

The Consequences of Trade Liberalisation in the Textiles and Clothing Sector in Mediterranean Countries

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For the last 25 years, the textile and clothing industry (T&C from here on) has been one of the most important industries for the Mediterranean region as a major source of income and employment. Recent developments on the international trade arena have raised questions whether the structure and dynamics of the T&C industry in the region is bound to experience some radical changes. This article will underline the importance of the T&C sector for the Mediterranean countries, discuss the context of the recent challenges, with an emphasis on trade liberalization and events it triggered in 2005, and explore their perceived and predicted consequences.

Importance of Textile and Clothing Sectors for Mediterranean countries

The T&C sector plays a crucial role in the economies of the Mediterranean countries and in their trade with the EU. According to the Commission of the European Communities, "the Pan-Euro-Mediterranean countries outside the EU employ directly a total 4.3 million people, of which the countries in the Southern and Eastern Mediterranean area employ over 3.7 million people [according to Euratex data]" (approximately 2/3rds are accounted for by Turkey and Egypt). The weight of textile and clothing employment is very important in Tunisia (46%) and Morocco (41%). In Morocco, the sector has provided 60% of new manufacturing jobs since 1986. In Tunisia, the sector created a third of new industrial jobs between 1997 and 2003.

The largest T&C producer in the Mediterranean region is Turkey fol-

lowed by Tunisia, Morocco, Egypt, Syria, and to a lesser extent and more recently Jordan. Turkey is a country with a complete textile and clothing manufacturing pipeline and a broad domestic raw material base which supports the downstream T&C industry. It is one of the leading cotton producers in the world.

In Tunisia, Morocco and Jordan, clothing is the first export commodity; in Egypt and Syria textile and clothing articles are the second export commodity after oil products. In all countries the textile and clothing sector accounts for 20-50% of exports.

In addition, due to a mixture of trade preferences, geographical and cultural proximity, low labour costs, relatively higher quality standards, and EU investments there is an important complementarity in the T&C sector between EU and the MEDA countries. A significant proportion of European textiles are processed and transformed in the Mediterranean region and re-ex-

TABLE 4 Table of EU trade with Mediterranean countries (T&C in millions euros)

	EU Imports			EU Exports		
	2001	2002	2003	2001	2002	2003
World	67,108	66,642	66,043	36,796	36,645	35,084
Mediterranean countries	15,738	16,644	16,781	6,614	6,777	6,387
Turkey	8,474	9,433	9,999	1,607	1,878	1,861
Morocco	2,773	2,752	2,598	1,796	1,765	1,675
Algeria	2	3	2	132	147	120
Tunisia	3,123	3,152	2,969	2,143	2,088	1,924
Egypt	625	614	608	137	161	169
Lebanon	15	15	14	230	227	195
Syria	279	279	231	69	69	68
Israel	432	385	348	446	369	299
Jordan	14	11	12	53	73	76

Source: European Commission, DG Trade.

ported in the form of garments back to the European market. The European Commission states that: "...in their outsourcing strategies, EU manufacturers prefer countries of the Mediterranean Rim (such as Tunisia or Morocco) over some Asian countries with even lower labour costs (such as Vietnam or China) due to their geographical proximity and their higher quality standards. Thus, EU companies remain able to respond quickly to changing market demands, and they can more easily maintain control over the management and quality of the outsourced operation" (europa.eu.int/comm/enterprise/textile/trade.htm). The trade between the EU and the Pan-Euro-Mediterranean area has been growing faster than with the rest of the world.

Hence, there is a very important inter-dependence between Southern and Eastern Mediterranean countries and the EU in terms of exports and employment and also via investment and subcontracting relationships. In all these countries, the EU has been supporting sector-specific measures through the MEDA program (europa.eu.int/comm/enterprise/textile/euromed.htm). European Council sources state that the Feira Council (July 2000) adopted a common European Union strategy in the Mediterranean zone, confirming the determination of the EU to apply a coherent policy to this region and to support progressive trade liberalization. The 15 EU Member States and its 12 Mediterranean Partners started a new "partnership" signed in Barcelona the 27th – 28th November 1995. This Euro-Mediterranean Partnership establishes the objective to form, by the year 2010 as a target date, a Euro-Mediterranean Free-Trade Area, through bilateral free trade agreements.

