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The Consequences of EC92, GATT and Developments
in Eastern Europe for exports from developing
countries.

Product Report: Clothing

SOMO

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INTRODUCTION

Trading conditions in the European market will change rapidly over the next few years as a consequence of several important developments. First of all there is the process of the realization of the internal market of the European Community. Then there is the final outcome of the GATT-Uruguay round of trade negotiations, which will have effects on EC trade regimes. Finally, a major issue in Europe is the rapid development of closer economic co-operation between the EC and the countries of Eastern Europe.

All of these developments will have serious consequences for suppliers from outside Europe and especially for suppliers from developing countries.

In some cases, competition will be heavier, and they will have to meet new demands if they are to be successful on the European market. In other respects Europe will offer them new opportunities and more transparency in marketing conditions.

The aim of this report is to draw up an inventory of the effects of these developments for suppliers of clothing from developing countries to the European market.

In Chapter 1 the general market situation for this productgroup is briefly sketched. In Chapter 2 we go further into the consequences of the process of economic unification in the EC. In Chapter 3, (likely) outcomes of the GATT-Uruguay round are described, and in Chapter 4 we try to make an estimate of the possible effects of developments in Eastern Europe and closer co-operation between the EC and these countries.

Finally, in Chapter 5, we give general conclusions and recommendations for suppliers from developing countries.

Appendix I provides detailed information on consumption figures per country. Appendix II gives more details of each country's import figures. Appendix III gives information on those countries exporting to the EC.

CHAPTER I

THE EUROPEAN CLOTHING MARKET

I.1 Consumption

(see also: appendix I)

The European Community (EC) has 320 million inhabitants spending more than \$300 billion a year on clothing. This is 8% of total household consumption. The EC is the biggest textiles and clothing market in the world.

In 1988 the most important markets in the EC were: the Federal Republic of Germany (28% of total EC consumption), the UK (21%), France (20%) and Italy (14%). In terms of per capita consumption of clothing, West Germany is again on top (ECU 500 per person per year), followed by Belgium, Luxembourg, the Netherlands, France, the UK and Denmark, respectively.

The fastest growth in consumption of clothing during the 1990s is expected in the lower-income EC countries (Greece, Spain, Portugal and Ireland), followed by the UK and Germany. In all, the real growth in demand for clothing until the year 2000 is estimated at 1,9% a year. The reasons for this growth are:

- 1) extended economic revival
- 2) improved income levels
- 3) relative expansion of the group of (consuming) elderly people
- 4) more working women
- 5) expansion of the number of one- and two-person households. This will mean more disposable income per household and thus more possibilities for buying more luxury goods such as (fashion) clothing.

A factor which will limit the growth of clothing consumption is slow overall population growth.

I.2. Market Sectors

It is possible to divide the clothing market into separate sectors. Well-known divisions are:

- women's, men's and children's clothes;
- woven or knitted clothing;
- outerwear or underwear;
- summer or winter clothing;
- expensive or cheap clothing.

This report will concentrate on men's and women's outerwear: that is, skirts, dresses, blouses, trousers, shirts, jackets, pullovers, T-shirts and nightwear in the higher-priced sectors of the market.

In this paragraph we will make some further remarks on the developments in some of the market sectors on which this report focusses.

Outerwear for women

According to a study by A. van Tulder (Market & Industry Analyst S.A.) there has been a shift during the last few years in 7 European countries from **skirts** and **dresses** to **trousers**. Total European demand for these three articles was 480 million units in 1988, of which 164 million were trousers (a 34% share). In France this share was 44%, in West Germany 41% (excluding jeans). In the Netherlands the sales of trousers were at the same level as the sales of skirts, but the sales of dresses were only 40% those of skirts. The average spending on dresses and skirts and trousers per woman over 15 years of age in the Netherlands is 4 units a year.

Outerwear for men

Shirts is the most important single item in total sales of men's outerwear in the EC. Sales of shirts also showed the fastest growth in most European markets over the last few years. Sales of jackets and trousers stabilised, with the exception of the jeans sector which continued to grow.

