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THE TEXTILES AND CLOTHING SECTOR*

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PREFACE

The creation of the European Single Market is the most significant step in economic integration so far taken. The creation of a single economic area in which capital and labour, goods and services all move freely is the target set by the countries of the European Community to be achieved by the end of 1992. Given the size and strengths of the Community, the changes under way may be expected to have significant impacts beyond its borders.

UNIDO, with financial support from the Government of the Netherlands, is holding an Expert Group Meeting to examine the main implications of this process for industrialization in developing countries. The expected growth effects of the Single Market will have implications for the world economy, including changes in trade and investment patterns. Other associated EC policies, especially in the areas of regional policy, competition, technology, environment, energy and technical standards will also affect a wide range of industrial sectors, and thus the prospects for industrialization in developing countries. The Expert Group Meeting will review the implications in terms of key industrial sectors: food, textiles and clothing, footwear, steel, chemicals, and electronics.

The present paper deals with one of these key sectors, the textiles and clothing sector. It reviews trends in the world industry and examines the implications of the Single Market and European Community policy for the textiles and clothing sector in developing countries.

The paper was prepared by the Regional and Country Studies Branch of UNIDO, with Mr. V. M. Kankaanpää, Director, Federation of the Finnish Textile Industries, Helsinki, Finland, as UNIDO consultant.

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PART I

INTRODUCTION AND OVERVIEW

This report discusses the changes in textile and clothing production, trade and market factors, and the effects of these changes with respect to the position of developing countries as European integration moves ahead.

The European Community is already the world's largest contiguous market area in economic terms. The EC is the world's biggest exporter of textile and clothing products and also the biggest importer. It is intended to launch a united single market area among the community countries from the beginning of 1993; this will have some 340,000,000 permanent residents and 10,000,000 temporary residents.

Until now the EC countries have practised widely differing policies on trade, industry, subsidies and so on, as a result of which the various member countries have maintained industrial companies and sectors of industry that diverge greatly in terms of competitiveness. The start-up of the **Single European Market** will certainly also influence the textile and clothing industry. There will be many changes, with **intensified competition** as perhaps the only common denominator.

Within the EC there are still many restrictions in force, customs quotas etc., which affect different EC countries in different ways, based mainly on the countries' industrial policy chosen in former times. Some EC countries have their doors - practically speaking - wide open, either for international competition from outside or because of anticipatory action on the part of industry, while others have shown reticence in increasing import competition.

Although differences between the various EC countries are still significant, the tendency has been towards **harmonization of policies** and towards integration, especially in recent years.

For some fields of the textile and clothing industry, a single market developed long before the EC Commission announced its intention creating one by 1993. EFTA countries, in particular Austria and Switzerland, which show a level of European integration which goes beyond that of several recent EC member countries.

The ongoing and accelerating **transfer of parts of the West European textile and clothing industry to former Communist countries** of Eastern Europe has been a problem for EC industrial policy. This ongoing process has led to a clear division of opinions within the Community, with the Southern members fearing for their own development while the Northern members (and the EFTA countries also) overall seeming to support it.

The transformation of the former Communist countries of Eastern Europe into market economies and the stabilization of political conditions has rapidly increased the level of investment and the transfer of technology to the east. This may be at the expense of investment in developing countries but it is also at the expense of investment in Western Europe itself. But risks for such investment in Eastern Europe still exist. The drift of Yugoslavia's internal quarrels into an open conflict has involved the loss of some 9 billion DM worth of output to the German clothing industry.

Nevertheless, the greatest impetus to the transfer of investments and production in the field of textiles and clothing has been high labour costs in European countries, although these vary greatly from country to country. Only a few months before the Single European Market is supposed to come into being, significant wage differentials still exist within the member countries of the EC. A few years ago, this would have accelerated the shift of production from high-cost EC countries to low-cost EC countries in order to reap the benefits from cheap labour and low production costs. However, still cheaper labour can be found these days in neighbouring East European countries, and this could prevent EC textile and clothing manufacturers from staying within the boundaries of the EC, contrary to the original intentions of many proponents for the creation of a Single Market of the EC.

At present the EC Commission, like various member countries, is preparing a number of different standards, norms and regulations concerning **environmental legislation**, bearing in mind the growing public awareness of environmental issues and also the obligations of international treaties. Nevertheless, for the textile and clothing industry environmental questions (apart from the use of chemicals in the dying process or the use of certain synthetic raw materials and problems of adequate sewage water treatment) are overall of less importance than for many other industrial subsectors.

During **GATT negotiations**, the EC has maintained almost from the start its prepared position on the textile and clothing industry, changing its position very little during the Uruguay round. Internal pressures on the negotiations have been great, since the reference points and the needs of various sectors of the textile and clothing industry in the EC countries differ greatly. Attitudes towards and expectations of the conclusions of the GATT Uruguay round and the possible inclusion of the entire textile and clothing industry sector in the GATT are also still a subject of controversy.

In addition to the points raised above, a number of other factors influence trade in textile and clothing products between Europe and developing countries. With certain exceptions, it is difficult to make simple assessments on a country by country and product-specific basis. However, there are particular trends which will be described later in this report. These trends are not a matter of chance; they have been caused by capital flows, by the market situation and by political changes, and they are likely to gather strength in the years to come.

1. THE CURRENT SITUATION OF THE EUROPEAN TEXTILE AND CLOTHING INDUSTRY

The textile and clothing industry represents about 9 per cent of the industrial output of the entire EC area, employing a total of some 2.9 million employees. The value of the textile industry's output in 1990 was some 90 billion ecus with a corresponding figure of 50 billion ecus for the clothing industry.

During the past 15 years, employment in the textile and clothing industry in the entire EC area has declined by about 40 per cent. Most of this, however, was due to reduced demand for labour caused by increased productivity, with outputs being maintained almost without exception at the 1985 level or higher. The output of yarns, household textiles and woven clothing in particular has declined. Of these, clothing output is only 5 per cent. At the same time the output of carpets, non-woven fabrics and technical textiles has increased as has the production of fabrics although to a lesser extent. The output of non-wovens is as much as 60 per cent higher now in the early 1990s than in the mid-1980s.

The economic position and the short-term and medium term outlook of the European textile and clothing industry do not appear very promising. Recently the textile and clothing industry, along with industry as a whole, has had to cope with an overall economic recession in Western Europe. The economic downswing in the industry began in the second half of 1990 and has progressed even more sharply in 1991. There has been a particularly severe decline in consumption of interior design textiles as a result of the downturn in building construction. The slowdown in the growth of consumption has led to an increase in stocks and sharply fluctuating production figures. The unfavourable trend slowed growth in imports at first but import figures began to increase again in the second half of 1990. At the same time, the weakened dollar (before the war against Iraq) cut into the EC textile and clothing industry's ability to compete on price.

A continuing decline in European demand has further exacerbated the state of the market and has driven many European companies below profitability level. Thus many companies producing in Western Europe are forced to sell their products at underpriced levels.

