.6%	2.0%	0.5%	4.1%	1.9%
29	Women's suits	0.1%	0.7%	0.2%	1.6%	0.2%	3.4%	0.7%	0.4%	1.8%
31	Brassières	1.1%	0.1%	0.9%	1.5%	2.0%	0.2%	0.7%	2.5%	0.8%
35	Synth wovens	6.0%	10.7%	1.8%	5.5%	6.4%	3.5%	2.9%	1.9%	4.9%
37	Artif. Staple fabrics	7.5%	1.1%	0.4%	0.3%	0.4%	1.2%	1.5%	0.3%	1.1%
41	Synth. Fil. Yarn	25.3%	14.2%	0.0%	5.3%	0.0%	0.0%	0.0%	0.0%	3.3%
47	Woolen yarn	2.8%	0.2%	0.7%	0.3%	0.3%	3.7%	0.1%	5.8%	2.3%
48	Worsted yarn	1.8%	1.1%	0.1%	1.0%	0.8%	6.9%	1.0%	1.7%	3.4%
50	Wool fabrics	1.7%	3.9%	1.1%	2.2%	6.7%	11.3%	4.8%	2.6%	6.7%
63 & 65	Kn. Synth. Fabrics	4.3%	7.5%	7.5%	3.8%	8.7%	3.8%	11.6%	8.9%	6.2%
68	Babies' garments	0.0%	0.6%	1.1%	1.0%	2.8%	0.9%	0.9%	2.6%	1.4%
70	Tights	0.0%	0.8%	1.6%	2.2%	1.5%	3.0%	0.8%	3.3%	2.3%
76	Workwear	2.1%	4.5%	0.8%	2.0%	1.9%	0.6%	0.6%	5.3%	2.0%
86	Corsets	0.4%	0.1%	0.0%	0.8%	2.5%	5.8%	0.2%	0.4%	2.7%
	Total 32 selected categories	100%	100%	100%	100%	100%	100%	100%	100%	100%
	Textile	87.2%	77.3%	44.7%	41.0%	65.2%	59.0%	69.0%	30.4%	53.8%
	Clothing	12.8%	22.7%	55.3%	59.0%	34.8%	41.0%	31.0%	69.6%	46.2%

As a conclusion of the various analyses which have been conducted in this report, one may try and deliver a **detailed view of the areas which appear to be most concerned** by the evolution of the T/C sector within the EU. This final analysis is based upon two major inputs.

The first one is the degree of vulnerability of each of the categories (as per Table 43), with the assumption that these categories are likely to take the brunt of the shock.. The second element is the relative weight of each category in national production (Table 44). The hypothesis is that –from a regional point of view- stakeholders located in an area which is significantly engaged in the production of vulnerable categories should dedicate some energy in order to carefully review local strategies and market positioning issues, and make sure firms will be in a good position to weather liberalisation shocks.

The potential impact of liberalisation can thus be evaluated by combining analyses by products/countries and products/districts. This assumes that the impact may be different by product and different by region within a country. One corrective element has to be added in order to take into account specific moves of anticipation, restructuring etc.. which have already been implemented in some areas. The analysis is however somewhat limited by the fact that all product groups in each district have not been studied in as much detail.

This does already allow to consider that all **metropolitan areas** (London, Paris, Milano, Barcelona, Amsterdam, Dusseldorf) are likely to be less affected by liberalisation as they are almost totally de-industrialised. Belgium, Greece and to a smaller extent Catalunya can be considered as having already largely anticipated the shock of liberalisation.

One can also assume that regions with a **specialisation in non vulnerable** products as the wool chain (Piemonte, Tuscany, Scotland) are not primary sources of concern either, even though these industries can be touched by other causes . Finally specific regions that are specialised in the **higher end** of the market are thus less vulnerable (e.g. Choletais in clothing, Rhone-Alpes in technical textiles).

The present section of the report tries to offer an accurate picture of the areas and activities which are particularly concerned by the coming liberalisation. Before getting into more detail, one must distinguish between **contrasted situations**.

1. The impact is allocated to a limited number of products hence to a fairly limited area if the industry has specialised districts. e.g. Italy where affected products are highly localised as Lombardy in cotton spinning and weaving, Emilia Romagna in knitwear, Veneto in cotton, knitwear and hosiery.
2. The impact is allocated to a limited number of products but one district represents the majority of the industry in a country: e.g. Belgium, Greece, Portugal. Whatever the products concerned in each of these countries more than 60% of textile production is within one region. However in each of these regions the impact may concern a limited range of products.

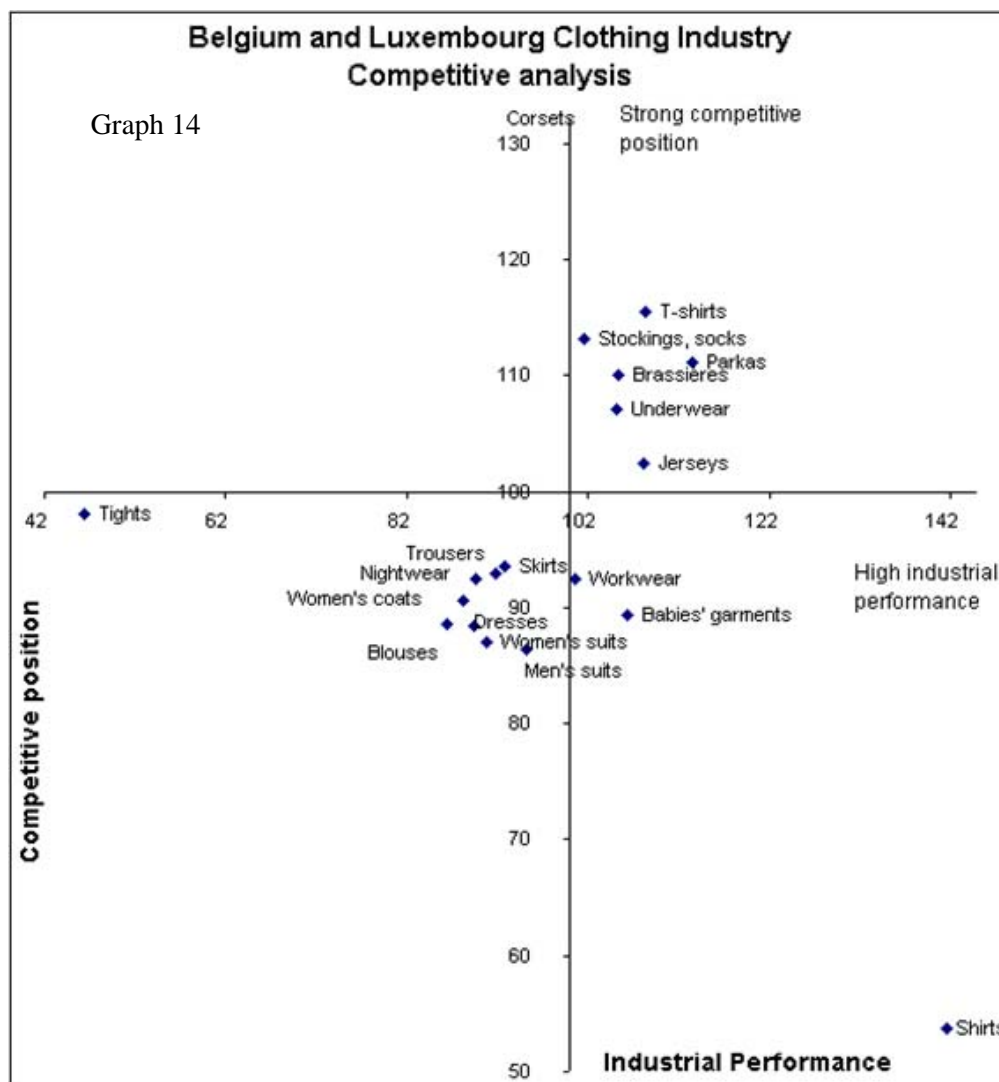
3. The impact is allocated to a number of products but affects all regions as there is little specialisation by region: e.g. Spain, Germany where the industrial structure and specialisation differs little between the regions, so all regions are assumed to be sensitive to liberalisation except metropolitan areas.
4. The impact is spread over many products while there is little differentiation between regions or little specific competitive advantage of one region: e.g. the U.K. This is mainly due to the poor competitive position of the industry as a whole. However some regions may be more affected (East Midlands and Northern Ireland) or less affected (Scotland) because of their specialisation.

A more detailed analysis is presented in the following table and pages. This is not as such an allocation of the impact by country, product and region, as such an analysis should be done at the level of firms. Indeed each firm has a specific competitive position on specific markets which make it likely or not to weather the coming shock. The areas and activities pointed out here are simply those which are likely to be more concerned by the shock. No comment is made in the case where a single company in a region is the sole or main producer of a good, as information on a company level would be particularly necessary, and as publication might have a negative impact on the firm.

Country	Impact	Textile products	Clothing products	Regions
Belgium	Small	1, 9, 20, 22	4, 6, 7	Flanders
France	Major	1, 2, 22, 23	4, 6, 7, 12, 70	North and East
Germany	Major	1, 2, 9, 22, 23	4, 5, 6, 7	NRW, Baden-W. Eastern Landern
Greece	Medium	1, 2	4, 6, 7	Makedonia
Italy	Small	1, 2, 22, 23	5, 7, 12	Lombardia, Veneto, Emilia-R.
Portugal	Medium	1, 2, 9	4, 5, 6, 7	Norte
Spain	Medium	1, 2, 9, 22, 23	5, 12, 70	Catalunya, Comm. Valencia
U.K.	Major	All 20, 22, 23	All: 4, 5, 7	All: but esp. East-Midlands, N.Ireland

► **Belgium**

The Belgium starting point is some decline in production in textiles (- 2 %/year^{153 154}) and a strong decline in clothing production (- 15 %/year). The impact of liberalisation as calculated in the model is an increase of textile production by 6.2 % under the impact of quota liberalisation but a decline of 2.4 % in clothing production. The performance for clothing has been negative in recent years. The scenario shows a further substantial reduction in production, with most presumably impact in woven products. Textiles show a positive score, which correlates with a growth in exports both intra and extra EU.



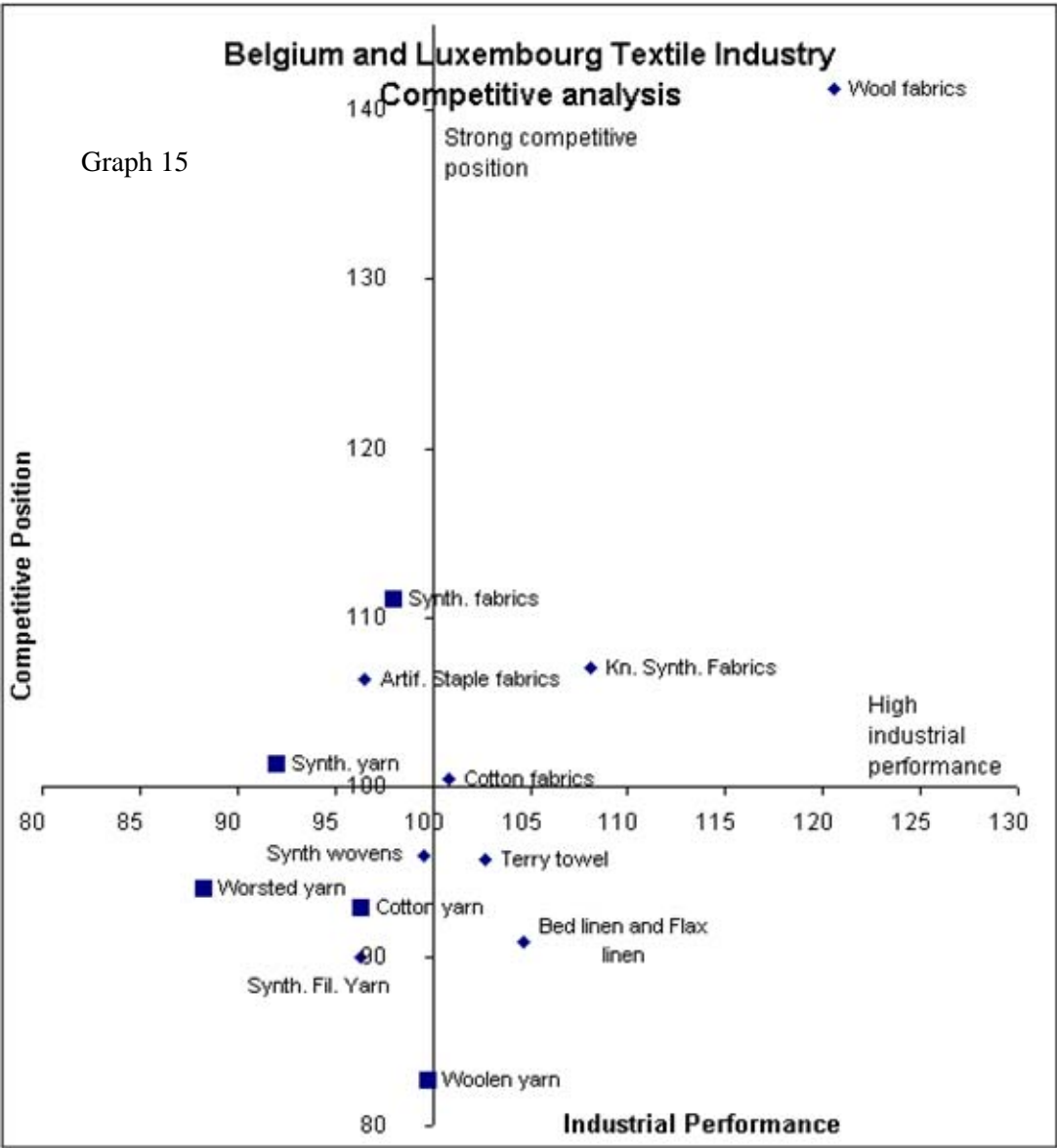
¹⁵³ Textiles and clothing consolidated figures given here correspond to the total of the ATC categories selected for analysis in this section and in chapter 1.

¹⁵⁴ Methodological details regarding this section can be found in chapter 1 (Internal Comparisons) where overall results have been presented.

Belgium still maintains a strong presence in price-sensitive products, mainly due to home textiles and cotton or cotton-based fabrics. The cotton chain must be considered vulnerable, partly because of direct competition from imports and from the supply chain effect in EU clothing production.

Furnishing textiles perform fairly well (especially in upholstery type fabrics in synthetic knits and wovens, as well as in woollen fabrics). However terry towelling and bed-linen have resisted well in a few competitive and dynamic markets. A fairly high level of protection contributes to this dynamism. Impact from liberalisation should be expected on these products.

Belgium has a major carpet production (28% of production) which is not affected by quota and may even benefit from lower barriers for imports of yarns in all three scenarios. In view of its current export performance, it will also benefit from improved access to third markets.



Clothing production has strongly declined because of delocalisation. The dramatic decline in trousers production can be imputed to the drastic restructuring of the jeans manufacturing sector. Ladieswear has declined considerably. Belgium has moved, like the Netherlands, to a position of trading with a distribution role within the EU.