Knitwear

A last category of important products for CBI/EFTA producers concerns knitwear (pullovers, jumpers, etc. and T-shirts).

Pullovers are in this sector the most important single item. Sales of pullovers have been increasing in recent years.

I.3. Imports

(see also: Appendices II and III)

World trade in clothing and textiles rose from \$25 billion in 1973 to \$180 billion in 1989. The share of the developing countries in the world clothing trade rose from 42% in 1973 to 56% in 1989.

The annual growth of the world clothing trade was 9% during the period 1973-1986.

World trade in clothing increased in this period faster than that in yarns and fabrics, despite the MFA and other restrictions. Total world trade in clothing increased from 2,5 million tons in 1984 to 3,1 million tons in 1986. The negative net balance for developed countries increased from 2,1 million tons in 1984 to 2,9 million tons in 1987.

In the '60s and '70s a great part of the labour-intensive clothing-industry moved to developing countries. However, the EC is still the greatest exporter of clothing in the world. Most of these exports go to the USA.

The special features of world trade in clothing are:

- 1) an enormous variety of products
- 2) rapid changes in fashion and collections
- 3) a great number of (small) producers and exporters in every exporting country.

Clothing imports into the EC have risen by 25% a year since 1985 to ECU 32 billion in 1989. The internal EC trade in these products amounted to about ECU 15 billion in 1989. The rise in the more expensive market sectors was especially remarkable.

Clothing imports in some European countries from outside the EC
(1989; ECU billion)

Country	Imports
West Germany	7.5
UK	2.7
France	2.4
Netherlands	1.3
Italy	0.9
Belgium	0.5
Rest EC	1.7

In terms of volume about 60% of the clothing imported into the EC is woven and about 40% is knitted. In terms of value this is respectively 65% and 35%.

The trend towards an increase of imports of woven garments into the EC is confirmed year after year. In 1988 imports of woven and knitted garments from outside the EC increased in quantity by 9% in 1987. In the first three months of 1989 imports in this sector rose by 17% compared to the 1988 level for the same period.

Import products from developing countries are to a large extent made to the specifications of importers (subcontracting). The biggest exporter to the EC is Hong Kong, with a share of about 13,9% of total EC imports in 1989. It is followed by Turkey, China, Yugoslavia (subcontracting), South Korea, India, Morocco, and Tunisia respectively. The share of Hong Kong and South Korea is decreasing; that of Turkey, China and Yugoslavia has increased since 1980.

Subcontracting in the Far East by European importers is diminishing because:

- of wage rises in the Newly Industrialised Countries
- the required minimum production volumes are too high, while the demand is for small runs of fashion-conscious clothing
- delivery times are too long
- the possibilities for post-ordering are too limited
- sometimes there are extra quota costs
- capital is bound up for a long time
- cheap immigrant labour is becoming available in the EC countries
- cheap female labour is available in Western countries.

Imports by market sector and importing country

Women's Outerwear

Blouses are the most important single import item in this sector.

In France the import of blouses, trousers, skirts and dresses together represented 62% of the total volume of imports of women's clothes in 1989. Outward processing is concentrated on trousers, blouses and skirts. Blouses are by far the most important item in the imports of women's clothes. 75% of these blouses are woven. In 1989 imports of woven blouses soared, with the volume rising by 24%. Imports of knitted blouses rose in 1989 by 21%.

In the Netherlands too blouses are the most important single imported item of women's clothing, a trade valued at Hfl.350 million. It is followed by skirts and trousers respectively. The same is true for the UK. The value of imported blouses amounted there to £9479 million in 1988. Next in the list were dresses, skirts and trousers.

Men's Outerwear

Trousers and shirts are the most important single import items in this sector.

In West Germany the imports of trousers amounted to 80 million units in 1988, valued at DM.1,6 billion.

In France, trousers and jeans head the list of goods imported (in volume terms), with 55 million units in 1989, followed by shirts (51 million units).