1.1 Country-specific differences in EC-production of textiles and clothing

The production of textiles, including knitwear, has fallen most in Denmark, Germany, France and the United Kingdom among the EC countries. However, the decline has been relatively small so far. In France, where the decline was greatest, the output of textiles contracted by about 7 per cent over 5 years.

On the other hand, production has risen significantly in Italy (by slightly under 20 per cent since 1985) and in Spain and Portugal.

In those most recent entrants into the Community, Portugal and Spain, it was feared that membership would result in a rapid contraction of output in the textile industry, on which these countries are more dependent than other EC members. This was not the case, and Spain's output has actually increased by some 10 per cent since joining the EC.

With the exception of Spain, Portugal and the United Kingdom, the **output of woven clothing** has declined in all EC countries, in Denmark the most, where the decline was some 30 per cent over five years. In the Community's three largest producer countries, Germany, France and Italy, aggregate output has declined by somewhat less than 10 per cent.

The output in Greece and Ireland, both low-cost producers, has declined even more than the EC average whereas the output of the new low cost producers, Portugal and Spain, has increased by about 3 per cent since these countries joined the EC.

1.2 Employment in EC textile and clothing industry

The textile and clothing industry employs a total of about 2.9 million people in the Community, with each branch of industry having roughly the same number of workers.

The **textile** industry employs about 1.5 million workers, 87 per cent of them in companies with more than 20 employees. The figure for companies in the clothing industry with more than 20 employees is about 66 per cent. The percentage of companies which employ more than 20 workers is less than 20 per cent, which is another indication of the preponderance of small companies in the textile and clothing industry.

Among EC countries, the textile industry employs most people in Italy, where there are about 450,000 workers in the industry. Taken together, the big four members of the EC, i.e. Germany, France, Italy and the UK, employ some 69 per cent of all textile industry workers in the EC. The United Kingdom has most employees in the clothing industry, with 213,000 workers. The big four countries account for some 71 per cent of the EC clothing industry's workforce.

The low-cost EC countries, Greece and Portugal, account for about 13 per cent of jobs in the textile industry. If Spain is included, these countries represent less than a quarter of the workforce of the EC textile industry.

Out of the total EC workforce in this sector, Portugal and Greece have about 8 per cent, and if one includes Spain, the share of low cost producers of the Southern EC states increases to 22 per cent.

The percentage of textile workers in total population is by far the highest in Portugal where the textile industry employs over 13 per cent of the population. It is the lowest in the Netherlands where the corresponding figure amounts to just 1.5 per cent. The Netherlands also has the lowest textiles output per inhabitant, while neighbouring Belgium has the highest textiles output per person in terms of value.

Although Portugal has the highest percentage of population employed in textiles, the output per inhabitant is only slightly above the EC average. The production of textiles in Portugal is still a very labour intensive process and it thus shows some similarities with the production pattern encountered in developing countries.

In the **clothing industry**, Greece employs in relative terms the greatest number of workers (clothing industry workers per head of population). But Ireland and Portugal too employ almost as many.

In absolute terms, the United Kingdom has the largest number of clothing industry workers in the EC with 3.7 per cent of the entire population being employed in the industry.

Despite its importance for some EC member countries and despite its labour intensiveness, the textile and clothing industry as a whole employs less than 1 per cent of the total population of the Economic Community.

1.3 Wage levels

Despite a trend towards a more harmonized pattern, hourly rates of pay in the textile and clothing industry still differ significantly within the EC, and the gap widens if all indirect costs of labour are also taken into account.

In 1988 total labour costs per hour in the **textile industry** were lowest in Portugal and highest in The Netherlands. Labour costs in Portugal were just about a fifth of those in The Netherlands. Greece, Portugal and Spain were still more than 30 per cent below the EC average, and Ireland and even the United Kingdom were about 14-18 per cent below the EC average.

It is interesting to note that since Portugal joined the EC in 1986, textile industry labour costs grew by a total of about 38 per cent in two years, while labour costs throughout the EC increased by only about 13 per cent. Spain joined at the same time as Portugal, but there the growth in labour costs over the same period was only about 16 per cent. Thus Portugal, having had the lowest level of wages in textiles in the EC, has experienced the highest wage increases in Europe while Spain which already has been much closer to the EC average, only showed a slightly above average increase. In other words, market forces within the EC already started to act towards a harmonization in factor costs as was pointed out in the beginning of this chapter.

Another interesting phenomenon to be observed has been the fact that labour costs tended to grow faster in the (more capital intensive) textile industry than in the (more labour intensive) clothing industry. The overall growth rate of wages in textiles was on average by about a quarter higher than in clothing.

As in textiles, wage rates in clothing have been significantly higher in Northern EC countries than in Southern EC member countries. Labour costs in the clothing industry were lowest in Portugal and highest in Denmark. Overall, the clothing industry shows a regional wage pattern similar to that of the textile industry. The differences in clothing industry labour costs between the lowest and highest EC countries was approximately the same in clothing as in the textile industry.

But not only the differences in clothing are similar to those in textiles. There is also a trend in clothing towards a common European wage rate. Thus, parallel to the increase in labour costs for the textile industry, wage costs in the (low-cost) Portuguese clothing industry went up significantly (40 per cent in the two years after joining the EC) above the overall rise in labour costs throughout the EC (about 14 per cent).

In theory labour costs (like capital costs) converge if commerce and capital transfers between different countries are unrestricted. This even occurs in markets in which competition is still far away from being considered as perfect. But the convergence process then takes more time.

The period of review for Portugal and Spain has been short to reach final conclusions. Neglecting the special case of Portugal, the convergence of wage rates has been so far relatively slow in the EC. Throughout the 1980s, labour costs in the textile and clothing industry have converged relatively little. Significant wage differentials have continued to exist. In high cost countries the increase in costs has followed the overall trend of the country concerned while in lower cost countries wage costs have risen faster, without however resulting yet in statistically significant contraction of wage differentials.

1.4 Consumption and demand

The demand for textile and clothing industry products was very positive in the EC until the end of the 1980s. In 1989, households spent some 300 billion ecus on textile and clothing products, amounting to some 6 per cent of household expenditure. In addition to household consumption, the clothing and textile industry used about a quarter of all fibres produced in Europe as raw material for its operations. Taken as a whole, the consumption of textile and clothing industry products rose by a total of about 20 per cent in the second half of the 1980s.

However, the beginning of the 1990s has brought this trend to a halt, with most EC countries drifting into a period of decline, along with other industrial countries. This has naturally been reflected in the demand for textile and clothing industry products as well.

1.5 Distribution

Distribution channels for textile and clothing industry products still vary considerably in the countries of the European Community. In general, it may be said that the differences in distribution reflect consumer habits, lifestyles and shop opening hours in the EC countries.

The percentage of independent retailers is at its largest in Italy and Portugal (about 70 per cent) and its smallest in the United Kingdom (about 20 per cent). In the EC as a whole, almost half (45 per cent) of textile and clothing industry products are bought from independent retailers.