Outlook

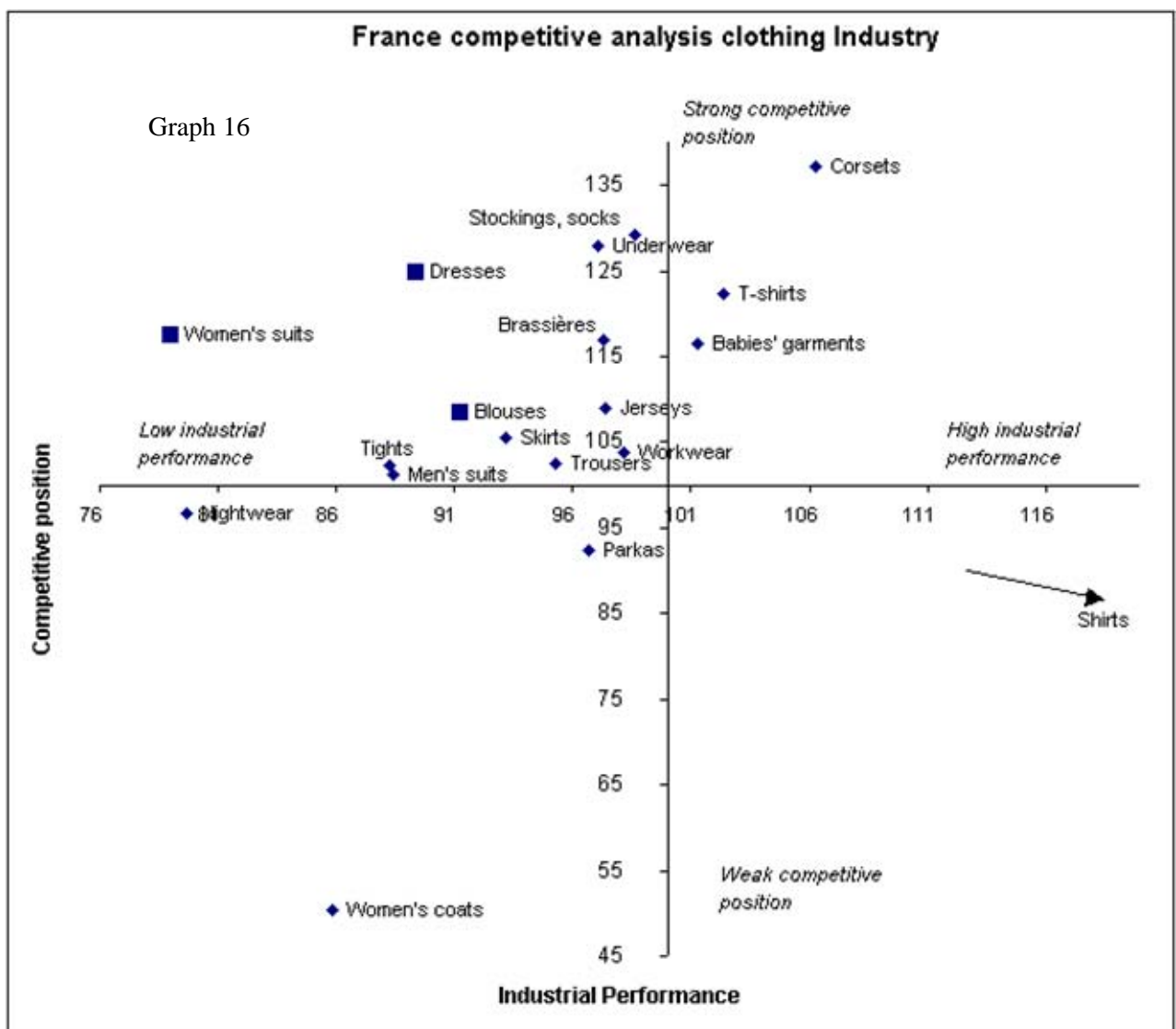
Belgium's industry has two faces. The apparel chain is vulnerable to liberalisation in clothing, especially in knitted products, although the social impact is limited. Woven apparel is less vulnerable, unlike apparel fabrics, because of the decline in EU production. Overall the impact of 2005 is positive, due to a variety of factors. Part of the industry is unaffected by liberalisation (carpets) and may even benefit from lower cost yarn input. A growing segment of the industry is in technical textiles, which are also rather sheltered. Home textiles are fairly strong, through specialisation and exports. Furnishing textiles seem fairly strong, whereas bed linen and terry towelling should be more vulnerable after liberalisation. The spinning industry has already restructured. To sum up, part of the sector has anticipated liberalisation and much of it should thus remain unaffected.

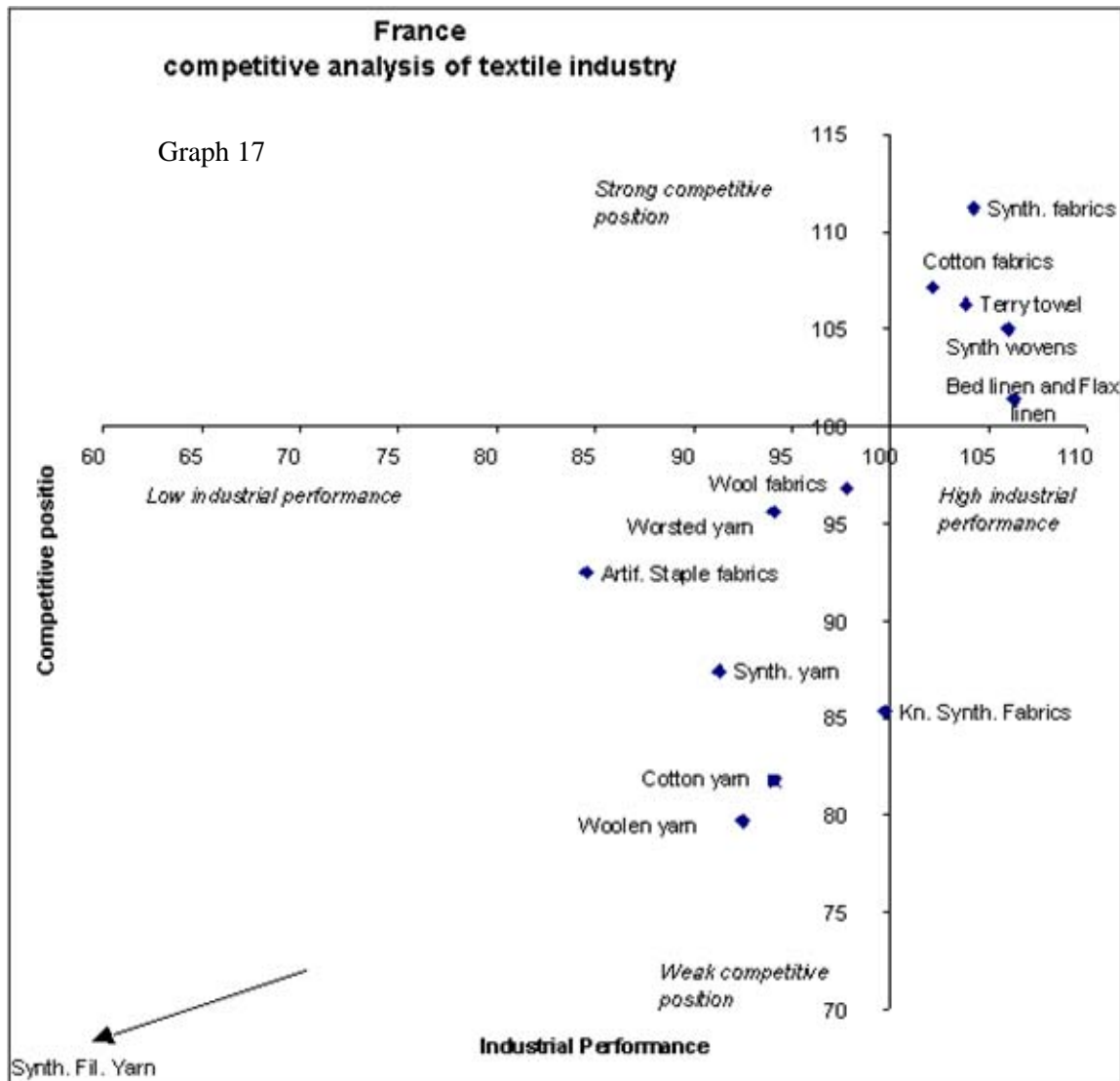
Employment losses are concentrated on parts of the textile industry but both losses (apparel textiles, home textiles) and gains (carpets, furnishing textiles) are likely to take place in the same regions and in similar levels of qualification. The social impact can thus be expected to be limited in absolute and in relative terms and can be absorbed within a regional labour market.

► **France**

France experienced considerable decrease in production in the second half of the 1990's. This downward trend was significantly greater in clothing (- 9 %/year) than in textiles (- 3 %/year). It was matched by a substantial increase in imports. France maintained an important engagement in the sector with a growth in exports in most products. The model forecast a still considerable decline in production in both textiles (- 4 %) and even more so in clothing (- 10.5 %).

The decline in textiles has been the result of the dwindling production of yarns and some growth in fabrics and in home textiles. Apparel is on the verge of collapse in the production of tailored menswear and ladieswear. The only growth area in terms of production is in baby garments and corsets. In coming years the entire apparel fabric chain must be considered vulnerable. In apparel all sectors are vulnerable except lingerie and underwear/babywear.





In textiles the dominant development is specialisation in downstream production stages and in products near to the market. This shows that the French textile industry has become a transformative industry led by two successful segments: home textiles and technical textiles. Commodity fabrics and yarns are far less dynamic: production, imports and exports decline, confirming the specialisation in downstream activities. This sector is still large enough to explain the volume of decline.

Part of the expected loss in coming years is to be explained by diminishing exports into the EU, the only exceptions being home textiles, lingerie and babywear. Extra imports will only increase to a limited extent to China. This reflects France's poor starting position in exports.

Outlook

France has already experienced drastic restructuring and this restructuring will continue after 2005 partly as an impact of liberalisation. It does, however, have products, both in textiles and clothing, which it is capable of exporting, but this will not compensate sufficiently for the import effect. Apparel textiles is still an important industry and it is vulnerable. This is especially true for spinning and weaving. Textile finishing has better prospects, as do home textiles and technical textiles. Clothing is particularly vulnerable except underwear, lingerie and babywear.

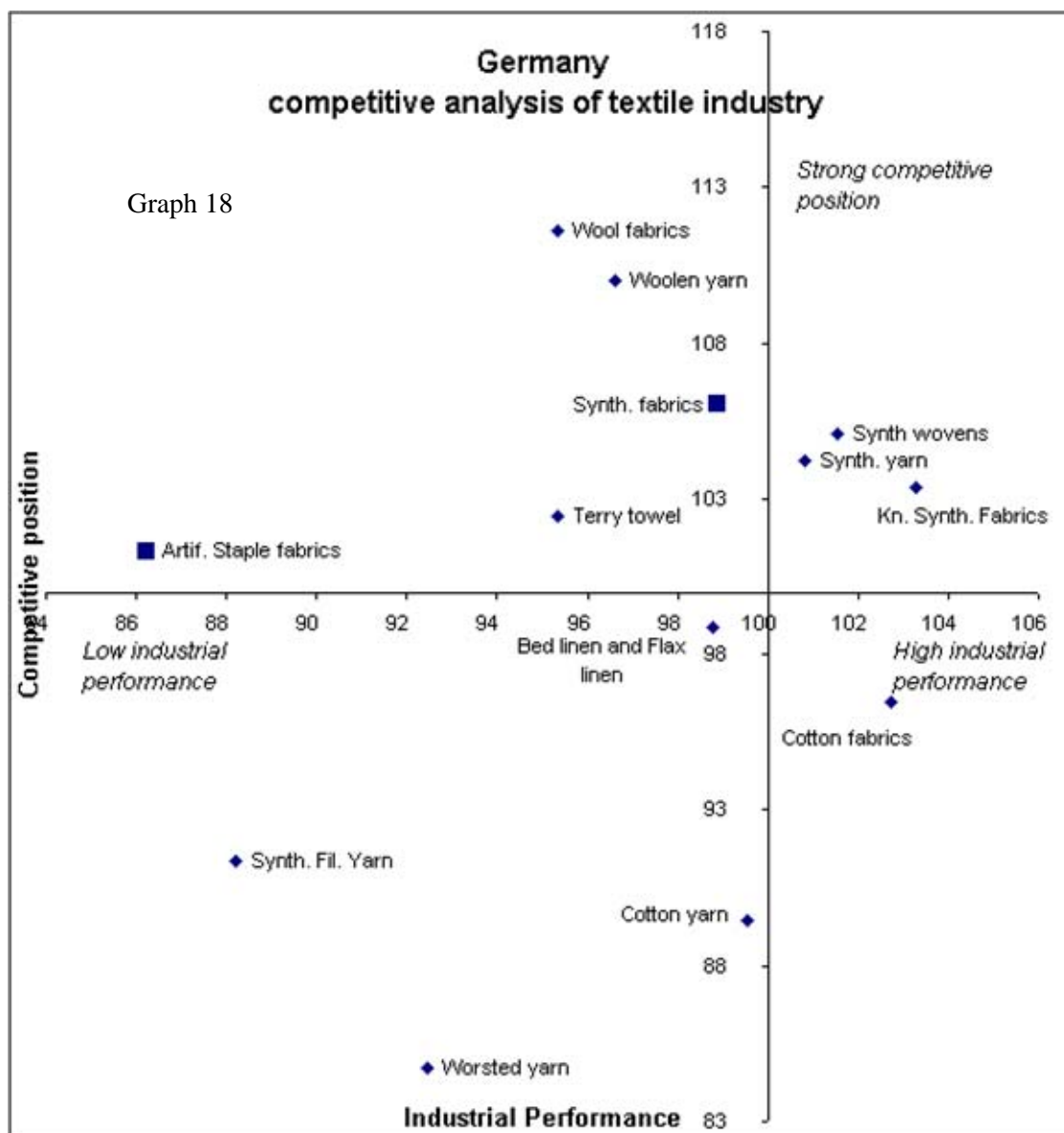
Employment impacts are likely to be similar in textiles and in clothing and evenly spread over the country. There is a major displacement problem as job gains are concentrated on two regions (Ile de France and Rhone-Alpes) while losses are in all regions e.g. knitwear in Troyes and apparel textiles in the North and East parts of the country.

► Germany

The starting position is one of dwindling production concerning both textiles (- 1 %/year) and clothing (- 7 % /year) and almost all product categories (except filament yarns, knitted fabrics and cotton fabrics). Germany has been able to expand exports in clothing (+ 7 %/year) but not in textiles (- 1 %/year). The model forecasts a further 4.6 % decrease for textiles and – 12.3 % for clothing.

In clothing delocalisation of production has sped up and will be finalised in the coming years, explaining a drastic reduction in production. Further reduction will concern tailored men's and ladieswear. The still substantial production of knitwear is vulnerable. In textiles there has been a severe downsizing in spinning. Cotton weaving and synthetic weaving have resisted but will suffer as a supply chain effect. Home textiles (bed-linen and terry towelling) is also in decline and vulnerable to imports. Technical textiles is stable, but this does not compensate for the overall loss.

Germany is positioned in **less dynamic markets** – with especially little dynamism since 1995 in the local market because of depressed consumption. Only a few textile products are able to reflect their good competitive position in good global performance. In clothing all products but one have a good competitive position, but in none of the products is it linked to good industrial performance. The strong competitive position of ladieswear has not translated into good export performance, as was the case in menswear. Good global performance in knitwear and underwear is solely attributable to **trading activities**.