In the Netherlands the most important item of men's and boys' imported clothing is shirts (Hfl.353 million), directly followed by trousers (Hfl. 351 million). The import of jackets and blazers amounted to Hfl.110 million in 1989.

In the UK too the most important import item for men's clothing is shirts (£24556 million in 1988), followed by trousers and shorts (£10960 million) and jackets (£1373 million).

Pullovers

The most important single import item in this knitwear sector is pullovers. For example in Belgium and France imports of pullovers account for 33% of total imports in the knitwear sector.

I.4 Demand factors

General

The **income-elasticity** of clothing is about equal to one. So when consumer incomes rise by 1% the demand for clothing also rises by 1%. However, this elasticity is higher for rising than for declining incomes.

The proportion of **elderly people** is increasing in Western Europe. In contrast to earlier times this group of people now like to live in some style. They have a lot of money at their disposal (pension schemes), they feel young and they have a lot of leisure time. They are creative, more individualistic and fashion-conscious. So they want more attractive and better clothes.

We can illustrate this general tendency with the example of the Netherlands. In the Netherlands the total number of consumers will increase slightly during the 1990s, to 15 million in 2000. But the structure of age classes will have changed enormously. The number of people over 54 years old will increase from the current 3,3 million to 4,6 million by 2010 and 5,8 million by 2030. Their share in the total population will have increased from 20,7% in 1980 to 36,3% in 2030.

Another important demographic trend is the increase of **one- and two-person households**. The people in such households do not have so many domestic or family obligations, so they have much more leisure time. Moreover, they have rather high incomes. Both factors have stimulated clothing consumption.

In general, there is much movement in **consumer preferences** at the moment. Cultural changes are succeeding each other rapidly. For example, one can call to mind the changes in the volume and use of free time, and of quickly changing shopping behaviour. All this makes predictions of consumer behaviour rather tricky. A new trend is also that people buy different clothes for different activities and occasions.

Price

Price is still an important sales factor, especially in the lower-priced sectors of the clothing market. In the higher sectors factors such as quality and fashion are more important than price. In the lower sectors of the clothing market retailers have little room to manipulate prices because competition is fierce and margins are low. Price differences are therefore very small. Bargain sales are growing in importance, also in the lowest sectors of the clothing market. There is a specific group of consumers which especially look out for bargain sales.

Bargain sales generally threaten margins, but are considered inevitable because of the growing dynamism of the clothing market. Rapidly changing fashions soon make clothing assortments 'old-fashioned'. Bargain sales are then the only means to retrieve part of the purchase price even if they are sold below the usual retail price.

Assortment

The consumer of today is no longer a 'mass consumer' and he/she wants to present a range of fashion images. He/she wants to be able to buy something new at any time of year and therefore demands a fluctuating assortment. A clothing retailer is therefore forced to present several collections per year. In general the wishes of the consumer have become more important for retailers. Some department stores/clothing chain stores present 4-8 collections a year.

Quality

For the higher-priced sectors of the clothing-market quality is an essential requirement. There are several aspects to this. Quality must be reliable and long-lasting, or the client will not return. Quality is also closely connected with service. It demands a close relationship between retailer and manufacturer. Quality products often have their own brand and design. Quality also demands that clothing fits well and is comfortable.

Those parts of the European clothing trade that do not pay enough attention to quality and design are very sensitive to imports from developing countries. This is strengthened by the buying policies of the large distribution companies, which often prefer clothing from low-wage (developing) countries, especially in the lower price classes.

Brands

In higher-price sectors and selected parts of the clothing market, brands and trademarks are an important sales factor. They promise a special design, quality and exclusivity. They make an appeal to the consumer's sense of his/her own style. Manufacturers who want to work with their own brand have to meet several requirements. They need to understand the technology of design, the grading of fabrics, and distribution. They must be able to produce consistently high quality clothing, and they need access to timely information on fashion developments. There is a great deal of brand- and design-imitation, especially for mass products like T-shirts. For this reason it is a negotiation subject in the Uruguay Round (see Chapter 3).