The share of clothing sales accounted for by department stores is greatest in the United Kingdom (31 per cent) and at its smallest in Italy (5 per cent) and in Portugal, where clothing sales by department stores are in practice non-existent.

The most recent distribution channel, mail order, has established itself well in the Northern countries of the EC while its market share in Portugal, Spain and Italy is still very small.

A common feature of all EC countries is that the more the distribution of textile and clothing industry products is concentrated in large retail companies, the more the industrial side of the business is also concentrated, and the overall trend is still towards greater centralization, both in the industry and in retail trade.

At the same time, the distribution sector appears to be gaining an ever greater say over product design, prices and terms of delivery. This is not exclusively due to centralization; manufacturers also seek closer cooperation with the distribution sector in order to upgrade services.

Even before the launch of the Single Market, declining profitability in retail trade has provoked significant changes in the textile and clothing business in the EC area. Retail trade has thus been forced to reduce its cost structure. This is and will remain a major impetus for the EC retail trade to look for importation possibilities of textiles and clothing, both from Eastern Europe as well as from developing countries.

1.6 Imports and exports

(a) Textile imports and exports

Contrary to public conception, a significant part of foreign trade in textiles and clothing is still with industrialized countries. The share of industrial countries in total **textile imports** into the EC in 1990 was about 42.1 per cent. The next largest group of importers were those developing countries with which the EC has MFA treaties (40.6 per cent), e.g. with the group of relatively advanced countries which have built up significant export capabilities in textiles and clothing. The EC's preferential countries account for about 18.5 per cent of total textile imports.

The major sources of textile imports have been Switzerland, Austria, the United States, China and Turkey.

Although exports by industrial countries to the EC area increased by 5 per cent in 1990, their share in the EC market declined as a result of an increase of 13 per cent in imports from MFA countries. Imports of textiles from preference countries, however, declined.

About half of the EC's **textile exports** goes to industrial countries, a quarter to MFA countries, and about 13 per cent to preference countries.

Exports to preference countries grew the fastest, at about 25 per cent. Exports to MFA countries grew by 12 per cent. This was accounted for largely by exports to the former Communist countries of Eastern Europe.

(b) Clothing imports and exports

The overwhelmingly largest share of **clothing imported** into the EC originates in MFA countries, although their percentage fell in 1989-1990 by a few points to 63.7 per cent of total clothing imports. The percentage of preference countries went up slightly to 22.3 per cent, while the share of industrial countries went slightly down, to 10.3 per cent.

Thus, the share of MVA countries in exporting garments is significantly above their share in exporting textiles. On the other hand, industrial countries hardly play any significant role anymore in the export of (labour intensive) clothing while still being strong in the (more automated) textile sector.

In 1990 total imports of clothing into the EC area were up by 14 per cent on a year earlier. Imports increased from all country groupings, with the largest increase (25 per cent) coming from preference countries. Imports from MFA countries grew the least as many of them had reached their upper limits of their MFA treaties.

Far and away the largest slice of clothing exports of the EC went to other industrialized countries (76.4 per cent), with an increase rate of only about 4 per cent. Starting from a low level, the share going to MFA countries, on the other hand, has increased relatively strong during the period under review.

1.7 Market shares and trade balance

The EC **trade balance in textiles** rose in the mid-1980s to a surplus of 2,276 million ecus at its greatest, but has fallen back in the early 1990s to its level of ten years before.

The **trade balance for clothing products**, however, generally declined throughout the 1980s, and is now about 10 billion ecus in deficit.

Since 1986, the **share of imports** in European textile and clothing products has increased from 16 per cent to 20 per cent, i.e. despite the preparations for a Single European Market, imports, including those from developing countries, were given the chance to increase.

Still, the **domestic market share** of EC producers in the EC area is relatively high. It stands at about 80 per cent.

But not only the the share in imports increased. The share of exports in the total output of the EC textile and clothing production has also increased. However, this increase was not significant.

1.8 Distribution of imports by country

In the second half of the 1980s, the overall importation of textiles into the EC area grew by about 34 per cent, including intra-EC trade.

Imports of textiles have increased the most in Spain since it joined, by a total of about 195 per cent, while the expansion of imports in Portugal and Greece has increased by 94 per cent and 106 per cent respectively. Import growth into the big Northern members of the Community on the other hand has been moderate; Danish imports have even declined.

Imports to Greece and Portugal have been stepped up in recent years, especially because of increased outsourcing. Especially Germany, The Netherlands and other countries have subcontracted sewing work to these countries, supplying them with their own materials ('temporary exportation').

Imports of clothing industry products into the EC area have expanded more briskly than those of textile industry products, with imports since 1986 having increased by 71 per cent. Imports to those countries which most recently acceded to the EC - Greece, Spain and Portugal - has increased most. In Spain imports have increased since its accession in 1986, by 712 per cent.

France's share of imports has grown along with that of Spain. The rise in the French share is mainly due to the increase in trade with the Mediterranean zone.

On the other side of the spectrum one can find Ireland, Denmark, and The Netherlands where clothing imports have hardly grown in the period under review.

Mention has also to be made of the decline in the United Kingdom's share of clothing product imports relative to the rest of Furope. This is a reflection of the UK's import policy which is more restrictive than that of other EC countries, i.e. quotas are smaller relative to the size of the country.

The largest **textile exporters** of the EC, in absoute terms, are Germany, Italy and France. Germany and Italy alone account for more than half of the textile exports of all EC countries. In the second half of the 1980s, the combined exports of Germany, Italy and France even increased their share of exports at the expense of other EC members. The manufacturers of these countries benefited from the larger domestic markets and were thus able to achieve better economies of scale which helped them to compete also internationally on more competitive terms.

However, the strong rise in textile exports in those above mentioned countries has been at least partly the result of increased temporary exportation. Instead of producing along the whole "filière" in one country, significant (labour intensive) parts of the production process are outsourced. Thus exports of German textile products has grown most to east European countries. However, a very significant portion of these exports is accounted for exports of raw materials on a subcontracting basis. A similar pattern is also true for France in connection with its textile exports to the Mediterranean region.

Shares in **textile imports** have remained almost unchanged throughout the second half of the 1980s, which can be taken as an indication that the textile sector is still relatively competitive within the EC. Only the British share has declined somewhat and Danish textile imports have shrunk markedly compared to the rest of Europe.

Italy and Germany are not only the EC's largest textile exporters, they are also the EC's largest clothing exporters. Italy and Germany represent more than half of the **exports of finished clothing**. Contrary to exports of textiles, where Germany plays the leading role, Italy is the single largest EC exporter of clothing. Italy represents about a third of the exports of all EC countries.

PART II:

THE EFFECTS OF THE INTRODUCTION OF THE SINGLE MARKET ON TRADE WITH DEVELOPING COUNTRIES

It is clear that the EC single market will be the largest individual economic concentration in the world, and it goes without saying that its moves will affect the whole of world trade.