Recent Challenges to the T&C Sector in the Mediterranean Region

The sector is currently going through a period of tough challenges:

- *Quota Phase-Out: The Agreement on Textiles and Clothing (ATC)*: abolition of quantitative restrictions (quotas) which took place on 1st January 2005

- *China's WTO Membership*: increased competition in the global T&C supply chain mainly from Asia and especially China,
- *EU Enlargement*: its challenges and opportunities
- *Multilateral Trade Liberalization*: ongoing negotiations within the Doha Development Round which leads to further preference erosion and relocation of offshore production
- *Building up of the Pan – Euro-Mediterranean zone*
- A period of marked *slowdown* in economic activity and sluggish demand in the EU
- The Euro's significant upward trend against the US dollar

Almost every segment of the T&C sector in the Mediterranean region has been affected from the impact of these developments of the last few years.

The economies of small developing countries are considered to be significantly vulnerable to changes in the international trading arena. Hence, the challenges listed above are of special importance to smaller countries, like those in the Mediterranean, that rely most heavily on textile and clothing exports for their economic welfare and growth and might therefore be adversely affected.

Moreover, Mediterranean T&C industry is mainly composed of small and medium sized enterprises (SMEs) which makes it more difficult to maintain production and compete with dynamic Asian competitors.

In fact, these recent challenges could disturb the balances in the regional division of labour and result in significant losses for both sides of the Mediterranean putting at risk the ongoing regional integration plans. They could also have serious economic development consequences, for countries who count on their T&C exports as their growth engine.

Quota Phase-Out: The Agreement on Textiles and Clothing (ATC)

"The Agreement on Textiles and Clothing (ATC) and all restrictions there under terminated on 1st January 2005. The expiry of the ten-year transition pe-

riod of ATC implementation means that trade in textile and clothing products is no longer subject to quotas under a special regime outside normal WTO/GATT rules but is now governed by the general rules and disciplines embodied in the multilateral trading system" (otexa.ita.doc.gov/atc.htm). Since the beginning of 2005, all WTO members have had unrestricted access to the European, American and Canadian markets.

Beginning in January 1995, this phase-out occurred over four phases. Two mechanisms were employed to eliminate quotas: the phased removal of existing quotas, and accelerated growth rates of remaining quotas.

This elimination of all quotas has provided the T&C trade with a new momentum. The goal was that international T&C trade should be governed by comparative advantage, consumer welfare and free competition. It has challenged the global sourcing channels that were formed over decades of managed T&C, in many developing countries.

The predictions before 1st January 2005 were such that, while developing countries as a whole were likely to receive net benefits from the phasing out of T&C quotas by 2005, these benefits were likely to be concentrated in the hands of a few large low-cost Asian producers (mostly China and India). Conversely, many smaller developing countries who have been protected by quotas from competition of major Asian exporters for many years and built substantial export sectors and created employment in sectors in they might not otherwise have been competitive, were expecting to face significantly reduced exports.

Below is a first look at what happened after 1st January 2005.

Consequences of Trade Liberalization and Other Developments of 2005

According to the European Commission document "Evolution of EU Textile Imports from China 2004-2005":

- The disruptive impact of liberalization of Chinese textile exports to the EU

Date	Minimum volume integrated (%)	Accumulated volume (%)	Remaining quota growth rate
01.01.1995	16	16	16
01.01.1998	17	33	25
01.01.2002	18	51	27
01.01.2005	49	100	Full integration

Country	Value	Volume
Morocco	-11%	-11%
Algeria	-56%	-68%
Tunisia	-4%	-8%
Egypt	-3%	-5%
Jordan	1%	-23%
Syria	-33%	-41%
Israel	-30%	-15%
Lebanon	1%	14%
Turkey	4%	4%

in the first nine months of 2005 has been limited to a fairly narrow range of product categories.