Fabrics

The use of new fabrics is mostly determined by designers or by technological development. The commercial production of synthetic fabrics in the '50s changed the kind of clothing produced, and the same could be said about the introduction of nylon in the '40s.

At the moment there is a tendency to favour loose and fine fabrics. Clothes should be soft, well-cut and comfortable.

Since the mid-'70s a new element has influenced the choice of fabrics. At that time public consciousness of environmental problems started to grow. In textiles this has given rise to an increasing demand for natural fabrics such as pure cotton and pure wool.

At the moment the assortment in wool is seen as more innovative than that in (printed) cotton, the latter being seen as too conventional. In general, the fabric must fit the fashion picture. Chemical fabrics have some properties which favour them above other fabrics. These are easy care, durability and cheapness. However, during the '70s aesthetic factors became more important. Nevertheless the share of chemical fabrics in clothing remained stable at 55-60%.

Fashion

Elements of this complicated factor are colour, design, exclusivity and style. Today's consumer in Western Europe wants to be seen as an individual with his/her own life-style. Especially in the fashion sector (in higher price ranges) clothing products have an individualising function. The demands of the consumer have accordingly become more specific.

Clothing has become an expression of personality (character, ideas, life-style). Combination fashion (e.g. skirt and blouse) has become an important means of expressing this personal style. There are other recent tendencies: for example, there is a trend for choosing clothing according to the circumstances (work, party, etc.). Men have become more fashion-conscious (more demand for suits and jackets). There has also been a trend towards good physical condition and a healthy life-style, meaning a greater demand for 'active outfits' (e.g. sport-clothing as casual wear).

Although it is difficult at the moment to speak of fixed fashion seasons, the fashion images for a specific year are nevertheless determined at least a year before. The decisive ideas on colour and design are well-known long before production begins. It is determined in the world of haute couture in Paris, etc.

In the world of fashion there are some important concepts. One of them is fashion mentality. It means the speed of acceptance of new fashion trends by consumers. With this concept one can divide clothing products into: the avant garde, the innovative, the actual, the well-known and the out-dated.

Another important concept regarding fashion-consciousness is 'cultural conception'. It is the attitude of a consumer to the prevalent patterns of culture. A consumer can choose to conform to the dominant culture or he/she can choose the opposite (opposition to traditional culture). Using this concept one can distinguish between the following kinds of clothing products: extreme, different, funny, neat, and chic. In the women's clothing market, for example, there has been a shift from culture-affirming to culture-attacking buying behaviour. This means a higher demand for extreme, exclusive or funny clothing. In general the judgement about what is beautiful or ugly is currently not so much determined by macro-economic factors like age, income, profession and/or region, but much more by factors such as fashion-consciousness and culture.

All the different life-styles and sub-cultures have led to an increase in the fragmentation of the clothing market. It has also become rather difficult to predict the buying behaviour of the clothing consumer. As has already been said, one aspect of this is that many buyers do not buy according to seasons.

For the clothing producer/trader all these trends have several consequences. It means a short life-cycle of the clothing product. It requires regular deliveries, sometimes at short notice. It involves a trend to smaller series. And it requires the input of modern fabrics.

I.5 Prices and Margins

The cost price of imported clothing contains the following elements:

- costs and margins in the exporting country
- import duties
- the CIF margin
- trade margins for importer, wholesaler and retailer
- Value Added Tax (VAT).

CIF (Cost, Insurance & Freight) is the price paid for the goods as they arrive in the EC, for example in Rotterdam. This price is the basic FOB (Free On Board) price paid in the country of export plus transport overseas, insurance costs, banking costs, handling, transfer and storage charges.

As a rule of thumb the CIF-price for clothing can be multiplied by three to reach the consumer price.

EC import tariffs for clothing are mostly 10%-14% of the CIF-price.