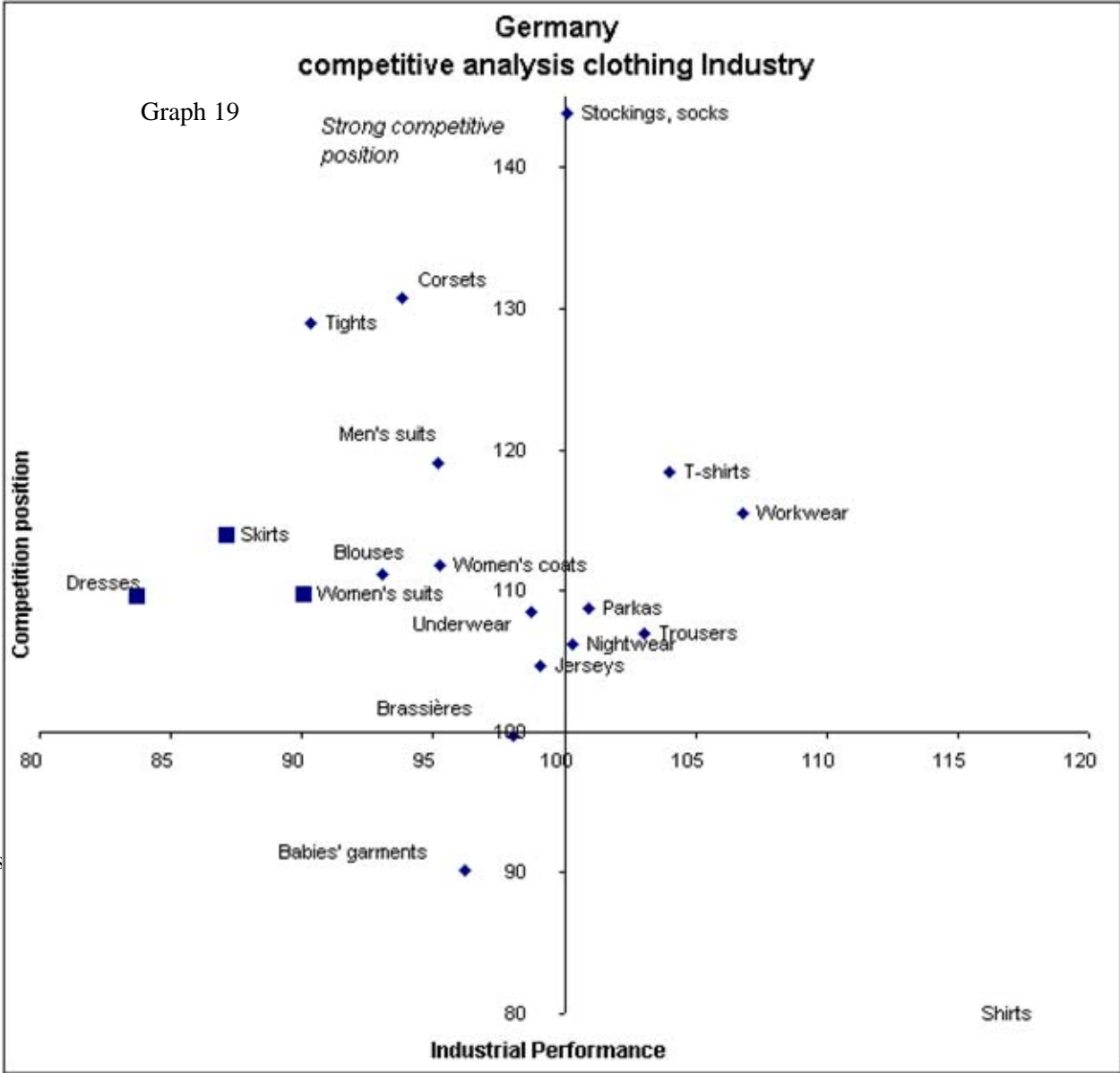


Germany has experienced substantial downsizing and is not able to benefit from the good competitive position of most of its products. This is mainly due to relatively **poor export performance**. Product quality does not go along with other non-price elements which spark increased exports. Germany therefore becomes a trading nation which **focuses on local demand**. Industrial activities are thus mainly sustained in technical textiles.

Outlook

Although Germany has experienced substantial downsizing, this process is not over yet. Yarn production and the cotton system are still vulnerable. Moreover, in most products German industry is unable to compensate for the loss of local markets through exports. Technical textiles outperform the rest of the industry but do not make up for lost ground.

Employment impact is likely to be concentrated mainly in textiles as clothing production is largely delocalised. Both gains and losses seem to be evenly spread over industries and regions within Germany. The only exception is Eastern Germany where losses should outweigh possible gains as well as the border areas of Germany with the Czech Republic, as they are specialised mainly in apparel fabrics and are thus more sensitive to delocalisation to the Czech Republic.



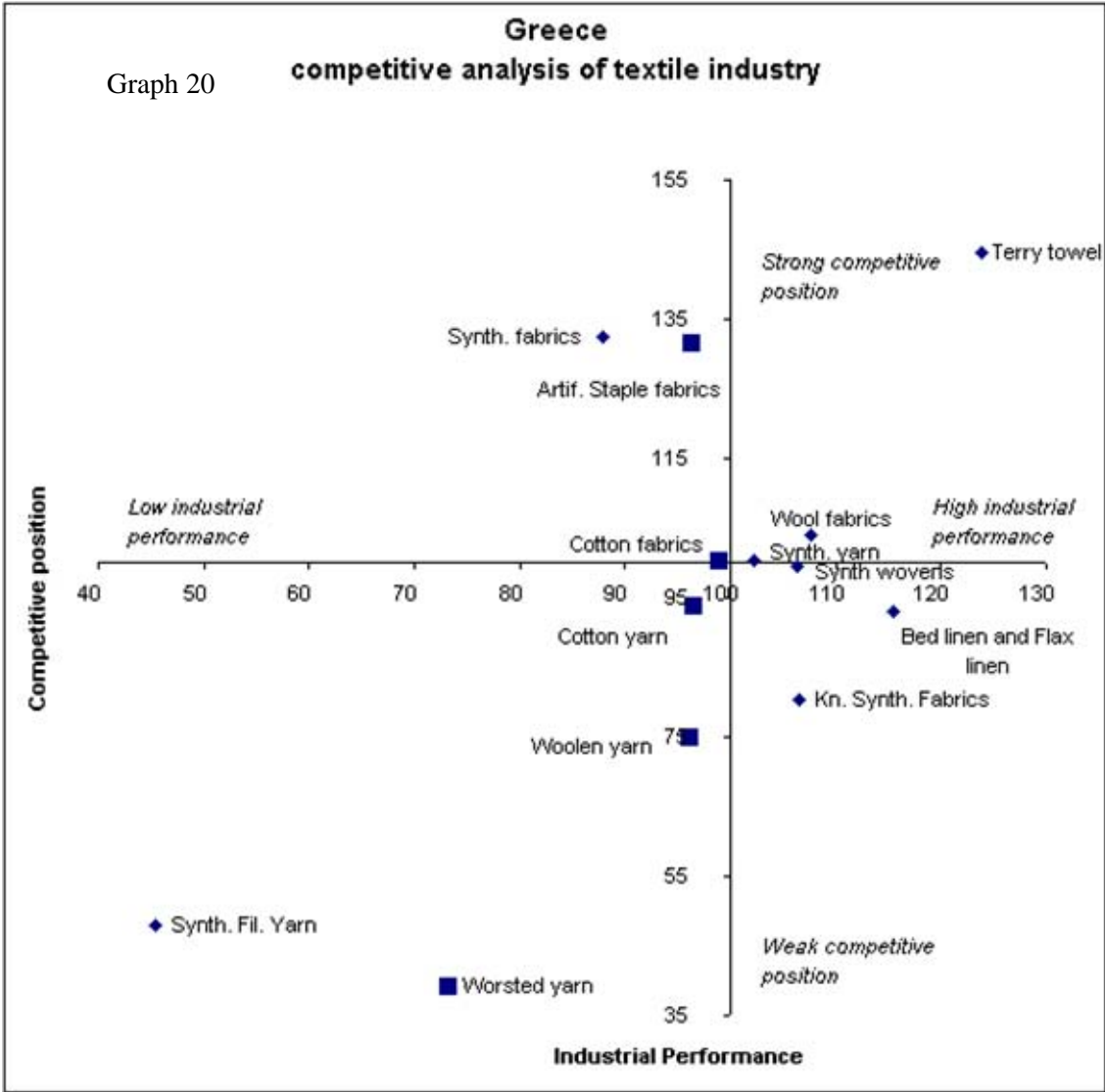
► Greece

Greece is a specific case within the European textile and clothing industry. It is the only country that combines **positive production** evolution with **declining exports**. This is due to three changes: ever greater cotton specialisation, closure of delocalised production and growth in local demand. Textile production has increased with stable exports and stable imports. Clothing production has declined, but with a contrast between knitted products (+) and woven products (-). There has been a drop in clothing

exports in all categories while there has been an upswing in clothing imports. In the process Greece has reduced its dependency on products with high import protection. Greece has therefore anticipated liberalisation generally but is now greatly dependent on the EU policy towards cotton.

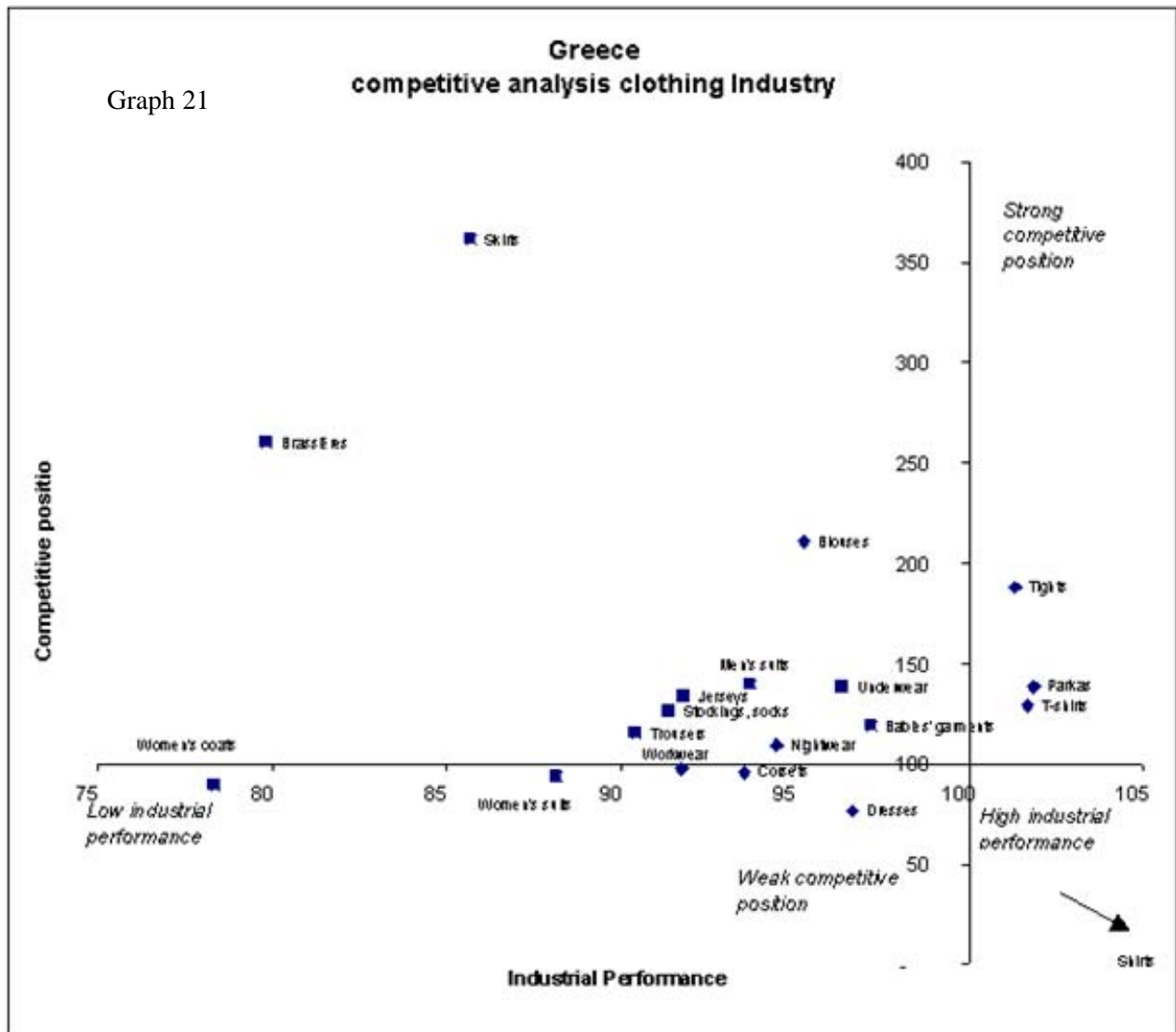
The model foresees a slight drop in textile production (- 2.7 %) and a much stronger one in clothing (- 13.5 %).

A major explanatory factor is the widespread presence of local **cotton** cultivation which makes Greece self sufficient in cotton. It is the only country in the EU where cotton yarn production exceeds cotton fabric production. Greece has maximised its value added from local cotton and also deepened its specialisation in cotton products (yarns, fabrics, knitwear, bed-linen and terry towel).



Within the clothing sector Greece has increased its **specialisation** in knitted products. Knitted apparel shows good industrial performance and has compensated for a sharp decline in the production of woven apparel. This decline is mainly due to closure and delocalisation of clothing production on the part of foreign investors. Textile production has also been reoriented to knitwear, as stable or slightly tapering off production has gone along with an even stronger decline in exports. A larger share of yarn production goes also into fabrics and end products (bed-linen, terry towel).