The new forces acting on the European textile and clothing industry probably tend towards a reduction, in relative terms, of trade flows in textile and clothing products from and to developing countries, as the main focus is on switching towards the EC's neighbouring areas which may be called the EC's secondary market, i.e. EFTA countries, former East European countries and some Mediterranean countries as well.

Decisions of industrial policy already in force, both in EC member countries and at the pan-Community level, will affect the status of the textile and clothing industry and the trade in textile and clothing products in the near future, and should lead to a stronger regional cooperation. However, external changes by means of updating MFA treaties based on the outcome of the GATT negotiations, and free trade agreements will also step up political pressure on EC countries and on the Community as a whole to accept larger imports from developing countries.

Changes within Europe will be primarily in the field of industrial policy, affecting investment, subsidy schemes, technology projects, training and education projects and standards to alter the operating environment of companies with the aim of improving their competitive capability.

Changes in Eastern Europe, the possible formation of the European Economic Area, expanded membership of the EC, and regulations on origin and OPT ('Outward Processing Traffic') will be the trade policy framework that influences the trade flows of textiles and clothing.

2. INDUSTRIAL POLICY

The EC Commission's industrial policy role varies a great deal from one secotor of industry to another.

In the textile and clothing industry, the EC Commission's role has been limited to coordination, with the main responsibilities still being held by member states.

The EC Commission performed its coordination duties by means of regulations, rules concerning state subsidies (such as in the code on synthetic fibres), and by annual reviews which give details on current problems and make proposals for eliminating them.

However, parallel to the creation of the European Single Market, the EC-Commission's role in industrial policy will be greatly strengthened as core elements of industrial policy concerning textiles and clothing and concerning the coordination of industrial policy will be transferred from member states to the Commission.

It is likely that the increasing concentration of decision-making on industrial policy will mean the narrowing of regional differences within various EC countries along with, presumably, a stepping up of industrial policy action.

2.1 Investment

In spite of the expectations associated with the Single European Market, the resulting increase in competition may not primarily lead to more competitive production in the EC area but to increased pressures to shift investment into the EC's neighbouring areas.

But, so far, the trend of investment within the EC has been still very favourable. In the second half of the 1980s, investment grew by 20 per cent. However, it is interesting to note that there has been a much lower level of investment in the newer EC members, Greece, Spain, Portugal and in the former GDR than in the rest of the EC. In 1989, the highest investment level per worker in the textile industry was to be found in the Benelux countries as well as in Germany. Investments were at a much lower level in Spain, Portugal, Greece, and Ireland. Investment in the Irish textile industry even fell by half between 1986 and 1989.

However, unless these EC countries also move towards a more capital-intensive production, they will be vulnerable to competition from low-cost producers from developing countries, as the harmonization of wage rates in the Singie European Market will eliminate the competitive edge that they so far have enjoyed.

Stepping up investment in low-cost EC countries, however, will be rather difficult in the near future. Firstly it would require large-scale transfers of capital from other Community countries which in return would require those EC countries to be more attractive for investment than the former East bloc countries. Economic recession in many Northern EC countries also does not tend to make the investment situation easier.

On the other hand, investment will remain strong in northern EC countries. Cooperation between the retail trade and industry, along with outsourcing and the changing rhythm of commerce will require heavy investment both in data communications and in materials control and throughout the logistical chain in general. But these investments will be concentrated mainly in the northern countries of the EC.

2.2 Technological development and technology programmes

It has long been an aim to automate certain sectors of manufacturing in the textile and clothing industry, and progress has been relatively rapid in this respect in recent years. Technological progress is considered an important means of enhancing competitiveness.

Automation will continue to gain ground, especially in connection with the needs for improved quality control system for intermediate products, the replacement of labour intensive activities in the final processes, and in sewing. Along with the automation of several individual processes, such as in the field of garment manufacture, promising experiments have also been made in automating a number of stages of "assembly" and linking them together. A totally automated manufacturing process, however, has not yet been built.

Despite many efforts put into the solution of the automation question it has however become clear that the automation of the production process in general and in particular of labour-intensive processes, will not in itself solve the industry's competition problems with respect to imports from low-cost countries. Competitiveness will increasingly depend on the streamlining of the entire added-value chain, and this, together with improvements in distribution will mean an ever increasing demand for investment into data communications, electronic data transfer, etc.

2.3 Education and training

The modernization and automation of the textile and clothing industry has significant implications for the workforce as well. There have been training programmes at the EC level for some time, primarily financed through structural funds. However, such training programmes taking place at the Community level, do not directly assist companies to design and implement technology-related training programmes locally.

In this respect, trade unions and other wage-earners' organizations could play an important role in the future. At the EC level, the Commission has already taken steps - including financial support - to assist increased training by workers' organizations.

Also, a Committee for Cooperation in the Textile Sector is to be set up this year. This committee is to consist of representatives of employers, employees and the governments of the member states. Its objectives are:

(1) to develop the interface between the dissemination of technologies and the implementation of training and education programmes in textile regions;

(2) to promote cooperation between the existing centres and to encourage them to act as a platform for innovation and the exchange of experience of vocational training;

(3) to set up a coordination body at the Community level.

2.4 Innovation

There are already some EC programmes for technology and innovation currently under way to improve the competitiveness of the EC textile and clothing industry.

The purposes of the practice programme include the reduction of labour costs and labour-intensiveness in the clothing and knitwear industry by 50 per cent.

Another programme at the planning stage may be worth mentioning as it could have significant implications for 'import originating countries'. The purpose of this programme is to create an operational network to extend Quick Response production from the fibre manufacturer to the distribution stage. The programme will be started up in 1992.

Finally, there are a number of practically oriented technology programmes such as Brite, Euram, and Craft (Cooperative Research Action for Technologies).

2.5 Subsidies

So far, the Commission has given the EC member states three directives on state subsidies for the textile and clothing industry:

(1) Community Framework for Aids to the Textile Industry SEC (71/363 July 1971)

(2) Examination of the Present Situation with Regard to Aids to the Textile and Clothing Industry SEC (77/317-1977)

(3) Synthetic Fibres Industry Commission Communication OJC (173/1989)

The general tendency of these directives is to allow subsidies as long as they are intended to support structural changes in the textile and clothing industry. Support may and should be given for conversion and modernization projects. However, investment aid should not be provided for fields in which there is already overcapacity. The Commission is especially restrictive towards investment in the synthetic fibre sector.

The Commission's attitude has however led to a situation in which only Portugal and France still have a separate subsidy system for their textile and clothing sector. The Portuguese system applied to the wool industry and was wound up at the end of 1991. The French system was in force until the end of 1990, but its extension has been proposed. The Commission has reportedly not yet decided on the extension.

At present, there are plans within the European Community for the establishment of a special structural fund to support the textile and clothing industry.

Support would be channelled to precisely those investments and programmes which aim at promoting adaptation in the textile and clothing industry. Subsidies have not been given to the textile and clothing industry so far, but they have been given to areas in which the industry is prevalent.