The importer's **margin** is on average about 10%, the wholesaler's about 30% and the retailer's about 62%. The standard **VAT** tariff varies between EC countries, from 15% to 20%.

It is extremely difficult to compare price levels in the EC. There are so many clothing types and sectors that it would take an extensive study to produce a comparison of any validity. In Appendix IV an indication is given of average prices on the Dutch market for the most important clothing items in 1988.

An important factor in international trade in clothing is the **exchange rate** and especially dollar fluctuations. Since FOB-prices of clothing are only 30-35% of the final consumer price, fluctuations in the exchange rate of the dollar can have serious consequences for the profitability of clothing importers.

I.6 Retail Outlets

Sales by type of retail outlet (%)

<u>Outlet</u>	<u>Ger</u>	<u>Fr</u>	<u>UK</u>	<u>It</u>	<u>Neth</u>	<u>Belg</u>
Independents	45	56	55	47	35	52
Chain stores	22	10	19	19	35	18
Department stores	12	6	10	14	10	15
Others	21	28	16	20	20	15

Textile Supermarkets

These are at the lower end of the market. They do not care about fashion or quality. Price is their most important sales factor.

Department Stores

These have a broad range of products in their shops (not only clothing). Most of them have their own centrally organised buying department. Together with the clothing chain stores they are mass sellers. In the last few years they have employed increasingly boutique-like shop layouts which require more personnel with clothing expertise. Because of increasing emphasis on quality, on consumer flexibility and on fashion, department stores and clothing chain stores are increasingly concentrating on one market-sector or employing separate shopping-formulas per market-sector. They are also trying to establish their own brand lines for special target groups.

Clothing Chain Stores

These are usually centrally managed. They stock the whole assortment of clothing with respect to price, quality and fashion. They often operate with their own brands and labels. This means they themselves design and prepare their own product specifications for their suppliers. They also offer service and market information to their suppliers, so that these can adapt their products to the specifications required.

Specialised, small retailers

These aim especially at the middle- and upper sectors of the market. They work with high margins and therefore their products must be fashionable and exclusive. The small retailer has to display a distinct image. Their shops are upgraded accordingly. They prefer selling from stock (no pre-ordering). 36% of these specialised, small retailers are already members of central buying or selling combinations. However, the need for more product differentiation and better service will force more of them to work within these combinations. They sell quality products on the basis of exclusivity at moderate prices, with attractive packaging and good presentation of the articles.

Clothing Hypermarkets

These are large-scale shopping-centres sited just outside towns. They offer low-priced clothing with a reasonable quality. They use a fixed assortment for the whole family.

Buying Combinations (franchising)

These work with different sales formulas. They use different assortments according to the consumer group they want to serve. In this way they also want to distinguish themselves from their competitors. Buying combinations use an assortment that consists of brand articles and private labels. This means fewer stocks and slower turnover-times. In the individual shop, which is a member of the combination, there should be a core-assortment, but otherwise the retailer can sell his/her own assortment. Besides clothing these retailers often sell accessories, household textiles and lingerie/foundation. Under a private label they can together develop exclusive products.

Some statistics per country

In **Germany** about 27% of the independent retailers are members of a buying consortium. In this sector there are 44200 firms with 55200 selling points.

In **France** independent retailers for men's and boys' garments have about 26000 selling points, those for women's and children's wear about 41000. The number of firms in France operating with a franchise/chain formula increased from 14,7% in 1985 to 19,4% in 1989. This development was at the expense of the small, independent retailer.

In the **United Kingdom**, clothing retailing is dominated by the major chains and department stores, particularly in the multiple and mail order sectors, and to a greater extent than in other countries. These groups are all mass market oriented.

The second level in the UK retail triangle are the medium-sized chain store groups which tend to be more specialised and sell to targeted sections of the market. Small, independent retailers make up the third level in the UK market for fashionable apparel. Most of these small retailers tend to focus on clothing for the upper-middle to top end of the market.