Graph 21



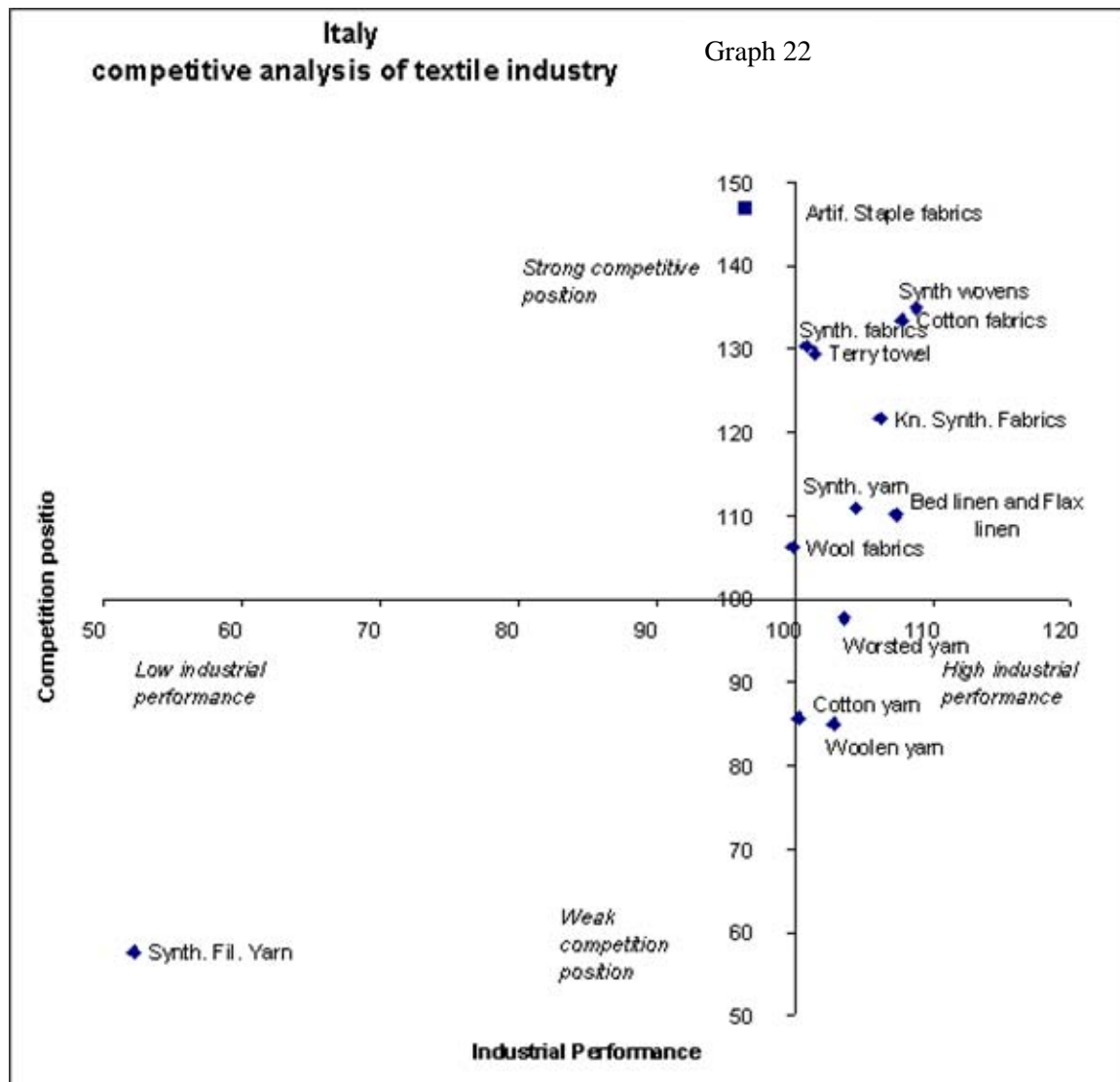
Outlook

Despite severe restructuring, Greece has increased specialisation in products in which it controls the whole chain. It has also used delocalised production in order to remain price competitive. Greece has expanded exports in its core products while at the same time gaining from dynamic demand. However, Greece appears vulnerable to liberalisation for clothing.

Employment losses are likely to be concentrated on yarns and on knitwear and to affect mostly the Macedonia region. Gains can only be expected in the Athens regions.

► Italy

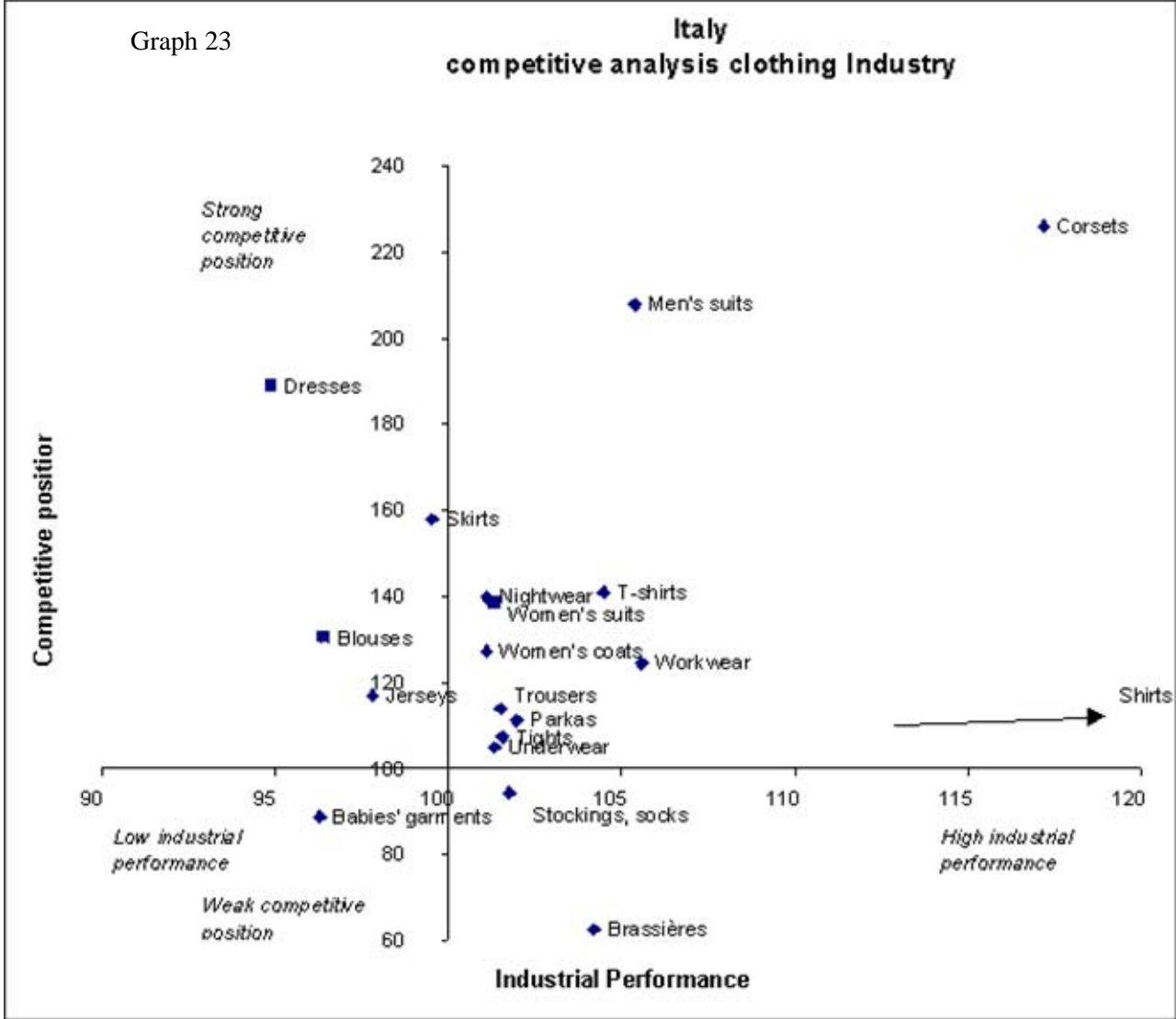
Italy is by far the largest producer of textiles and clothing in the EU. Italy has consolidated its leadership, moving from a share of 34 % in 1995 to 39 % in 2001, notwithstanding a slight decline in production, but far below the EU average. The starting position is some decline in production in textiles (- 2 %/year), more than in clothing (- 1 %/year). Exports have increased (+ 6 %/ year), making up for increased imports. However, exports of textiles consist mainly of **exports for OPT**.



Of major impact on Italian performance is the large **wool sector** (60 % of the EU wool industry). The whole wool chain is following a constant downward curve, not because of imports but because of depressed demand. The cotton chain is highly dynamic but with a focus on downstream activities and home textiles. As in all countries, spinning is declining more than the fabrics sector. In clothing, short-cycle items lose production while manufacturing of long-cycle – tailored items – resist.

Italy is active in **low dynamic** markets but out-competes Europe and the world at large in **differentiation**. Italy is design and quality leader in almost all products. As demonstrated in figures above and below (textiles and clothing respectively), almost all Italian products combine a positive

competitive position with good overall performance, except in yarns where it has only a limited competitive advantage. Overall performance results from resistance in production combined with growing exports. Italian companies are thus well able to continue exploiting their competitive advantage by expanding exports. Italy does also have sizeable production in highly protected products such as bed-linen, terry towelling and ladies' tailored outerwear. Although it has a good competitive position in these products, it is sensitive to liberalisation.



Italy has maintained its production through high locational dynamics within Italy by expanding production in the South and through major delocalisation to the PanEuroMed Zone. Northern Italy focuses on high quality niche products and makes substantial investments in order to improve productivity and flexibility. The model of districts erodes as **vertical integration** in larger groups becomes the dominant model. Yarn production resists in vertically integrated firms. This is concomitant with the delocalisation of commodity production (basic yarns and fabrics).

Outlook

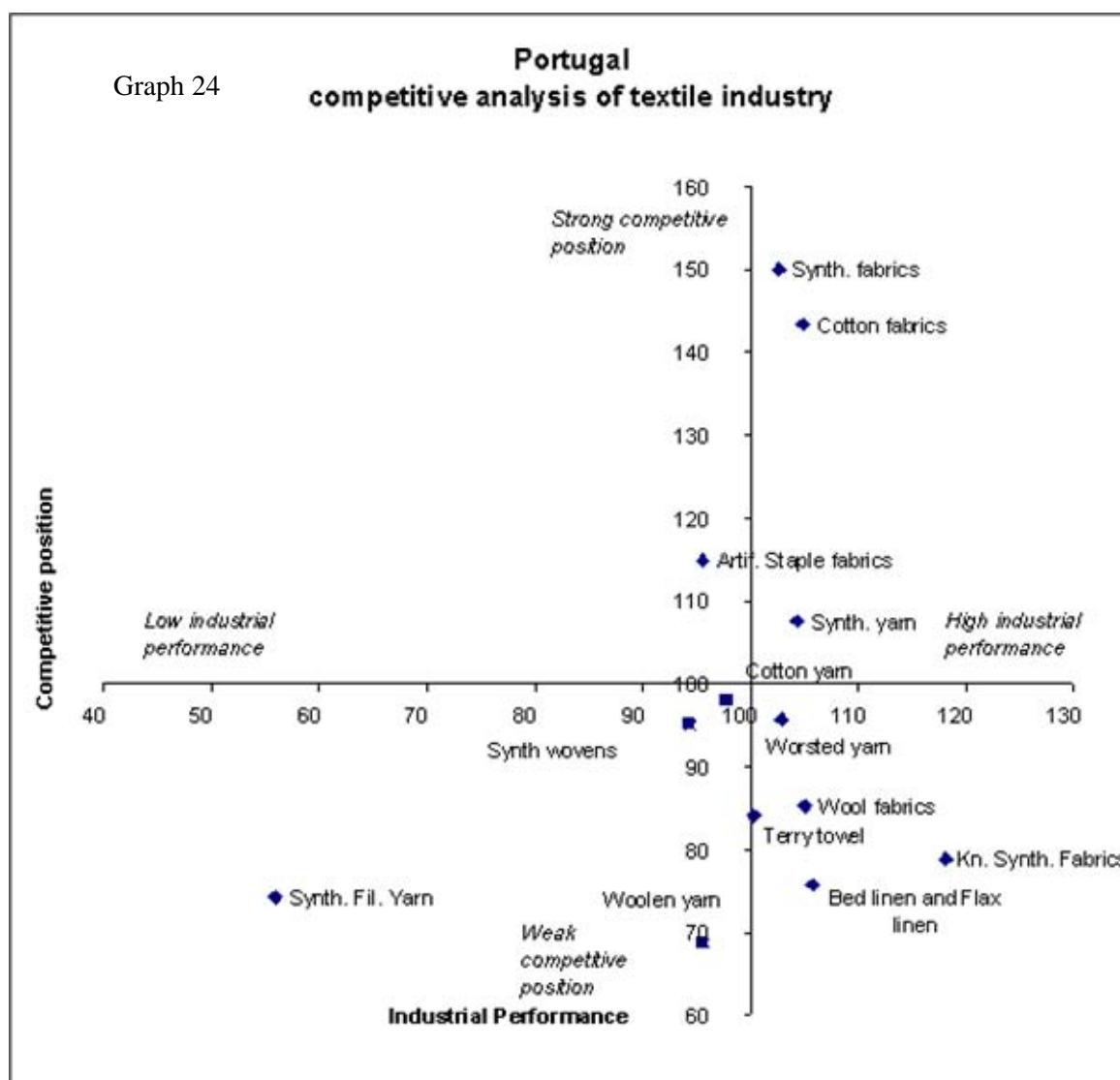
The expected impact of liberalisation on Italian production is negative though limited, with - 5.2 % in textile production and - 4.5 for apparel. It is able to save in exports what it loses in imports. Italian restructuring is likely to go on affecting spinning in particular, as the industry has no strong competitive advantage in yarns. There will also be further downsizing in weaving (cotton and synthetics). The wool industry will only temper restructuring in so far as demand for these products picks up. Delocalisation of clothing production will continue but will be compensated for by exports.

Employment losses can be expected to take place mainly in the North and Middle of Italy with the onus on textiles. Job losses will focus on the traditional textile areas and districts, in particular in Lombardy and Veneto. They will be spread over a wide range of categories with some focus on spinning and weaving of apparel fabrics. In clothing the focus will be on Northern and Middle Italy but outside the metropolitan areas. Some gains in jobs are possible in the South, but more probably in clothing than in textiles.

► Portugal

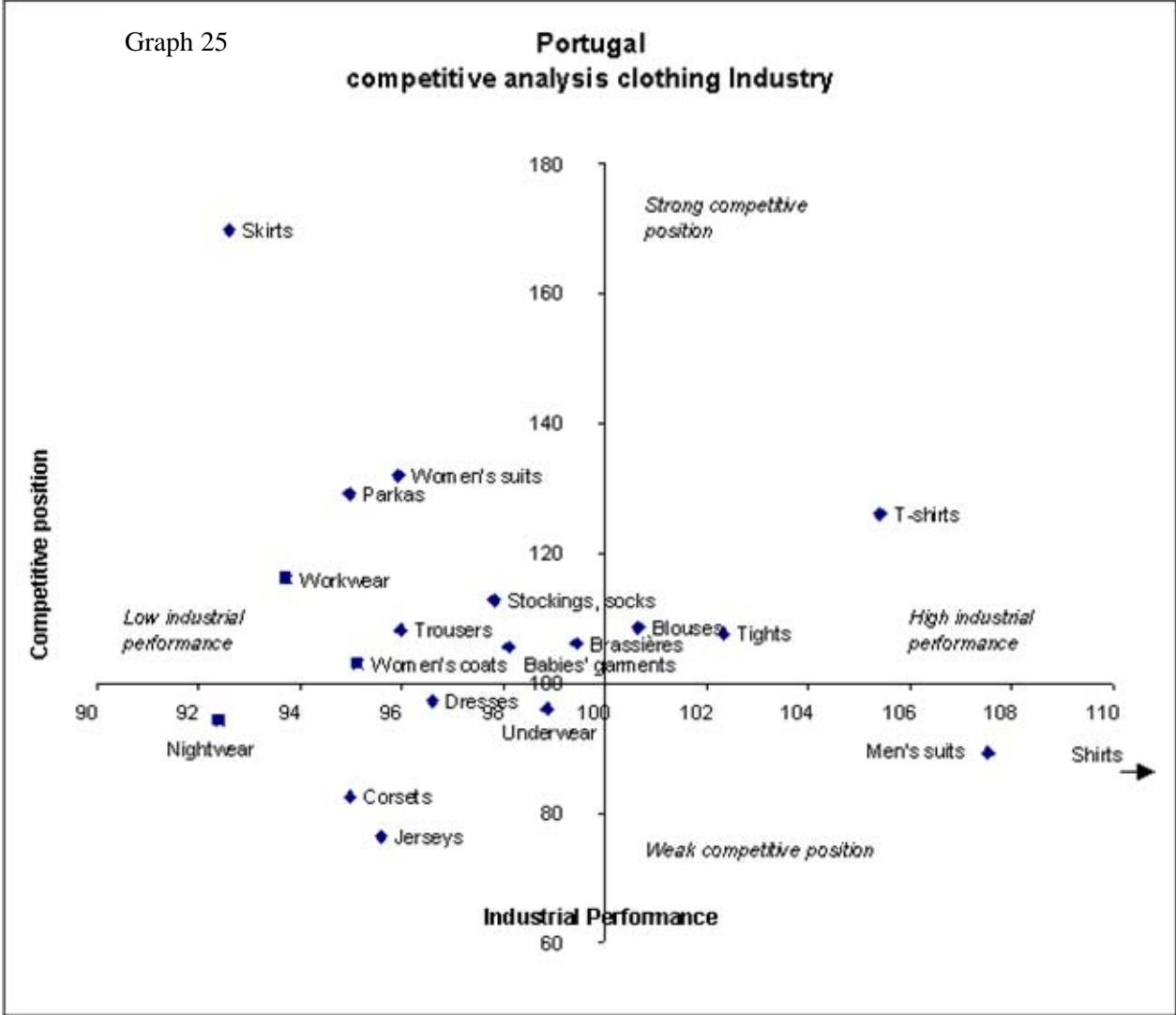
Portugal has been able to maintain its production during the period 1995-2001. Production value is stable in textiles (- 0.1 %/year) but growing in clothing (+ 2 %/year). The impact of liberalisation on textile and clothing production seems to be limited (- 2.5 % and – 5.9 % respectively), though mainly because real wages are contained and **competitiveness maintained**.