Several EC members have given notice that they are planning subsidies for textile and clothing companies which have got into difficulties. Subsidizing the textile and clothing industry, however, requires the prior consent of the Commission, according to the subsidy regulations.

Because of this, the Commission is currently investigating problem areas, the effect of subsidies given so far, and the possible need for subsidies. The conclusions are largely dependent on how the state of the market and trade policy negotiations develop over the next few months. But it is already clear that subsidies will be increasingly targeted on investments which have the potential to improve productivity and above all are aimed at streamlining the logistic chain from the fibre to the distribution stage.

2.6 Standards

At the moment, there are no special pan-European standards in force for textile and clothing industry products. Instead, there are 68 standard work items applying to manufacturers of clothing industry products and 86 for textile industry products.

Clothing standard work items mostly apply to protective clothing, gloves, safety jackets and safety clothing. The standards are intended to specify burning behavior, heat conductivity, the visibility of the garment, permeability to various fluids and hot metal splash-proofing. Most of the standards concern classification, specifications and testing.

Standards being planned for the textile industry concern ropes, clothing textiles, the burning behavior of textiles, physical characteristics (permeability, thickness, grammage, fit), chemical characteristics (colourfastness, etc.) and there will be separate standards for non-woven products.

It is very probable that the bulk of protective clothing will be manufactured either in the EC or subcontracted to neighbouring preference countries for reasons of product liability and other legal liabilities. Although some protective clothing is already made in developing countries, it may be presumed that the development of these standards will negatively affect the import of such products from developing countries.

On the other hand, as regards everyday clothing, the creation of standards will not directly restrict imports from developing countries. Nevertheless, there could be some changes in the import pattern of raw material used. It is likely that textile products will be affected by standards on wear, colourfastness etc., together with various quality systems, in such a way that the clothing industry in Europe will have to use raw materials which fulfil the standards and which fit in with local and international trends in fashion.

It is also possible that quality systems, which are already widespread in the field of technical textiles, will increasingly gain ground in the manufacture of clothing too. This would be a consequence of the tightening of consumer protection laws, product liability laws, and other relevant legislation both in the EC and in EFTA.

2.7 Environment

Various environmental legislation-linked projects will come to influence the textile and clothing industry in Europe. In the first place, increasingly strict environmental protection legislation will affect the price of energy and in general factors of production which apply to the whole of industry, including transportation, heating etc.

At present there are no environmental projects in the EC countries directly targeted on the textile and clothing industry. Generally the industrial requirements set for the textile and clothing industry concern dye works and certain finishing processes which use chemicals. The general legislations is directed towards the promotion of closed systems which allow for recycling and which are intended to keep polluting activities to an absolute minimum.

This will certainly also change the demand structure of outputs and inputs. The dyes for textiles and garments, their composition etc. will have to be such that they can be recycled. The extent to which this will affect imports will depend on how the recycling is implemented. If the manufacturer is obligated to collect the products he has made for recycling, this will naturally constitute a barrier to imports. For example, products imported into Europe from the Far East might be required to contain a certain component of recycled raw material from Europe. In other words, there is some likelihood that environmental arguments might be used as a justification for creating new non-tariff trade barriers.

2.8 Vertical integration

At several points in this report there have been made references concerning the vertical integration of the entire production and distribution chain. This vertical integration does not mean that the whole production process will be integrated in a certain country or a certain region within a country. The process of vertical integration refers much more to the development of logistics, and contains within itself a whole group of various technological and regional questions which have been addressed earlier in this report. The organizational integration of the whole production process, i.e. fibre production, fabric production, garment production and distribution, is a single strategy aimed at improving competitiveness. It is basically a market-driven process which has already advanced to a considerable extent. The main impuls for this has been the decline in profitability in the distribution network, a result of increased competition and changes in consumer habits. It is no longer possible to make e.g. just two collections a year sold in two seasons; many (smaller) collections are needed, and there can be a number of deliveries, since the wholesale and retail trade have become more concerned with keeping their stocks under control.

Controlling the whole of this chain requires, however, investments in various technologies which is already taking place in the EC. There is a need for the introduction of robotics for labour-intensive operations, automated quality control, materials and logistics control, and communication technology which is able to bind various industries together. This will make cooperation arising from the production and distribution chain much more permanent than is the case at present. Gaining access to the EC market will thereby certainly become more difficult for new exporters, including those from developing countries, as this process gains momentum. Unless exporters from developing countries actively participate in those distribution networks or join forces to build up their own high-tech distribution chains, their opprtunities for using the EC market as an outlet for their products will remain limited.

As the profitability of the distribution stage weakens, one consequence is that retailers will seek to minimize the lead time between their purchasing and selling of goods. This may become so short that areas outside Europe will be unable to deliver goods quickly enough because of the distances involved.

This in turn will mean for the clothing manufacturer that the raw materials for garments will not be kept in stock; only the right amount of raw materials will be delivered to cover the manufacture of deliveries going to the retail trade. This process will continue all the way through to the fibre manufacturers.

Time is thus the key word, which leads on to logistics. The competitiveness of products from developing countries is thus not only dependent on price and quality but also on their ability to compete in terms of time.

Cooperation between production and distribution will also mean the relocation of production locally. The production of certain products in the EC has so far been concentrated in certain areas. These regional differences might change and are likely to even out as the integration of production proceeds.

But vertical integration in the sense of improved logistics will also mean changes in subcontracting. Subcontracts will be the subject of regional concentration. Since production costs will continue to favour switching subcontracts to low-cost countries, the EC's neighbouring areas will play a significant part in the subcontracting chain. OPT (outwork processing trade) will expand considerably in the next few years.

3. TRADE POLICY

The most important question of trade policy from the point of view of imports from developing countries is that of progress in the GATT talks. This will determine how far quotas and duties will be removed, how dumping is defined and which retaliatory actions are allowed in cases of dumping, and to what extent such retaliatory actions are considered a potential trade barrier to be removed.

The integration of the textile and clothing business into the GATT treaty and the abolition of the MFA treaty with its quotas and restrictions would have a two-fold effect.

Firstly, the abolition of MFA-type restriction treaties will have an effect on the intra-EC distribution of developing countries' imports as the overall quotas are abolished. More important for developing countries will however be the changes within the export pattern of the group of developing countries. So far, the quotas have restricted imports from various developing countries (mostly from the Far East) while safeguarding market shares for others (poorer Asian countries and African countries). Thus, a successful outcome of the GATT negotiations, although favoring developing countries in general, could nevertheless have some detrimental effects for poorer developing countries.

At the same time as the trade in textiles and clothing may become liberalized worldwide, the subsidization and dumping argument will be more often used to fend off imports.

The **rules of origin** cannot be expected to be be changed radically in the near future. Instead, some changes favouring domestic production in the EC have already been made and some are still under preparation. In many cases the existing EC rules of origin legislation have impeded subcontracting to developing countries taking place from EFTA countries and a relaxation could have helped to increase the developing countries' overall share in EC imports. On the other hand, strict rules of origin legislation contributed to the shift of the textile and clothing industry away from already large exporting countries and helped to spread the textile and clothing industry more evenly accross developing countries.