The larger retail groups in the UK buy only a proportion of their requirements direct from suppliers in developing countries. The norm is to work in close co-operation with reputable importing companies whose responsibility it becomes to source the buyers' requirements from the most appropriate and competitively-priced suppliers. A recent development has been the emergence of local buying offices in developing countries. C&A, for example, now have buying offices in the Far East and Asia.

In the UK the clothing market is not generally associated with the superstore sector. As a general rule consumers like to shop around for clothing and the independent fashion retailers provide the ideal environment to do this.

In recent years the buying policy of department stores in the UK has changed. They have been buying increasingly in low wage countries.

About 60% of the turnover of the British clothing and knitwear industry goes to a small number of large chains.

In **Italy** independent specialised retailers account for almost half of total sales, and specialised multiples have almost 20% of the market. The number of specialised clothing retailers, both independents and multiples, is falling. However, their combined market share is around two-thirds and it will take a long time for this position to alter radically.

The market share taken by the non-specialised outlets, notably hypermarkets, will probably increase. However, their strength lies in sales of simpler, standardised and cheaper products such as shirts, T-shirts, underwear and certain types of children's clothing.

Open markets and other types of non-fixed retail establishments have a significant share in the Italian clothing market, with about 8% of total sales.

It is expected that the number of boutiques offering specialised, high-priced products will increase. There are believed to be about 1000 of them, though they are difficult to classify as there is no precise definition for a boutique.

In **Belgium** the two main channels of distribution for clothing are independent retailers and multiples/department stores, which together accounted for an estimated 85% of total sales of clothing; Bfr.186 million at retail prices. Other channels, which include mail order companies, accounted for the remaining 15%.

The independent retailers' share of the market fell to an estimated 52% in 1988, as Belgian and non-Belgian multiples increased their market share. There were about 7000 independent retailers in 1988, many of these specialist shops aiming to compete in customer service and quality.

Multiples/department stores have increased their market share. In particular, Dutch-owned multiples have a large and expanding share of the Belgian retail clothing sector. Many of these chain stores import low-cost clothing from South East Asia.

In Belgium there are many small, independent retailers with a relatively small number of selling points. Franchise organizations and retail consortia have profited from this, having their own relations with producers abroad.

The multiple chains are selling in the middle price range of the market, but they also sell cheap clothing from the Far East. Department stores have expanded their clothing departments and now offer clothing of higher quality than formerly.

Relations between retailers and producers

It will be clear that the above-described tendencies in the demand for clothing will have great influence on the structure and the production and distribution methods of the clothing trade. Rapidly-changing demand in the higher-priced sectors of the market is an especially important factor.

Because of the greater dynamism of the clothing market, in terms of more quickly-changing consumer preferences and more seasons per year, there is a general tendency in the clothing industry to demand shorter delivery times and smaller volumes of series and orders. The distribution-lines are shorter. That means time-saving in the logistics process, fewer problems with rush-orders, better determination/fixing of order-volumes, greater possibilities for post-ordering, and less danger of over-ordering, over-supply and excessive stocks.

Because cloth-buying is being spread over the whole year and because of increasing product differentiation there has been a shift in power from the producer to the retailer. The retailers are the most in touch with the ever-changing consumer market.

The clothing producers cannot easily redress this. However, they can try to penetrate the retail business, especially when they produce their own brand clothing. They can try to do this through franchising. Then they have control over their output and margins. In the Dutch clothing retail business more than 20 new franchising formulas (in total) were established during the last two years. They can also put a greater emphasis on their own product development. They can then offer exclusivity to the retailers, which gives them a competitive advantage.

For the moment however the retailers are the dominant force in the clothing business. For instance, they have been shifting their stock-risks to the producer. They control their own stocks daily, by using barcode systems, amongst others. For them this also means a tendency toward the integration of production, buying, distribution and sales. They want a reduction in the time spent in the clothing-column, from production to sale. The retailers have in fact reduced the number of distribution networks available to the producers. The remaining networks have become specialised logistic service suppliers.

In the near future it can be expected that retailers will further strengthen their bargaining position vis-à-vis the producers and other (distribution) parts of the clothing industry.