Exports fuel the industrial performance of Portugal as far as textiles are concerned. Exports depend increasingly on large Spanish retailers that have become the main outlet for Portuguese products. Portugal is therefore very vulnerable to changes in sourcing strategies of a handful of actors.



Spinning production shows a downward trend (- 1 %/year). The still sizeable yarn production is the most vulnerable to liberalisation, but lower cost inputs may benefit the weaving sector. Production of fabrics is stable while home textiles expand slightly. The synthetic sector is under pressure. In clothing there are good prospects for products with low labour content ; more labour intensive articles are vulnerable (except wool products).

Portugal does resist growing competition in the EU market **without having a clear differentiating** advantage over imports. However, this difference cannot be explained by protection. For textiles an important explanation is its **price advantage** over all other EU producers. It is a low cost alternative to Italy.



Outlook

Portugal has performed fairly well despite a relatively poor competitive position, both in terms of other EU products and non-EU imports. Low cost seems to be the main competitive asset which also explains its good performance and prospects after 2005. Another factor is growth in the local market creating a new outlet, along with already diversified export. Whether this is enough to sustain the current position remains to be seen. Portugal is highly dependent on the decisions of large Spanish retailers.

Employment impact in Portugal is likely to be small and concentrated on woven apparel and apparel woven fabrics. The employment impact should mainly be felt in Northern Portugal that concentrates the core of the industry. The North will benefit though from some diversification in technical textiles. There are possibly some gains in the Lisbon area.

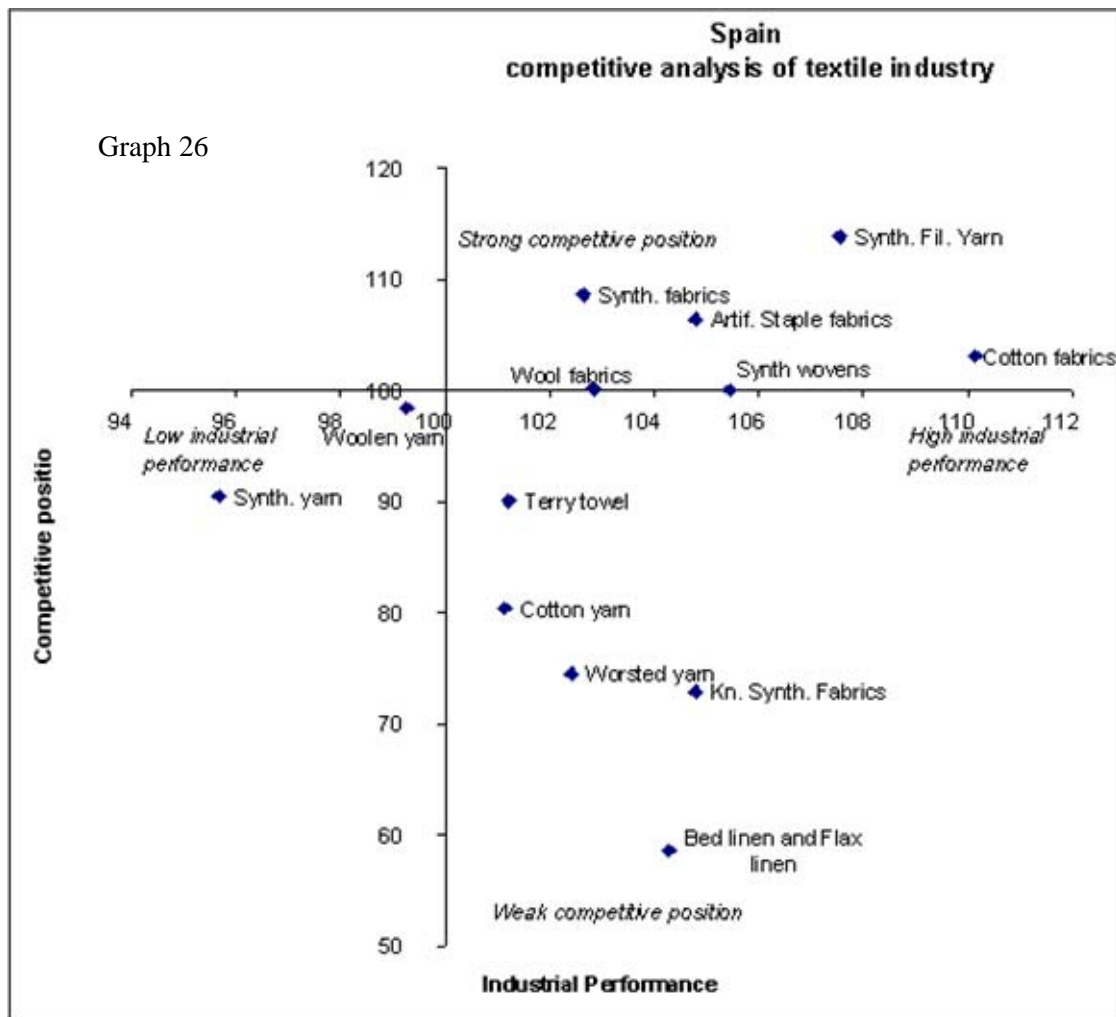
► Spain

Spain has been able to expand production in textiles and in clothing and is on the verge of taking over the positions of the UK and France, so becoming the third production country in Europe. **Growth in production** was recorded both in relative and in absolute terms. This expansion can be explained by the fact that Spanish industry is becoming increasingly integrated into the EU. It can also be explained by dynamic demand. Liberalisation is likely to have an impact, but less than in other countries, the model estimate being an erosion of - 0.5 % for textile and - 7 % for clothing.

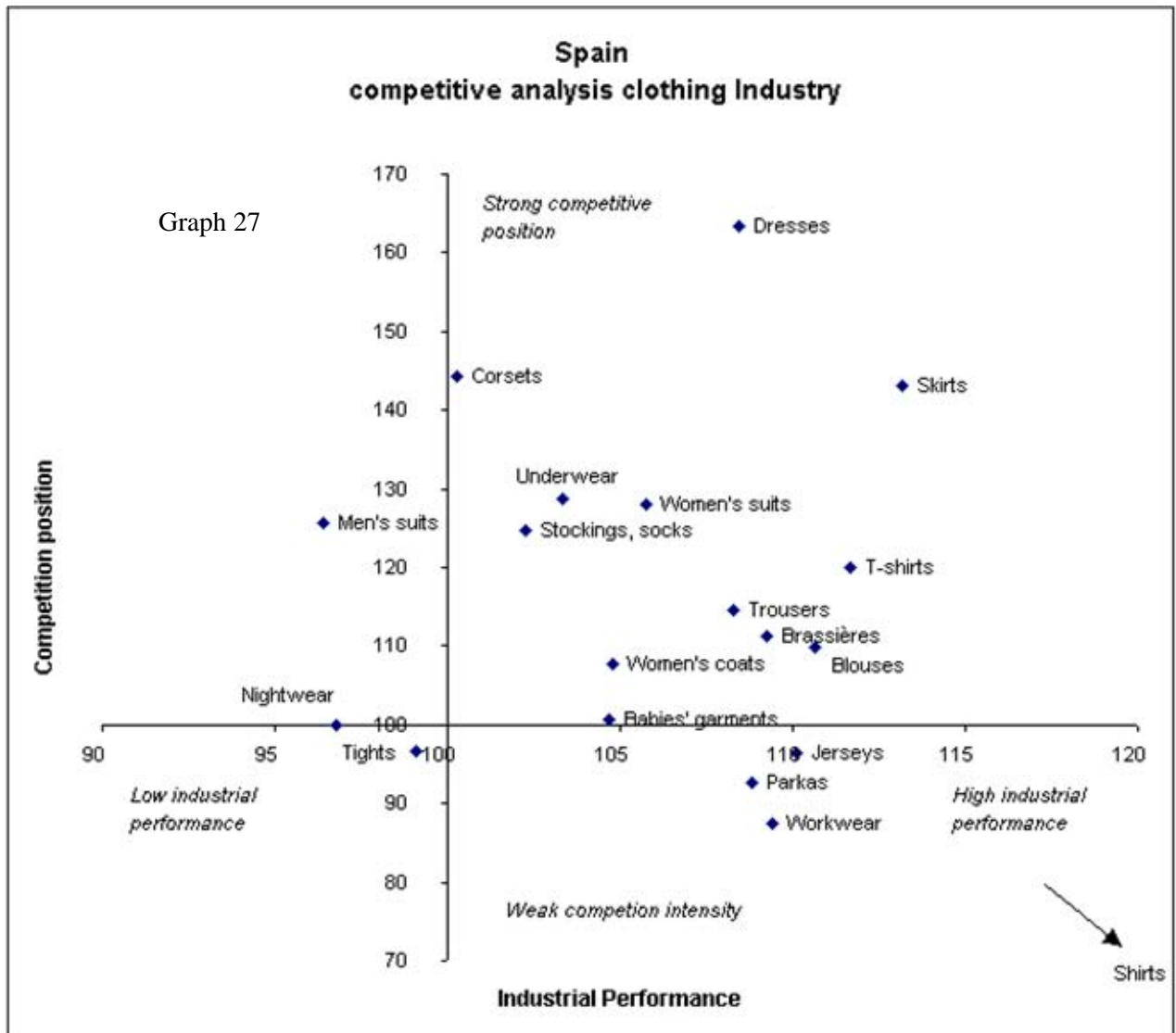
As the two figures below make clear, expansion of production occurs without a specifically strong competitive position. Spain has a good competitive position in fabrics. In clothing, a good competitive position in ladieswear is reflected in a good industrial performance. All product groups have expanded except the wool system (including menswear) and cotton yarns. In 1995 Spain was the country the least well integrated into the EU, as its ratio of exports to production was 23 %. In 2001 this had developed to 43 %, which is a considerable change but still far below the ratios of other Member States. In the same period imports rose in comparable ratios. By 2001 the industry's **integration into the EU remains low**, even compared to the accession countries. Spain is likely to increase its exports, thereby compensating for the upcoming shock in 2005.

By segment of activity, one sees stability in spinning, despite growth of imports. Only cotton spinning declines, in line with overall EU trends. This sector will suffer most from liberalisation as will bed linen. The cotton system performs fairly well, as does synthetics. The wool industry resists better faced with declining demand than other EU countries. More technical textiles do not perform well.

Graph 26



Graph 27



Outlook

The impact of liberalisation should be relatively limited.

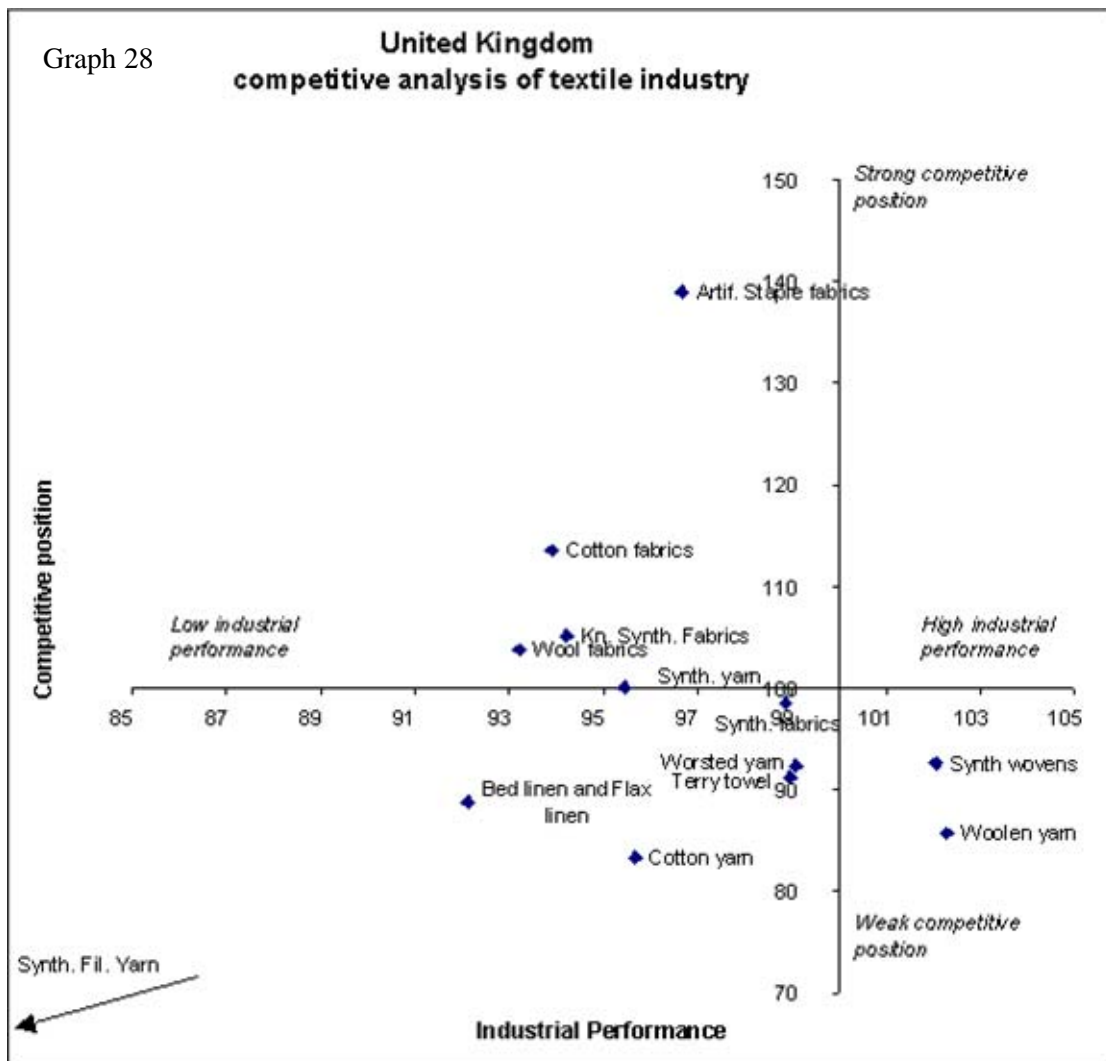
The outlook of Spain is closely linked to the persistence of dynamic demand and the ability to continue expansion of exports. The Spanish offer is currently neither particularly specialised nor competitive. Three sectors are vulnerable : spinning, knitting and home textiles. Spinning is sensitive to imports of commodities, while in knitwear and home textiles a decline in the level of protection is likely to affect industrial performance.