- In these categories there have been absolute rises in textile imports and steep falls in unit prices. For products liberalized in 2005 there has been a very significant increase in China's market share by 145% in volume and 95% in value. And a significant (20%) fall in unit prices.
- China's share of exports to the EU in these textile categories liberalized on 1st January 2005 has increased dramatically at the expense of traditional EU suppliers, mainly in Asia but also in North Africa, the ACP and the Mediterranean region.
- Textiles exports in products liberalized in 2005 from Mediterranean countries to the EU fell for the first nine months of 2005 (with the exceptions of Turkey and Lebanon).
- It is noteworthy that the most significant displacement by China has been exports previously originating from Hong Kong, Macao and Taiwan.
- Although EU producers have suffered from market disruption in the categories affected as a result of the fall in unit prices and greater Chinese competition in export markets, there has been only a slight increase of

textile imports into the EU in the first nine months of 2005, either in the 35 products liberalized on 1st January 2005 (4.8% in value and 10.4% in volume), or in total textile imports. (3.7% in value and 4.9% in volume).

- Serious market disruption has been limited to a small number of product sectors which have experienced both double digit absolute growth in exports, a rise in Chinese exports, and steep falls in unit prices sufficient to force restructuring.
- Although the immediate beneficiaries of quota elimination were predicted to be consumers, the retail prices for garments have been pretty stable throughout 2005.

Textile Negotiations in 2005

On 10th June, 2005, the EU and China agreed on a deal that will manage the growth of Chinese textile imports to the EU until the end of 2008. The European Commission declared that "The agreement provides for reasonable growth in Chinese textile exports to the EU during 2005-2007 while giving time to adjust for the textile industry in the EU. With this wide and balanced agree-

ment, the EU and China ensure a period of adjustment for EU producers, provide greater predictability for importers and retailers, and preserve the prize of market liberalization and WTO membership for China".

One purpose of the June Agreement was to alleviate pressure on more vulnerable producers (including but not limited to Mediterranean producers) and provide a smooth transition to the quota-free world environment, taking into account in particular development concerns, to facilitating that third countries currently exporting to the EU can maintain their competitive position. Similarly, the USA signed an agreement with China on 8th November 2005, re-imposing quotas on some categories of textiles and apparel from China. The agreement limits imports of Chinese T&C in 34 categories from 1st January 2006 through to 2008.

Conclusion

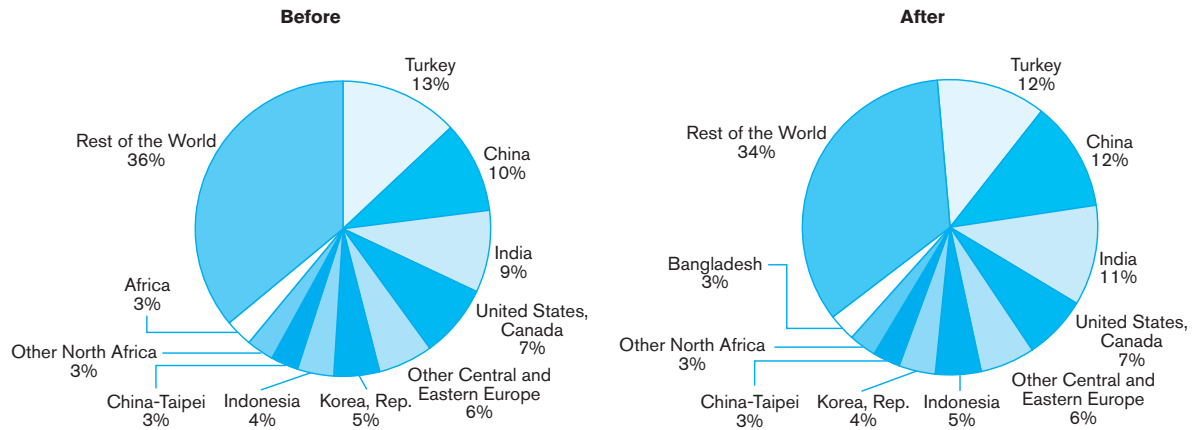
Although the state of the T&C sector in the Mediterranean region consists of a variety of strengths and weaknesses, there is a strong belief among some experts in the field that the T&C industry will continue to play a crucial role in Mediterranean economies, in terms of job creation and sustained growth. Major T&C suppliers in the Mediterranean region who have developed strong commercial ties with the EU can maintain their positions even in the light of the recent challenges to the industry and to the region.