A lot of production firms have reacted to this situation by differentiating their production methods and locations. This enables them to produce small rush-orders in their own factory using modern technologies, while specialist products and products with a reasonable profit margin are subcontracted in the region, and bulk-product series are subcontracted in low-wage countries.

There has been a remarkable rise in the number of illegal clothing ateliers ('sweatshops') in the EC in recent years. They produce **blouses, dresses, jackets, trousers and coats** at competitive prices. However, the bulk of the production of **blouses** and **dresses** is still taking place in low-wage countries. Only for small rush orders is the production taking place in the EC. Since 1985 the price for these sorts of orders has been falling, so many subcontractors in Western Europe felt forced into illegal operations (they do not pay taxes or social insurance premiums).

According to the Bangemann Report the 'commercial' clothing firm will survive in Western Europe. It will get its products from low-wage countries, mostly through subcontracting. In Western Europe some small clothing sectors will remain to guarantee speed and flexibility. In sub-sectors having the opportunity to automate or to produce with a relatively high added value, there is room for modern production capacity. So the Western European clothing sector will further specialise in market sectors with a high added value.

The choice of a retailer for a specific supplier or supply country depends on the following considerations:

- 1) technological capacity to produce the article
- 2) distribution costs
- 3) reliability regarding just-in-time deliveries
- 4) service by the producer
- 5) quick response.

Subcontracting

As will be clear for a clothing firm (whether trading or producing) the eventual choice for subcontracting is a strategic decision. There are several choices. A firm can choose to subcontract near the home market (in case of high-quality, fashionable products) or in low-wage countries (for bulk products). The first decision leads to logistic advantages, the second to cost advantages. In the event that a firm chooses to produce in its own factory, the availability of modern production technologies (and the finance for it) and an effective labour organization play the main role.

In the clothing industry subcontracting has been employed for many years to compensate for fluctuations in demand. Another method is to separate knowledge of the market (fashion-forecasting, etc.) and the creative design process from the more risky production itself.

As we have seen, fluctuations in demand are only partly dictated by seasons. The whole production apparatus must therefore be geared for both peaks and slumps. In general, the production peaks are subcontracted. There is also the possibility that firms belonging to a clothing concern specialise in certain articles.

In general, the advantages of subcontracting are: flexibility, product diversification without the need to expand capital or to take greater risks, offering of a broader collection of clothes (when co-operation exists with several subcontractors), and operation in several, often more profitable price sectors of the market. A possible disadvantage is that the contractor has less influence on the production (quality, delivery times, etc, and this is why producers often keep a small part of the production for their own factories, especially for the urgent orders and when confidentiality of market knowledge is important.

There is also a tendency to regular changes in subcontractors. Though machines are sometimes bought for them, a retailer never takes a share in the capital of a subcontractor.

Subcontracting in the region instead of in low-wage countries also gives some special advantages. Lower minimum production volumes are needed, delivery times can be much shorter, quality control is facilitated, there is the possibility of lending technical assistance, and there are better possibilities for post-ordering. These advantages are even more important when the demand of consumers changes rapidly.

A clothing production firm also has several choices. It can choose to produce its own collection with its own brand-name, it can choose to be simply a subcontractor to a department store, it can choose to produce only partly for such a store or it can produce - on a contract basis - for a fashion house.

Firms with their own collections and brand names have the most opportunities for deciding their own strategies. They can produce their core products within their own factory, they can subcontract small and rush-orders in the region and they can subcontract bulk and labour-intensive orders in low-wage countries. For these producers there is also the possibility for downward integration (they can produce their own fabrics). However, close co-operation with the retailing part of the column remains important, because of the need to stay in close contact with the rapidly-changing clothing market.

The trade in and the production of clothing are likely to become further separated. The reasons for this are:

- 1) designing and trading in garments is much more profitable than producing them
- 2) large concerns do not want to be restricted by their own (expensive) production
- 3) the contradictions inherent in a market with an increasing product differentiation and a production where economies of scale are still important.