Spain has benefited from dynamic demand, integration into the EU and expanding retailers. It must now be able to specialise in more competitive products (i.e. fabrics) while relying more on imports for basic inputs (mainly yarns).

The impact on employment of liberalisation should be focused on spinning and weaving mainly in apparel textiles. This means that the impact is very much localised in the textile towns of Catalonia and the Pais Vasco. There may be some gains in Barcelona in apparel design and some clothing making gains in peripheral regions, but they do not offset in quantity and quality the losses.

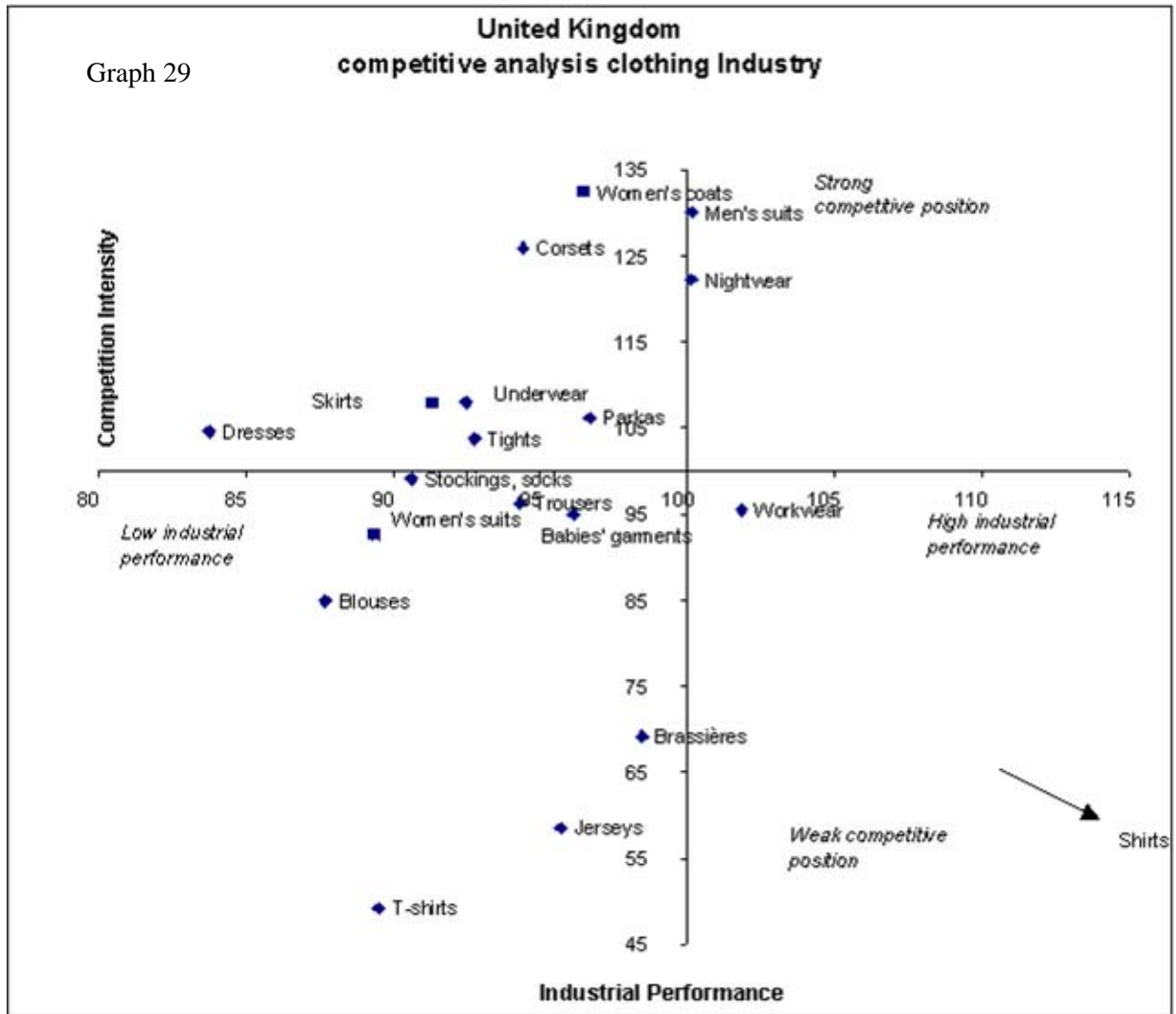
► UK

The UK has already experienced a **dramatic decline** in textiles and clothing production with only a little growth in exports. Textiles production has declined in all products but one (woollen yarns), in clothing in all products but two (workwear and men jackets). Industrial performance in all but five products has been worse than the EU average. The liberalisation of quotas hits the industry at a time when it is already weakened by 10 years of severe downsizing. The model foresees a further negative impact of -3.6 % for textile production and - 15.1 % for clothing.



Yarn production has more than halved with only growth in woollen yarns. Fabric production has also declined considerably. Decline in textile production concerns home and apparel textiles and the shift to technical textiles has far from compensated for this loss. Clothing production has declined dramatically. More than 50 % of the decline in clothing production in the EU can be attributed to the UK. This is mainly because of consolidation of the supply base of large retailers and increased use of delocalised production.

Graph 29



As can be seen on the above figures, the UK has a majority of products in a **poor competitive position**. Almost all products are in the left quadrangles of the figure. Even if products have a good competitive position, this has not led to good industrial performance. No product is positioned in the upper right quadrangle. This clearly shows an inability to expand in export. Price and product differentiation are hampered by structural limitations in exports. Protection has no big impact, as except for knitwear, most products have little protection.

Outlook

While restructuring has been severe in the UK, this process is by no means over. In textiles, carpets and technical textiles may absorb some further decline. Decline will affect all products, with knitwear and the synthetic system being the most vulnerable. The UK seems to be unable to compensate for loss in the domestic market with exports. As the macro-economic context shows no sign of changing, one may expect a further decline in manufacturing.

Employment decline will concern most of the regions except those areas where the industry is restricted to niche specialists (e.g. South-West) and metropolitan areas (London). Most hit will be the East Midlands and Northern Ireland. Technical textiles may be expected to offset some of the losses in regions like Yorkshire and North-West.

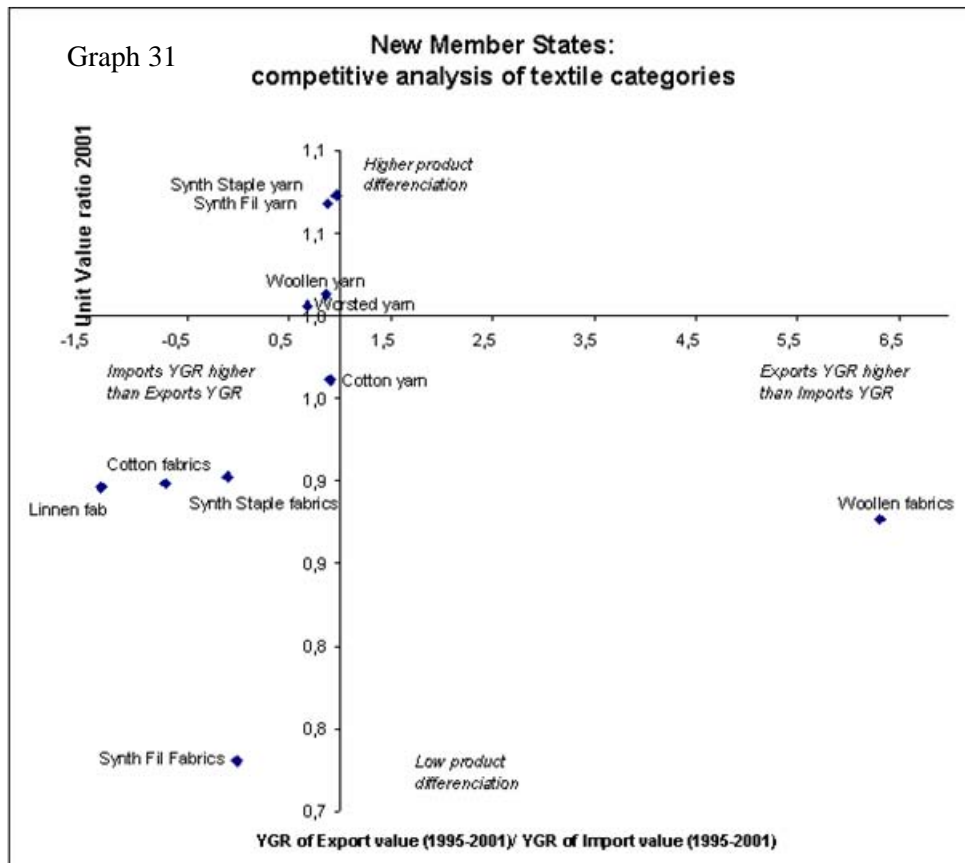
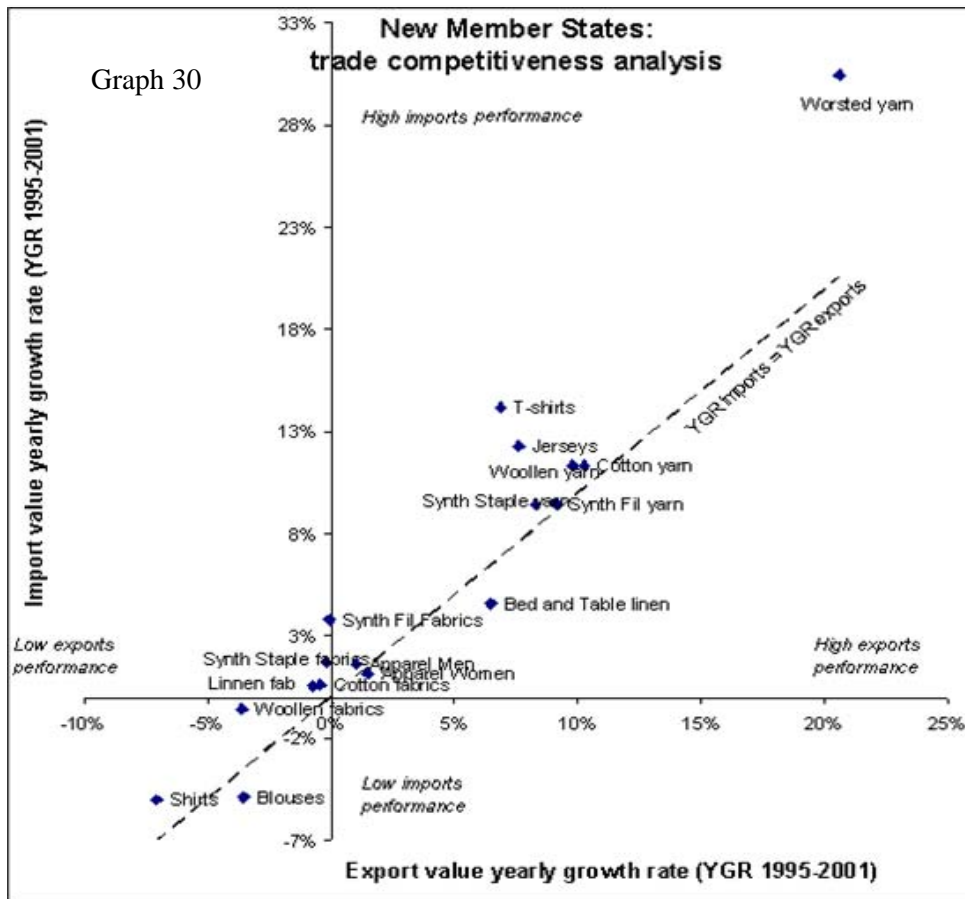
► The Candidate Countries

The model predicts a **severe impact on production** due to liberalisation for the Candidate Countries. Presumably the impact is to be concentrated on the large countries, especially Poland. All selected countries are strongly engaged in textile and clothing. They do all have a more or less balanced trade and are already highly internationalised and integrated into the Union. More than 70 % of their trade is with the EU. For the sake of comparison their textile and clothing industry is already **more integrated into the EU** than Portugal and Greece were at the moment of EU accession and still more than Spain was in 2001. However the dependency upon EU markets seems to be a sign of vulnerability as a large share is made up of OPT or subcontracting.

In the first place they have developed a substantial yarn export especially to the EU. This growth in export partly mirrors the declining production and growing yarn input of the Union and is not necessarily vulnerable to liberalisation. In the second place most CEEC's are important importers of EU fabrics both for OPT and for local demand. The decline of production assumed by the model will **mainly affect clothing** but will have an impact on textile inputs. The apparel fabric sector is vulnerable. In the third place all countries are important exporters of apparel to the EU, often based on EU fabrics. The OPT model is likely to survive for processing of fabrics in which the EU is highly competent (i.e. wool). However in other products (knitwear and short cycle items) the OPT model is far more vulnerable to imports from Asia. There is little evidence from the model that the Candidate Countries will suffer from trade diversion to other non-EU members in the pan-european zone. Interviews do suggest otherwise.

The starting position is a stagnation of exports since 1995. This is in stark contrast with the period until 1995 when growth was over 10 % a year. This means that **liberalisation of trade** which occurred after 1995 did not create a surge of trade. Imports of clothing have even stabilized or declined, reflecting a low demand dynamism. The candidate countries will suffer little from increased imports from Asia as the low end of the market is already largely covered by imports. The main impact is through trade diversion as exports will be more heavily outcompeted from currently restricted suppliers. Most candidate countries have a level of protection similar to the EU. They do also combine this with an already high level of extra-EU imports. However **Poland** has still a much higher tariff protection for most products, while Latvia and Lithuania have a higher protection on some products.

Globally one can speak of a Middle-European model as most countries have similar structures. Clothing is dominant in all countries, with only the Czech Republic and Lithuania with a more pronounced textile industry. The Czech Republic has a well developed technical textiles sector. It has also been a major destination of investments in spinning and weaving from German companies. It is likely that these two countries will be less affected by liberalisation.