The position of GSP (Generalized System of Preferences) imports from developing countries will change with the start-up of the Single Market, with country-specific quotas being eliminated.

Nevertheless, some developing countries with low financial resources may find it hard to utilize these preferences effectively. In addition, it is possible that the EC will also restrict the granting of GSP status to certain countries.

Nevertheless, for a number of developing countries, there is still significant scope to increase their exports to the EC. The EC grants certain products imported as "industrial raw materials" exemption from duty when there is no significant production of them in the EC itself. This is significant for trade with developing countries in certain products. However, many of these products are still at a very low level of processing and can thus be considered as rather raw materials than industrial goods.

A vital role in international cooperation will be played by OPT (Outward Processing Traffic) with all its permutations. The importance of OPT is growing, for one reason because the EC intends to extend its free trade area to embrace the countries of Eastern Europe. Arrangements are also being planned in this field with EFTA.

3.1 GATT

At the time of writing this report, it is not yet known whether the GATT Uruguay round of talks will come to a positive end with results in tariff cuts. The EC announced that in principle it was prepared to lower its external tariffs for textile and clothing products provisionally in line with the general one-third reduction approved during that round. At present, the EC tariff for textile and clothing products varies from 0 to 14 per cent. After a round of tariff cuts, the highest rate would thus be 9.3 per cent. But, no final offer to reduce rates has yet been made.

As the success of the GATT round and the linkage of the textile and clothing sector to GATT is still open at present, only the general framework of the proposals put forward will be discussed.

3.2 MFA

During the Uruguay round, the inclusion has been proposed of the textile and clothing sector into the General Treaty after a ten-year transitional period beginning on 1 January 1993 (divided into three phases of 3, 4 and 3 years respectively). The textile and clothing trade would thus be integrated into the GATT as of 1 January 2003. On 1 January 1993, 12 per cent of the total imported volume (in 1990) should be free of quantitative restrictions. The products to be integrated will be chosen in four groups: yarns, fabrics, made-up textile products and clothing. Product selection will be by importers. On 1 January 1996, 17 per cent of 1990 imports will be integrated, and 18 per cent on 1 January 2000.

An additional 4 per cent will be integrated on 1 January 1993, which means, without being explicitly stated, a progression of 16 per cent, 17 per cent and 18 per cent over the transitional period.

The quota growth rates will be adjusted as follows: 16 per cent in phase 1, 25 per cent in phase 2 and 27 per cent in phase 3, the reference being the MFA restrictions in 1992 bilateral agreements.

MFA and the Single European Market

The launch of the EC single market will affect all quotas on textile and clothing industry products, with all EC regional internal quotas being abolished. At present, imports are restricted in EC countries by 76 quotas on textile and clothing products. A total of 26 countries have restrictions imposed on them.

All MFA-type treaties have been renewed to expire at the beginning of 1992, with the exception of Brazil which has a treaty that expires on 31 March 1992. The treaties with Hungary, Czechoslovakia and Poland have been extended unchanged for 1992.

Most quotas affect cotton fabric, T-shirts, trousers and men's shirts, for which imports from 20 different countries are restricted. In general, there are more treaties for the restriction of made-up clothing and fewer (and more selectively) for raw materials.

The restriction treaties are different for the different EC countries. The quantitative quotas in the treaties are of different sizes for different countries and are not related to the population, production etc. In addition to this, the EC countries apply the import restrictions to different countries, and the number of restrictive treaties varies quite a lot from one country to another.

When the Single European Market comes into force, the country-specific quotas, with their quantities and country distributions, will be abolished. In practice this will mean that quotas will be in force on the external border of the EC area, applying to the entire Community. The initial level of the quotas is likely to be the combined amount of all the Community countries' quotas for each product. This will result in a redirection of imports from MFA countries. E.g. imports of completed garments are likely to increase strongly in Germany, where quotas on completed garments so far have been considerably more restructive than those in force in the United Kingdom.

At the time the MFA treaty was made in 1973, imports of textiles into EC countries varied a great deal. Some countries were already relativelyopen, while others had their domestic markets almost exclusively protected against imports. Thus, import penetration varied between 10 per cent and 50 per cent from country to country.

The Single Market with a common quota scheme should therefore lead to a larger harmonization of the import penetration in different EC countries. Those countries which have had a low degree of import penetration will thus be obliged to accept a higher rate of growth in quotas in the future.

So far, the EC has adopted a rather selective stance in negotiations on MFA treaties. Treaties were made selectively for various countries and products, and often do not apply to all EC countries in the same way. In addition, some of the currently still valid treaties were made by means of the unilateral limits referred to in article 3 of the MFA treaty.

The EC also has various other arrangements in force, including inter-industry arrangements with Turkey and correspondence agreements with Haiti, Guatemala, Mexico and Colombia.

The rate of growth in quotas will depend on which category of developing country the source of the imports belongs to. The least developed countries will be allowed the greatest rates (up to 7 per cent) while many NIEs (newly industrialized economies) such as Hongkong, Korea, Macau and Taiwan will have growth rates varying from 0 - 1 per cent, with "intermediate" developing countries receiving 4 - 6 per cent. One of the determining factors in the expansion rate will be the country's openness to the EC's own products.

The advance use, carrying forward and transfer rates also vary from one developing country to another in such a way that the most developed countries have the smallest possibilities of carryover and advance use, while the least developed countries are commonly granted 5 per cent carryover, 10 per cent advance use and 12 per cent transfer.

Furthermore, major trade partners of the EC among the developing economies. such as Hong Kong, Macau and the Republic of Korea, must consult with the EC before using the flexibility clause. In more recent MFA treaties, the EC began to use a new inter-member flexibility clause. The transfer of quotas from one member country to another is possible if notification is given in advance and the transfer takes place after 1 June. In addition, at least 80 per cent of the quota from which the transfer takes place must have been used; the quantity must not exceed the quota. This flexibility was introduced when the transition to a Single European Market became obvious.

In fact, the launching of the Single European Market (and also the free movement of imports within the EC area) will facilitate developing countries to obtain a market share in all EC countries, even before the abolition of MFA treaties and the elimination of quotas. In this respect, the launching of the Single European Market may improve the position of developing countries.

3.3 Intellectual property protection

Along with the GATT treaty, agreement on private property protection as well as protection of designs will be reached separately. Whatever happens in the GATT talks, the EC will demand an increasingly tough line to prevent forgeries reaching the European market. Demands for this are already gathering strength as the EC's clothing industry is becoming increasingly centred on high-quality products which are a lucrative target for forging activities.

Both in EC countries and throughout the European Free-Trade Area, special attention will be paid in future to the prevention of imports which infringe copyrights. If dishonest importation is restricted in the EC by trade policy arrangements, this will naturally affect a much larger sector of imports than merely the dishonest part. The EC, emphasis will thus be on the encouragement of policies that combat the production of forgeries, rather than taking retaliatory measures.