The new trade environment has the potential to offer new opportunities and expand trade to industries in both developing and developed countries and allow the more efficient allocation of resources.

Moreover, with the 10th June agreement, the Mediterranean T&C sector seems to have caught a breathing period until 2008. The Mediterranean countries should use this limited time efficiently and focus on developing:

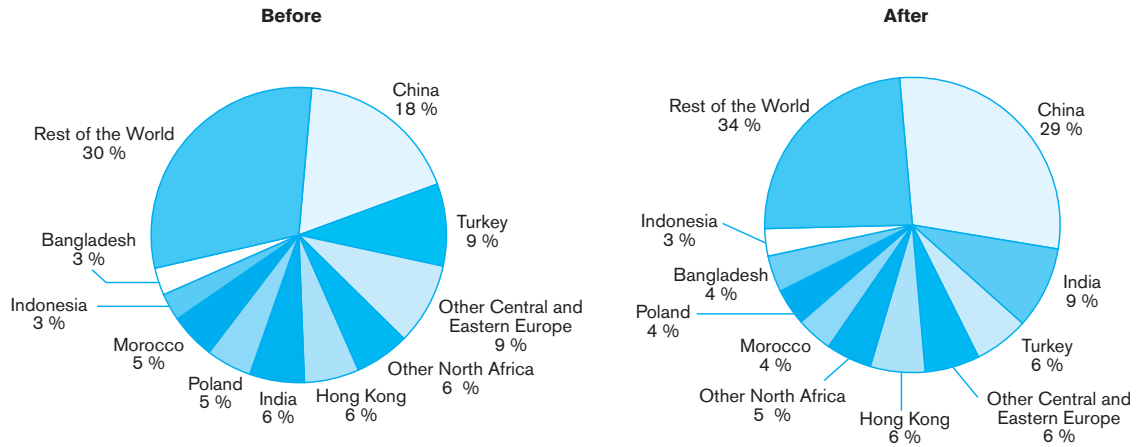
- a strong and diversified mix of T&C products
- full-package production
- high-quality, high value-added products

GRAPHIC 13 Market shares before and after quota elimination, textiles, EU



Source: NORDÁS, Hildegunn Kyvik, "The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing," World Trade Organization, 2004.

GRAPHIC 14 Market shares before and after quota elimination, clothing, EU



Source: NORDÁS, Hildegunn Kyvik, "The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing," World Trade Organization, 2004.

- strategies to open up to diverse markets outside the USA and the EU
- flexibility in production
- reduction of delivery time, turnaround time, co-contracting, designs and collections
- backward linkages to indigenous textile industries
- forward linkages to markets
- technological upgrading
- enhancing skills in the industry
- research, development and innovation
- information and communication technologies (ICT): the development of business-to-business (B2B) e-commerce among small and medium-sized enterprises (SMEs)
- infrastructure improvements to support efficient trade logistics

- bilateral governmental agreements with importing countries that would favour local industries

The Pan-Euro-Mediterranean area and its very rapid implementation would be very valuable. Euro-Mediterranean companies would be able to fully take advantage of the natural advantages of this area, well in advance of the end of the Barcelona Process by 2010. A more integrated Mediterranean area would have the means to address heightened competition by increasing its own competitiveness. T&C components could circulate freely along the comparative advantages of each producer at each stage of production. Moreover, the economies of scale that will emerge in the integrated area can add incentives

for investors in the region and outside and increase the much needed FDI for many Mediterranean countries. Achieving the objective of a Euro-Mediterranean free trade zone will make it possible to bring the EU T&C sector together with that of the Mediterranean countries (including Turkey and, in the longer term, the Balkan countries). Using the logistics advantage of being close to the European market T&C producers in the Mediterranean region would be able to maintain high market shares in fast moving, high quality and high value-added items.

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