Outlook

Most CEECs will face a further downsizing if they are not able to shift from OPT to direct exports. However the weak capital base of most candidate countries limits such a development. Countries with a strong fibre and yarn base may benefit from the increased sourcing of inputs by the EU industry. One may expect that they will suffer from liberalisation as their preferential access to the EU will be eroded in comparison to Asia. In the same time the protection of their domestic market will be lessened, but with less impact. From all candidate countries Poland and Hungary are the most vulnerable. The Baltic States benefit from a relative cost advantage and the Czech Republic has a more competitive textile base. The OPT is likely to survive mainly in the wool system.

Employment decline will mainly affect those regions most depending on the OPT system. Decline will be less important in regions focused on textile industry or in metropolitan areas. As far as subcontracting regions are concerned, both regions near the EU border (with higher labour costs) as near non-EU members will be affected. Most affected probably will be Western Poland and Eastern Hungary in absolute terms.

7 – WINNING STRATEGIC OPTIONS

Summary

Over the last decades the EU T/C industry has gradually lost much of its proactive power as its trade partners have become more concentrated and its foreign competitors have improved on quality. In order to retain market share and production volumes, fighting against foreign firms with low labour costs and less constraining regulatory environments, many firms have been driven into unsustainable low price strategies and completely cut them off from the consumers. This is particularly damageable as most of the EU's industrial assets can be derived from the importance and leadership of its home markets. As such, any redevelopment of the industry should start with renewing orientation towards markets and consumers.

Even though many companies, especially larger firms and conglomerates, do have a clear strategic vision, in many SMEs managers and owners lack time and resources to develop their own long term strategies. This situation, within a tougher competitive environment, has locked many of them into a defensive attitude deterring them from being more open and curious and from building cooperative partnerships within the supply chain. Being consistently victimised by a great number of political and support bodies, managers have lost hope and motivation for change. Despite the high emotional content conveyed by fashion, creativity and innovation, too few companies in the T/C industry do sufficiently play with these assets to develop motivation and passion within their teams and within the whole supply chain.

The industry will face further severe restructuring in the coming years and the consequent social impact has to be accommodated at the level of the regions involved, to foster the successful implementation of change in companies and in districts. Structural funds could provide the necessary help in this matter, provided the risk of distorting competition be prevented. Re-development should be encouraged by efforts to promote strategic vision within the industry, by means of increasing reliance on training, coaching and consulting services and the expansion of information networks. Identifying and promoting winning strategies could be achieved by creating Textile Excellence Round Tables.

There also is a crucial need for restoring hope to the sector. To attain this objective public authorities have to foster the creation and monitoring of a conducive business environment, where EU companies can compete fairly with foreign suppliers: assessing impact of considered initiatives before implementation, ensuring WTO rules are respected, creating a real PanEuroMed zone are priorities in this matter.

The necessity for redeveloping motivation and passion can be satisfied by promoting design, fashion and innovation: education systems should be better linked with the industry and harmonized throughout Europe; R&D efforts should be concerted and turned into ambitious projects; market research and competitive watch should be promoted in order that China and other key future markets become accessible to the EU's investments and exports ; ethics and social consciousness should be made priority issues as they represent both a major competitive advantage for the industry and a mounting preoccupation on consumer markets.

FOREWORD : TRADE POLICY MATTERS

This report is not meant to get into trade issues as such. But these issues are clearly an important part of any industrial strategy. Textile and clothing have been, at least at the time of the Marrakech agreement, more considered as an exchange item in the negotiations between developed and developing countries than as an asset by itself.

The phasing out of the quota system, which cannot be challenged as a basic principle of trade, is a real threat for that industry. One of the benefits of the quota system and of preferential treatment was to allow peripheral countries (Mexico and Caribbean countries on the one hand, Mediterranean and east European countries on the other hand) to start or accelerate an industrialisation process. The present study demonstrates that the quota phase out will mostly benefit China and India but will have **negative impacts on the other developing countries** and in particular the Mediterranean countries.

Therefore to maintain tariff preference is necessary for the small intermediate countries such as Tunisia, Morocco, Egypt and Turkey to name only a few. Under the same line of reasoning pressure should be put on Chinese authorities to let the currency gradually appreciate under the influence of market forces. These recommendations are not intended to limit Chinese development but rather to achieve a more **balanced development process** among developing countries.

It should be also mentioned that these recommendations should not be considered as a panacea for the textile and clothing industry in Europe : they only provide a way to get more time to adapt to a very large trade shock. This is invaluable to raise expectations for that industry but it is certainly not enough to ensure its future.

7.1 A CONSUMER / CUSTOMER ORIENTATION

Over the past four decades the evolution of T/C markets has been extremely challenging or even negative for the European industry. On consumer markets the concentration of clients and the strengthening of foreign competitors have deteriorated the industry's bargaining power and its capacity to remain a pro-active player : increasingly a large part of the EU industry -especially small companies- is **locked into a passive role** in which companies must submit to the requirements imposed upon them by clients, suppliers (e.g. for trimmings and chemicals), and state/local/EU authorities.

It is remarkable that a significant part of this industry still succeeds in remaining competitive, and in defending market position against competitors which benefit from much lower labour costs and much less constraining regulatory environments. This is undoubtedly due to the industry's rich, century old history in the art of western apparel and textile creation.

It is clear that, having to fight against ever more efficient competitors and to deal with increasingly powerful partners, the industry has been drawn away from its strongholds and competitive battle ground into a new arena where price and short term profit prevail. As a consequence the industry has seen its strengths eroded and its weaknesses magnified. What has become of **the intrinsic value** that made its productions so desirable to consumers and retailers all over the world? This question is all the

more **crucial today** as the EU's cost disadvantage is going to become even greater once quotas are lifted.

This intrinsic value of EU products was never truly "industrial" in the narrow sense of the term. It was also largely immaterial : the ability to transform a piece of cloth into a promise of seduction, into status, a sybaritic pleasure, a symbol of belonging or distinction, to name just a few of the benefits the European industry could offer its final customers, based on solid industrial know-how. This value could be derived only from three major elements:

- creative passion and know-how
- thorough understanding of consumers and the ability to turn the spirit of the season or the year into garments or household and home textiles : in a word, fashion.
- a spirit of innovation which has brought breakthroughs in fibre generation and processing offering high performance and new consumer values.

Over the years the industry has lost much of its ability to create this value as it has gradually been cut off from and **lost sight of its consumers** . If one wishes to analyse the strengths and weaknesses of the industry today, there are a lot of "minuses" which are not effectively counterbalanced, as its major "plusses" remain mostly potential rather than actually being exploited.

With 2005 in sight, it is clear that **price competition is a lost battle for most EU players**. It is therefore urgent for the industry to focus on a major re-creation of value, which may only come from a **renewed interest for the customer**, whether an industrial or private household consumer.

It appears that chemical fibre industries, as well as retailers and non-industrial brands, currently spend heavily on consumer research and communication. This is not yet the case however for a large part of the T/C industry, which also has to overcome the disadvantage of its fragmented structure.

However, research, communication and, in more general terms, a **customer-oriented strategy**, do not necessarily entail heavy expenditure. What they do require is a specific attitude from the company and all its members, administrative staff, operational and technical workers, sales and marketing forces and management team, made of curiosity, interest and a common company spirit built around the key founding relationship : what the company offers to its customers.

Against this background, the **major key success factor** of the EU industry is its geographic, cultural and a aesthetic proximity to its customers. Today, this factor is not sufficiently taken advantage of because too often the customer has lost importance in the eyes of many players in the industry. It is therefore around this "anchor" that a project for the whole EU industry has been worked out in the present report.

7.2 PRE-REQUISITES FOR A WINNING STRATEGY

It is not within this report's remit to design a number of "winning strategies" for companies. Circumstances are too different from company to company depending on their activity, product mix, competitive positioning, etc. Instead, a number of prerequisites are identified that will help companies to develop their individual strategy.

It is not primarily in terms of staffing or capacity that a competitive strategy can be designed in the T/C industry, or indeed in any other line of business. The project itself, the one the company dedicates itself to, has to be competitive. This simple fact bears one consequence of crucial importance : a company must have a **vision to identify and constantly review its own competitive project**. In broader terms, the industry itself should develop a vision on what it wants to become.

STRATEGIC VISION

There is little vision within many SMEs today in the T/C sector in Europe. Staff and time allocations rarely give priority to long-term vision over short-term (survival) action. Lack of financial resources, lack of time, lack of interest and intellectual flexibility (by some of the older generation's company owners and managers), mostly derive from the small company sizes, , the fragmented nature of the sector, and small profits, but also from weariness and mounting desperation about what can be done.

In many countries – except in the industrial districts where a tradition of concerted actions helps company owners to remain connected – they generally have no one to speak with about their business.

Necessary strategic vision comes from an **open and curious attitude** towards markets, clients, suppliers and competitors. This is not really the case today as the prevailing attitude is more one of secrecy than openness, and of distrust than confidence. Far too often the "enemy" is still the client or the supplier. More often, the "enemy" is the neighbouring competitor, even though there would be much more to gain with a cooperative spirit, like the one at work in the Cholet, France and Prato, Italy areas.

Strategic vision requires some **tools which already exist** but are not sufficiently used by most companies: free or cheap market information from the press and dedicated research institutes, heavily subsidised management training programmes and even consulting services.

Thus the problem is not on the side of the offer but on the side of the demand. Food is on the table but the guests are not hungry. This poses another problem, different from the lack of vision : the need for hope.

HOPE

Too many company owners still display a very negative attitude toward anything which would suggest they can improve their competitiveness by their own means. Public debate has been focused on the defensive aspects of EU trade policy for so long that the basic issues of competitiveness have been relegated to the background. The industry has been **consistently victimised**, and consequently, many

have lost hope that a positive voluntary attitude and a real attempt at excellence could change their fate.

Moreover, political debates have contributed to this victimisation and wing-trimming, as companies have been depicted as the victims of labour and environmental policies within Member States.

Italy stands out in Europe as the most resilient T/C industry - despite recent problems : for the entrepreneurship, passion and aggressiveness of companies there, combined with a willingness to closely co-operate with other companies on joint sourcing, orders and exports. This is seldom emulated in other places. This situation has to be considered in the light of a long standing belief in Italy that industry can expect little from public authorities to provide effective help.

Restoring hope and promoting **motivation for change** should be the essential objective of public authorities' strategy for the future of the T/C sector in a wider Europe.

MOTIVATION AND PASSION

This is the third set of fundamental issues which has to be addressed in the T/C sector. Labour in general is much more commonly¹⁵⁵ perceived as a liability perceived as a liability by the industry than as an asset. EU workers' abilities and craftsmanship are still too rarely considered a success factor. This unspoken opinion is a deterrent against attempts to raise motivations within one's workforce and enhance their synergy. The flexibility which the whole industry strives for is correlated to the company workers' ability to be flexible, dedicated and to solve problems. In fact, already today companies' ability to adapt and successfully compete largely depends on the ability to attract and keep well qualified and motivated employees at all levels.

As evidenced in earlier research¹⁵⁶ on the clothing industry, management skills of many company owners are not up to the requirements of today's competition. Specifically in the realm of **human resource management**, there is a clear deficit which is a liability to the sector and a brake on competitiveness, and as such, a priority target for action in the future.

Motivation building, within and around a company, supposes that the need for strategic vision and hope be satisfied first hand. It also requires that the strategic project of the company be nourished with values and passion. Hiring high potential young staff, raising capital easily, building customers' loyalty are among the well-known characteristics of high-motivation companies and they depend on the quality and the intensity of **emotion and commitment** the company is able to create.

Many emotions can be created and shared in the T/C sector : **fashion**, aesthetics, design, creativity, innovation and industrial excellence do provide fertile ground. As such they are the best assets the EU industry can use to build exclusive links with its workers, clients, consumers and all its other service and trade partners.

¹⁵⁵ Study on employment development and qualification needs in the EU clothing industry - IFM 1995

¹⁵⁶ Same

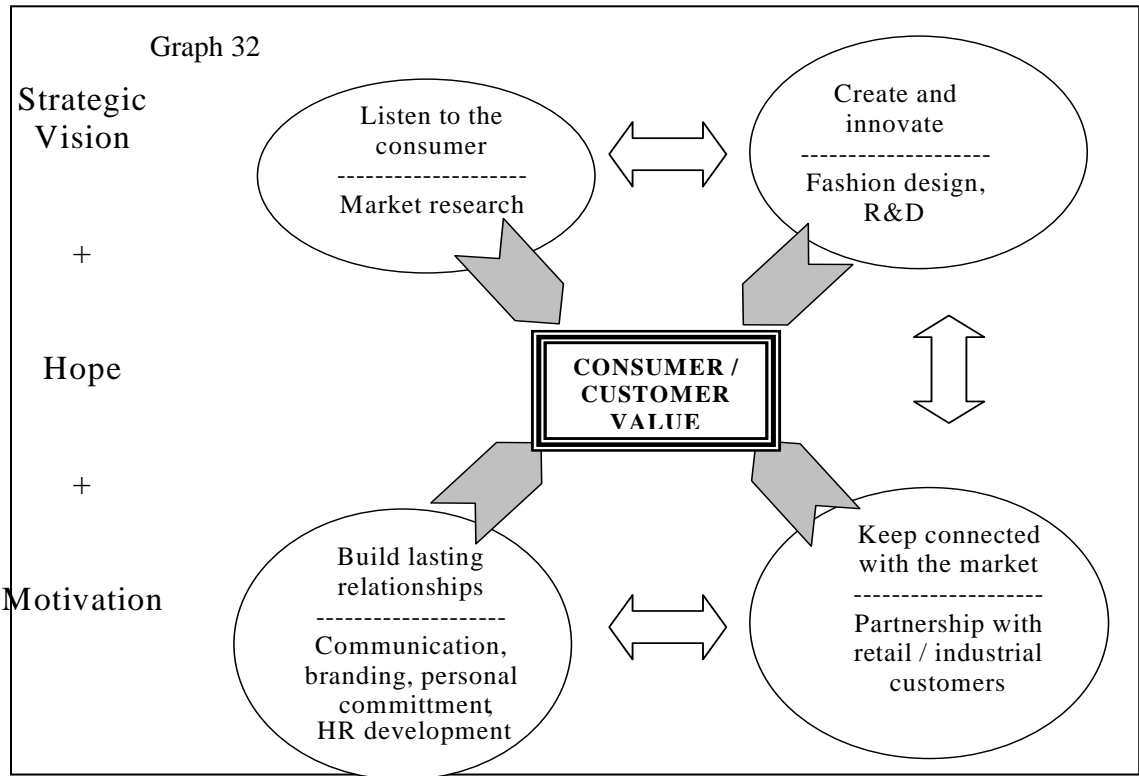
BUILDING CONSUMER VALUE

Vision, hope and motivation may be restored and shared in companies around **specific long term concepts of consumer value**. It may mean excelling at providing mothers with childrenswear the kids will adore, or designing men's apparel of unrivalled quality that is acknowledged as such, creating automobile fabrics which are technically perfect and even chic, or simply providing a product that is valued by the customer for its excellent creativity-price-quality ratio. Along the broad lines taken in these examples, each company has to refine its own concept of consumer value to make it more exclusive : a factor of **identity and differentiation**.

Consumer value can be enhanced most effectively when everybody in a company (from the owner down to the maintenance staff) knows exactly what the consumer value their company provides is.