3.4 Rules of origin

Although specifying the rules of origin has been one of the subjects discussed in relation with the GATT, the effect of rules of origin on the EC markets will change very little. For a long time, the trend has been to ease up on rules of origin only when this promoted structural change in the EC textile and clothing industry and fitted in with EC industrial policy in terms of production.

In practice, the rules of origin cover EFTA countries as well as the EC, since the access of developing countries' goods to the free trade market will not only be dependent on the rules of origin in force in the EC but also on the rules of origin in force in the free trade treaty area embracing the whole of Western Europe (EC-EFTA).

The EC-EFTA free trade treaty specifies rules of origin on the basis of which products will receive exemption from duty within the free trade area. The rules of origin in respect of textile and clothing products do not follow the changes of heading percentage rule which is typical of other fields of industry, complying instead with the so-called two manufacturing stage rule.

This means that the manufacture of, for example, a woven garment should be within the free trade area right from the yarn stage in order to have exemption from duty. If, for example, fabric is imported into an EFTA country where it is made up into a garment, it will not be exempt when exported to the EC or to other EFTA. The same rule applies to yarns, fabrics and parts of garments. Thus the EC rule of origin legislation acts in this respect as a major impediment to closer cooperation between developing countries and EFTA countries.

The same manufacturing rules also apply to trade with developing countries where the production of the product has to take place in the developing country in question right from the start. A special arrangement in the Lomé Treaty however allows for goods originating in different African, Caribbean and Pacific (ACP) countries to be considered as one developing country. In this case, however, the rules of origin rules have assisted the ACP countries to build up a more integrated textile and clothing industry, since manufacturers from more advanced developing countries had to move complete production to ACP countries, and not only some labour intensive parts, if they wanted to be present on the European Market above the existing quota ceiling.

During the EEA negotiations, a change was proposed in the rules of origin for the free trade area in such a way that a certain degree of outside manufacturing would be permitted, either by switching over from rules of origin to alternative percentage rules or to the so-called exception of territorial principle. The latter means that a production phase could be performed outside the free trade area without the product losing its exemption from duty. In the final stage, the proposed percentage in the EEA negotiations was 30 per cent, but this was overruled. It is thus highly probable that there will not be any percentage rule at all. In practice, therefore, the importation of yarn and fabrics from developing countries would not be significantly facilitated this way.

For some time, free trade agreements have included a special rule on printed fabrics, permitting the use of raw fabric originating outside the free trade area if its value has not exceeded 47.5 per cent of the printed fabric's price. This has made it possible to use unbleached or bleached raw fabric imported from developing countries if the product is to be printed on. A considerable amount of bed linen, for example, has been made in this way.

It has also been proposed that this printing fabric rule could be expanded to cover dyeing, so that raw fabric piece goods imported from developing countries after dyeing would be exempt within the free trade area. This alteration has both supporters and opponents at the moment. The reform is thus likely to make only slow progress.

3.5 Tariff suspension

The EC countries use a so-called tariff suspension system, according to which industrial raw materials are granted exemption from duty or reduced tariffs if no similar goods are produced in the EC. The EC suspension system in this respect follows the line generally used by industrial countries. Tariff suspensions are normally in force for one year.

Products under tariff suspension include certain silk products, flax and synthetic filaments, artificial filament yarns and filament fabrics.

However, the entire tariff suspension system has had so far very limited importance for developing countries since the basic requirement for granting such an exemption from duty is that there does not exist any manufacturing of this product within the EC. Thus, e.g. no garments are included in the suspension system.

3.6 GSP imports

Like all industrial countries, the EC has its own GSP (General System of Preferences) for developing countries. The intention of the GSP is to permit easier access of imported goods from developing countries, and is usually implemented in such a way that goods imported from these countries are either totally exempt or subject to a reduced tariff. The GSP does not support only the imports of finished goods from developing countries, but also, as noted above, the duty free importation of so-called raw fabrics for printing.

The GSP system is part of the EC's rates of duty and its overall trade policy, and the member countries cannot apply their own preferences. The launch of the Europear Single Market will affect imports from GSP countries mainly in the form of the elimination of country-specific quotas.

The textile and clothing products of most least developed countries are entirely exempt from duty in the EC. The EC's GSP system for textile and clothing products is divided into three parts. Also, within these, the EC has divided the beneficiary countries into three groups according to their level of development. The EC grants exemption from duty on a country-by-country basis, within the limits of the preset quota system.

Practically all textile and clothing products are included in restrictions in one way or another. When these quotas are filled, the EC countries can apply to the Commission for further authorizations for imports. But there are joint duty quotas applying to the entire EC and all beneficiary countries.

There are 136 beneficiary countries in all and the products subject to quota are divided into 156 separate categories of goods. There are 358 tariff quotas in force in the Community, with the magnitude and number varying from country to country.

The EC's joint quotas are divided into the following shares: Benelux 9.5 per cent, United Kingdom 21 per cent, Spain 7.5 per cent, Ireland 0.8 per cent, Italy 13.5 per cent, Greece 1.5 per cent, Portugal 1.5 per cent, France 16.5 per cent, Germany 25.5 per cent and Denmark 2.7 per cent.

The EC renews its GSP quotas annually, twice yearly for some products. In spite of internal differences of opinion, the Community has reached unanimity on changing coverage for beneficiary countries. The Republic of Kore lost GSP benefits in connexion with disputes over copyright, but these have now been restored.

The EC applies to GSP trade its own rules of origin, which are very strict (693/1988).

After the Single European Market is launched in 1993, the division of GSP imports on a country basis within the EC will presumably be terminated, and all goods from developing countries which cross the Community's duty frontier will go into free circulation.

On the other hand, the developing countries' quota system will become considerably more important if it is decided to include textile and clothing industry products within the framework of GATT. In such a case, GSP quotas may be a compensatory factor by which imports from developing countries will continue to be restricted. For example, countries and products could be delisted from the developing country register if they are considered to jeopardize the Community's production of textiles and garments.

East European countries have already higher duty-exempt quotas than developing countries. In addition, the EC has already made free trade treaties with Hungary, Poland and Czechoslovakia in late 1991 (December 16, 1991) which have still to be ratified by EC member parliaments and the parliaments of Hungary, Poland and Czechoslovakia. So, interim agreements were concluded in late February 1992 which are intended to faciliate the access of East European countries' manufacturers to the EC market as of March 1, 1992, i.e. even before the free trade treaties and the phasing out of quotas and duties officially comes into force. These special regulations concern mainly the field of duty free importation of goods temporarily exported to Hungary, Poland and Czechoslovakia for processing. (See OPT arrangements below). Similar treaties are also under way with Baltic countries, and other East European countries could follow as well. Thus, the GSP system will certainly lose its importance in respect to most East European countries.