In addition, this value can be "sold" to its direct customers all the more easily : because it relies on a vision shared by both partners. Branding is one powerful strategy for industrial companies with a clear vision and strong identity who want to be known by the final consumer. In the case of yarns or fabrics such branding is rarely possible. However, “good” company names, or indeed geographical regions (e.g. Biella or Como in Italy), do work as actual consumer brands. And even though products may not be signed when they reach the final consumer, the company name conveys values and guarantees that are precious for the direct customer (retailer, car maker, etc.), first of all the guarantee of being able to provide full satisfaction to his own customers

Enhancing consumer value is the name of the game for any industry. It has to become the objective of the T/C industry for the decades to come. It involves new ways and habits of working which can be described under four complementary strategic attitudes.



- listening to the consumer
- creating and innovating
- building lasting relationships
- keeping connected with the market

As mentioned earlier, it would be impossible in such a broad spanning report to go any further in the strategic options and action plans available to the companies of the T/C sector, because each of the above mentioned attitudes involve very different elements according to the activity, competition, positioning etc. the company is working with.

However the following pages do investigate how public authorities and companies and workers' representatives may help the industry redesign its own future competitiveness.

7.3 HELPING INDUSTRY FACE THE CHALLENGES OF 2005

Any attempt to improve competitiveness in view of quota liberalisation in 2005 will have to start from one basic acknowledgement : it is the **companies themselves that have the key to success** in their hands. This is even more the case as the market is liberalised and textile and clothing have become “normal” industries. Only if they adopt the right strategies, based on a clear vision of where they want to go, do they have a chance of succeeding. They will nevertheless come up against constraints that sometimes endemic to the European economy as a whole and sometimes specific to the sector. Therefore those companies wishing to be proactive require a supportive environment.

As shown by the modelling exercise, liberalisation will have a major impact in the period 2005-2010. The challenge for public policy is two-fold :

To **accommodate the social impact** of industry downsizing and reconversion. This mainly involves the regions concerned.

The other challenge is to **foster innovative business models**. Companies – their management and their staff alike –need a clear signal that there are successful strategies for the industry based on innovation, creativity and quality, efficient consumer response. The industry deserves a dynamic approach that identifies winning strategies and mobilizes forces of progress around them. This is crucial as winners are often held back by the image of the industry as a whole. This can be done at regional level whenever possible. But many supply chains and technology clusters go across regional or national boundaries. This is very much the case in niche-products, especially in technical textiles, but increasingly also for the rest of the T/C sector. Moreover with the decline and transformation of the T/C sector the critical mass for many supporting services (i.e. training) collapses at the local level. This reinforces the need to create a real European space for training and research.

In many regions, parts of the industry will resist increased imports by upgrading, diversifying or re-engineering their production process, i.e. by **successfully implementing drastic change** . Such necessary redeployment of strategies and resources will happen especially in companies that will experience a generational shift in management. For these and other companies engaged in a change programme, training management and staff will be crucial, as will support through information and external advice. Although the regional level is adequate for such training schemes, cross-regional programmes can be useful for promoting the diffusion of the best practices and encouraging networking of companies beyond the regions’ limits

Public authorities –both at the national and regional level and at the European level– already devise and use policy instruments and programmes to accompany the T/C firms’ efforts. The use of these instruments should be made more coherent in a long term vision on the industry. Moreover very often **the policy instruments are available**, but their mode of operation is not adapted to the sector, or, to put it differently, the sector is not yet structured to fit in the policy instruments. Adequate conditions must be created to enable the industry to use current and future policy instruments.

Social partners also have an important role to play. But first of all there needs to be a rethinking of what their mission actually should be. The present research has highlighted major differences in the level of vision in the countries and districts studied. Led by their members, too often they have adopted defensive approaches to solving competitiveness problems -offering long standing support for the system of import protection that is eventually coming to an end in 2005. This often involves an acceptance of international competitive conditions as they are, and most often, the shift to a policy agenda oriented towards innovation and technology. It then involves the development of services and projects around exports, relations in the supply chain, innovation and technology, training and education. Best practices can be found amongst employers' associations in the Netherlands, on a regional level in Germany and in some sectors and regions in Italy or the U.K. Labour unions are most involved in countries with an active social dialogue with a dynamic joint management of social levies and funds (e.g. Netherlands, Scandinavia, Belgium).

This requires – before any design and implementation of policy – a validation and requalification of the support infrastructure of the industry (associations, services, training and research centres).

It is against this background that the following recommendations are made.

➤ **HELPING INDUSTRY FACE THE SOCIAL IMPACT OF DOWNSIZING**

However simple, the prerequisites described above are not within the reach of every EU T/C company. A number of them are still trying to fight Asian imports head-on, on the basis of low value/low price. The coming years are likely to see a significant number of closures and downsizing operations take place in these segments of the industry. Others who have moved away from this strategy of price competition have significantly better chances not only to survive but also to thrive in a quota-free world.

The further downsizing will not come as a shock but as a continued restructuring over the period 2005-2010. The nature and speed of the phenomenon will differ by region, as will the regional impact. Assistance is therefore needed at a **regional level** with a **long term involvement**, each region being responsible for including measures in regional development plans.

Structural Funds are most adequate in supporting the social dimension of industry reconversion. However major job losses will occur in regions that fall outside the Funds' Objectives 1 and 2. This is the case for regions such as Lombardy and Veneto in Italy; Catalonia in Spain; Baden-Wurtemberg and Nordrhein-Westphalen in Germany, East Midlands in the U.K and Rhone-Alpes in France.

These regions have to be considered for the period 2005-2010 especially those with limited employment alternatives specific districts within those regions. The European Social Fund and programmes such as ADAPT are adequate tools for accompanying reconversion of workers.

Any support must, however, be strictly limited to measures directly targeted at cushioning the social effects of reconversion. Great care should be taken that support does not benefit companies' operational business and or capital position. Otherwise, such support would easily **distort competition** within the European T/C industry, putting those at a disadvantage that have restructured in the past or are currently doing so without access to such public funds.

Special attention is needed for the T/C industries in the **new Member States**. Restructuring is likely to be severe with a considerable social impact. The impact is all the more specific as their industry is mainly based on OPT. On the other hand, the new Member States may attract further investment in textile production partly due to increased delocalisation of production from current EU members. The study to be carried out for the Commission on the perspectives of new members should define more precise recommendations.

➤ **HELPING INDUSTRY RE-BUILD COMPETITIVENESS**

▶ **Improving Strategic Vision**

As previously mentioned, strategic vision is a must. In few countries, regions or sub-sectors a vision has emerged on the impact of 2005. A small number of them have engaged in a thorough analysis and developed a mid or long-term action plan. It should be said that many social partners lack the financial and human resources to do so, and are not encouraged by their members to develop a real vision.

Many companies also lack a clear idea about the 2005 impact. While most of the larger companies have developed a vision, many smaller and medium size companies do mainly react to short term impulses from their customers, without ever fundamentally reviewing their business model. Most of their behaviour is defensive, and it must be acknowledged that the constraints on companies do strongly favour downsizing and restructuring strategies over diversification and redeployment. The number of successful best practices is limited, and simply not visible to the wider group of T/C stakeholders. Managing change is one of the major difficulties in an industry already subjected to constant fashion changes and advances in technical innovation.

It is essential is to engage in a process of vision making on the future position of the industry. This process should help to identify political priorities and give the parameters to validate the effectiveness of current policies and structures in the industry. The following steps are essential :

- Creation of a **Textile Excellence Round Table** at the CEO level from cutting-edge textile and clothing companies from across the EU to exchange experiences, **identify and promote “winning strategies” and best practices** for the European industry. This process must lead to setting a road map for innovation and to recommending measures to associations and public authorities on how to help strengthening the industry’s competitive edge. Financial support from the EU to set up and assist the Round Table and to disseminate the its findings to stakeholders at Member State level (e.g. through media, industry associations, seminars etc.) should be considered.
- Participation of company management in **Management Training Programmes**, with a specific focus *inter alia* on self diagnosis (as to competitive evaluation), marketing, efficient consumer response, change management, etc. is a key factor to success. **Therefore** management training needs must be identified and **the development of adequate programmes activated**. Cross fertilization and networking of companies and support structures (e.g. associations, services, training and research centres) would do a lot to help develop a common knowledge base.
- Foster the use by companies of **external advice from specialised textile consultancies**, to drive and support companies’ change programmes. This requires identifying suitable consultancies and informing about their services. Industry associations may consider to develop **themselves or buy-in tailor-made consultancy services** to be offered to their constituency, e.g. on export initiatives, research projects, etc. **Networking** between associations and institutions would be of great help in this context.

► **Fostering hope**

Public authorities have an important role to play in restoring hope through **creating and monitoring a conductive** -safe and healthy- **business environment** where EU companies can effectively compete on the EU and world markets. EU legislation is often considered by the industry to impose unfair constraints on T/C firms. Those constraints may be turned into strengths e.g. by lobbying in favour of green public procurement rules at national and the EU level, by shaping EU environmental and health legislation that will boost the market for “green” textiles (e.g. geo-textiles), or by marketing the benefits that green standards bring to the consumer. The **legislative and regulative environment** may limit or enhance the impact that a company strategy would have in the market. This environment therefore needs **to be both closely monitored and actively shaped**. This is all the more necessary as the industrial textile processes that will remain in Europe are subjected to long term investment cycles and sensitive to a coherent, stable and predictable regulatory framework.

The aim must be to avoid unnecessary burdens for business, particularly for the many small and medium-sized companies in the T/C sector, and to allow for undistorted competition within the European T/C industry as well as vis-à-vis third country competitors. This applies to European legislation and policy instruments as well as to international rules that govern international trade.

Several recommendations can be made on this basis :

- **Major legislative and regulative initiatives** that are likely to impact upon industry’s competitiveness need to be systematically **subjected to socio-economic impact assessments**. While the European Commission has started to do so, EU Member States and regional authorities need to follow suit. In particular, decision-makers have to ensure that the new Chemicals Policy (REACH) does not compromise the European T/C industry’s competitiveness on the EU market as well as on export markets.
- European Commission and Member States will have to **ensure that WTO rules are respected** by EU trading partners, particularly regarding subsidies, dumping, intellectual property infringements, and market-access commitments. However, EU Member States and industry should resist the temptation of imposing new import barriers to compensate for the loss of quota protection.
- Foster the **creation of a competitive PanEuroMed textile chain** through quick introduction of diagonal cumulation of origin within the PanEuroMed Free Trade Area. European Commission, T/C companies and Industry Federations will have to use their influence in the Mediterranean partner countries to get bilateral negotiations among themselves started and/or quickly concluded, with priority to be given to the “Agadir Initiative” (Morocco, Tunisia, Egypt, Jordan). It is crucial that the Mediterranean countries will have to **quickly improve their general business environment and infrastructure** to remain attractive T/C production centres for EU manufacturers also after ATC quota removal. This project requires a clear and reinforced support from the EU Commission as a whole, and particularly those involved in matters of industrial and trade and EuroMed policies. Any further recommendation should involve additional specific investigations.

As quota removal will impact upon the T/C industry's supply chain and open new sourcing opportunities, an **independent study** should assess how origin rules can best support the creation of a competitive PanEuroMed textile chain, which parts of it and how the rules could be modified or refined to take into account new supply opportunities and the changing structure of the industry.

➤ **Re-developing motivation and passion**

Motivation and passion in the T/C sector can be found in companies who succeeded to build an emotional drive around one or several of the following four **pillars of excellence** :

- **Fashion and design**

Europe still has a **clear leadership** in fashion and design. In order to remain competitive fashion education should be promoted and harmonized throughout Europe along the lines of existing best curricula and academic know how. Partnerships with industry should be promoted : this would best be done at regional level. Best practices in this area and in promoting the creation of design-based entrepreneurship should be identified.

However, downsizing of the industry will mean that in many regions the **critical mass** for educational structures will melt down (a point that is also valid for research centres and services to the industry). This may affect the support level for remaining firms. Public authorities should ensure that adequate accompanying structures remain in place. At the same time these structures should be integrated in a European space for education and research, facilitated by EU programmes and cross-border initiatives, involving national and regional authorities, research and educational institutes.

Today fashion and design do not sufficiently permeate the EU T/C industry. **Facilitating interactions** and sharing knowledge between these two worlds would considerably help industry re-build emotional consumer value and strengthen synergies within and between firms.

- **Innovation**

Textile and clothing R&D in the EU suffers from being extremely fragmented. This constitutes a significant disadvantage for the EU industry, as its major competitors, be they the USA, China or Japan, have set up and currently run ambitious national programmes for developing and ensuring technological leadership in particular fields of the sector. **European fragmentation** creates the need for a critical reflection on the ability of the industry to define and manage ambitious long term projects. This is all the more crucial as the working of the 6th Framework Programme has created more barriers for applying projects on behalf of more fragmented industries. To help solve this problem, networking practices should be developed and tools to facilitate it should be reviewed to be better adapted to the industry.

In particular, the industry stands at the beginning of a technological revolution involving new dynamic interactive fibres (e.g.. based on nanotechnology). It is crucial that Europe grasp this opportunity that may enable it to fulfil new functionalities. Active involvement in the 6th Framework Programme for Research and Development is imperative. It is also recommended that before doing so, industry engages in technology road-mapping to identify the most promising options.

- **Conquest of new territories**

Asia and in particular China should be considered both a **challenge and an opportunity**. The European Commission, industry and retail federations should set up a joint mechanism to monitor T/C developments in Asia and China both in view of assessing their export potential and in view of identifying export and investment opportunities for European companies. Trade flows, developments in the sub-sectors of T/C manufacturing and retailing, as well as relevant legislative and regulative developments should be the focus of such an initiative

In the short run, **safeguard measures** to be initiated by the USA against China, are likely to bring EU trade authorities to restore a legitimate balance by implementing safeguard proceedings too, in order to prevent Chinese export strategies from being massively redirected towards Europe. Such transitory measures can be effective in the short term. However they should by no means put in jeopardy the proactive attitude which the EU industry has to adopt more widely. This is why a peculiar attention should be given to the way safeguard measures should be communicated to the industry in case they would be considered as necessary.

Global markets are a major opportunity for many but not all European firms. This is not only a matter of market access but also of taking the opportunities and using existing instruments either through exports or through investment in the emerging markets. Companies should invest resources in developing international marketing and sales networks, where necessary with the help of external advice and/or trading houses to establish a market presence in markets with high growth potential. Industry associations can help by facilitating the exchange of experiences among their members and the creation of company “pools” that engage in joint export and/or foreign investment initiatives.

- **Ethics and care**

Western consumers can be characterised by high standards of living and mounting desires for giving **more meaning to their lives**. A research programme should be launched to determine how the T/C EU sector –industry, brands and retail- could best try and cater to this need, and how they should communicate with consumers in this area. This issue would also provide all stakeholders with a first

experience of a **concerted approach**, mutually beneficial, which might help initiate other cooperation projects in the future.

For one this could help rekindle **EDI and standardisation** efforts at the EU level. These programmes are crucial as they provide the industry with means to remain connected with its products once they have entered the retail pipeline. They also establish a deeper knowledge of its consumer markets. At a very basic level standards in EDI should be improved. The European Commission should foster dialogue in the supply chain and facilitate the development of practical results.

Ethics seem to offer an accurate starting point for **cooperation** as the issue represents an important stake for all actors within the supply chain. As such it could drive sufficient motivations and energies together to help reduce the largely confrontational attitude which prevails today.