3.7 OPT-arrangement

The term Outward Processing Traffic refers to semi-finished goods witch are temporarily exported outside the EC to be processed in the third country and then reimported into the EC in the form of finished products. Until the adoption of EEC arrangement, regulations differed sharply from country to country. Some of them, like Denmark or the United Kingdom, did not even recognize OPT. In countries such as Germany and Holland OPT operations were mainly carried out by dealers while in other counties, like France and Belgium, it was mostly the industrialists who reduced production costs by subcontracting some of their production to low-cost countries.

OPT arrangements at the community level were first implemented in September 1982 (636/82). In this arrangement OPT operations were reserved only for industrialists, although it contained a derogation for dealers who were already carrying out such transactions.

OPT arrangements establish cooperation between industry and subcontracting third counties. The cooperation is based on a contract concluded between the EC company and the subcontractor in third country. An OPT license is granted only upon the presentation of such a contract. OPT operations under regulation 636/82 mentioned above are called "real OPT".

OPT arrangements can be divided into two different kinds of OPT activities, "real OPTs" and "economic OPTs" depending on the country where the OPT is carried out.

OPT operations in preferential countries (mostly Tunisia, Morocco and Cyprus) are called "economic OPT", as these operations are done without any customs duties if products fulfill the rules of origin.

Imports following real-OPT operations are limited by quotas which differ from state to state both in coverage and in volume. As a whole EC countries have OPT quotas with 23 countries in 18 different product categories. In addition there are some special arrangements with Egypt, Morocco, Tunisia and Turkey in the field of OPT.

In real-OPT activities, the operations carried out in third countries are usually limited to cover sewing and other similar activities, starting from knitted or other fabrics. Therefore, production from cut pieces are not allowed from yarn.

Goods reimported after real-OPT are charged with a so called difference duty.

At present EC trade relations with countries of Eastern Europe are mainly based on OPT reimports into the EC. OPT will be at a zero-duty as soon as the association and trade agreements with Hungary, Poland and Czechoslovakia are implemented. A special agreement with Yugoslavia already exists, and once the political problems are settled, the aggreement is likely to be reactivated with the new independent republics of Yugoslavia. Romania, Bulgaria and the independent republics of the former USSR are next in line.

Still, the Mediterranean area, especially Tunisia and Morocco, play a very important role in connection with OPT activities, although OPT imports from Eastern Europe, especially from Poland, have increased significantly in volume and prospects are good for Baltic countries as well to emerge as another new source for European OPT operations.

As mentioned earlier, OPT operation are mostly made by the northern member states of the EC while Southern member states have shown skepticism on such arrangements. For example in Germany at the moment 22 per cent of industries' turnover comes from OPT, 62 per cent from own production and the rest from direct supplies. In a period of 5 years the share of Germany's own production is estimated to reduce by half of the turnover or even more.

OPT and subcontracting in all its forms will increase significantly as in return distribution margins fall and cause a rethinking of strategies of how to organize the production chain from fibre production to final clothing output. OPT and subcontracting activities, both within the EC as well as in cooperation with low-cost countries, will certainly increase and replace direct imports from low-cost countries. This trend will certainly benefit both the EC industry and the clothing producers in the neighbouring low-cost countries of Eastern Europe and the Mediterranean region.

Thus, developing countries will have to improve their logistics as well as the efficiency of their industries in order to offer resources in this production chain, especially as reliable subcontractors. The ability of "quick response" will thereby significantly gain in importance and will become one of the decisive factors concerning international competitiveness.

4. OTHER FACTORS

4.1 EEA

The setting up of the European Single Market is not likely to have a dramatic impact on the evolution of intra EEC trade of products of Community origin. The main consequence will be that the removal of the customs control and certain administrative constraints should reduce the direct and indirect costs of this type of deliveries.

On the other hand, with the disappearance of national quotas, the Single European Market will lead to a greater utilization rate of quantitative limits for the EC as a whole, thus leading, *ceteris paribus*, to more imports from developing countries.

The expected start of the European Single Market is 1 January 1992. The agreement on the European Economic Area (EEA) should come into force at the same time, if the EEA treaty can be ratified in time by all member countries' parliaments and the European parliament. The EEA agreement is a framework treaty which covers a number of issues in the field of economic and social cooperation. The EEA will integrate the present EFTA countries (Finland, Sweden, Norway, Austria, Switzerland, Liechtenstein and Iceland) with EC countries to create a European free trade area.

The most important issues left outside the EEA treaty are, apart from a common agricultural policy, the question of a common European trade policy, and thus the question of common customs union. This, in practice, will leave Western Europe still divided.

But it is only a matter of time until total integration takes place. Austria, Sweden, Finland (and even Switzerland) have already shown interest in full EC membership, that could begin to be realized in 1995.

Free trade and competition inside the EEA forces EC and EFTA countries to adjust in order to compete in European markets. Vertical integration is of course widened and will to some extent include EFTA countries also. But there are limitations. Finland, with its large textile and clothing industry, and Sweden also, have directed their subcontracting operations to Baltic countries and the Russian Federation. EFTA countries in central Europea, such as Austria, have directed their activities mainly to Poland, Czechoslovakia and Hungary. However, the export possibilities of EFTA textile and clothing products, which have undergone such OPT treatment in Eastern Europe, are still in practice restricted as the general duty exemption rules do not apply to them. Duty exemption is confined to direct exports from EFTA countries to the EC or direct exports from East European countries to the EC, thus impeding an even closer cooperation between EFTA countries and Eastern Europe. The same applies also to cooperation between EFTA countries and Mediterranean countries.

Nevertheless, as EFTA countries move towards full EC membership they are forced to follow EC rules in respect of MFA, GSP, rules of origin etc. Generally this means a stricter import policy concerning developing countries, as e.g. the number and coverage of MFA quotas tends to differ in EFTA countries from those in the EC countries. For example in Sweden there are no quota restrictions in force at the moment. However, after full EC membership, volume restrictions would concern also Sweden, Finland, Austria and Switzerland.

4.2 New tariff preferences

Several countries are granted zero duty access to the Community Market and in the near future preferential free trade is expected to increase. Complete free trade with Hungary, Poland and Czechoslovakia should be achieved within the next 6 to 7 years. Even before, re-imports into the EC after OPT have been granted zero-duty, as of 1 March 1992.

These free trade agreements were supposed to be implemented simultaneously with Efta counties implementing their own free trade agreements with these countries. It is inevitable that custom duties will be removed also in EFTA countries from textiles and clothing products after a transitional period. Finland has had free trade agreements with those countries since the 1970's.

It has already been proposed that after implementation of these free trade agreements EC and EFTA could grant duty free access of OPT goods to each other. This would be the so called diagonal cumulation between Efta and EC of OPT goods. It would be extemely important that these arrangements would be made simultaneously with the implementation of all free trade agreements under way.

However, as described earlier, all these attempts of closer cooperation and integration on the pan-European level will of course have implications for developing countries' exports and could lead to a certain crowding out of imports from developing countries by imports from Eastern Europe. Nevertheless, this crowding out is likely to affect only the growth rates of developing countries' exports, and not its absolute level, i.e. although developing countries' exports towards the EC are likely to continue growing, the share of imports originating in developing countries may decline in the short run.