The strategy of the big concerns will be to maintain some of their own production, to be sure of quality and right delivery times. The greatest risks will be shifted to the various forms of subcontracting.

The subcontracting of, in particular, high fashion articles requires a quick response or a technologically well-specialised production capacity. Subcontracting also favours firms which diversify. This trend will be strengthened in the event of lower transactions costs, more efficient organization of the transport sector and the abolishment of border controls (in short: 'EC 1992').

In most Western European countries subcontracting is on the increase. The main purpose is to maintain a reasonable (gross) margin in a market where the final selling price is under pressure. West Germany and the Netherlands started subcontracting in Eastern Europe toward the end of the '60s. In the '80s interest in subcontracting increased in France and Belgium. Suppliers to the big retail chains and department stores especially, and producers of women's outerwear in the middle market have long used subcontracting. In UK and Italy there is less interest in it. They have a massive low-wage sector in the form of producers using (illegal) sweatshops in their own countries. The same situation can sometimes be seen in the Netherlands.

Production establishments in Tunisia and Morocco are especially relevant for firms trading a relatively large number of standardised products. These areas offer an expanded, specialised machine park.

Logistics

The clothing-chain passes from yarn to weaving to textile finishing to clothing production and finally to distribution and selling. This whole cycle lasts 66 weeks (waiting for orders, waiting for production schemes, and waiting times between different manufacturing stages included).

The consequences of such a long cycle are:

- 1) too many products and capital are bound up in stocks;
- 2) the possibility of price-decreases in the meantime;
- 3) missing sales because the right products are not immediately available.

The cycle in fact consists of only 11 weeks of production, the other 55 weeks being taken up in storing, waiting and transport. By shortening this cycle it should be possible to follow trends more quickly. Amongst other means, it can be shortened by a faster exchange of information. As we have seen, clothing retailers are confronted with an increasing variety of clothing habits and with very rapidly changing fashion trends. They therefore demand shorter delivery times from the clothing producers. They, in their turn, are therefore forced to produce closer to the market. This is especially essential in fashion products. This kind of production cannot be subcontracted to producers in developing countries one year before. It also requires the input of new technologies.

In general, retailers in the clothing industry try to shift the risks of market fluctuations onto the producers by ordering small series and by demanding deliveries spread over time. The number of rush-orders is also increasing. For the producers this means more flexibility and well-organised logistics. For the retailers it means closer relations with suppliers, minimising stocks and shorter shelf-times in the shop.

The logistical aim is to have the right goods at the right time at the right place and in the right volumes. And all that with a minimum of costs. This is especially important for fashion articles. Reliability in deliveries is also important. And there may certainly be no delays, although these of course occur often enough in practice.

Because of the tendency to order smaller series, the order frequency is increasing and retailers are tending to use more than one supplier. The retailers also tend to have a greater influence on production and transport. For instance, they mostly have their own designers.

Automation is one of the answers production firms have to the question of the logistic process. It is found especially in activities with relatively high know-how content (such as designing, cutting, etc.). In simpler activities there is not so much automation. Most of these activities concern sewing and moving materials and products. This moving of materials takes up 80% of the whole time needed for the production process. Technological innovation in this kind of activity is difficult, because of the pliancy and liability to creasing of the fabrics, because of the many moves during the production process and because of the difficulty of automating the movements in the production process itself. Machines are needed for taking up, moving and preparing the fabrics. There are possibilities for automating these activities in the future.

In all, the introduction of new technologies in the clothing industry has been a slow process and has not taken place in a large number of firms. Moreover, new technologies and working methods have to be accompanied by new marketing-concepts (e.g. quick delivery, with low transport-costs).

Retailers are increasingly demanding the use of barcoding. This is an electronic recognition system that enables the item sold to be noted by a computer as having been depleted in stock - and even automatically re-ordered - as it passes the cash till. It also makes it possible to establish the turnover per day or per week of different stock lines - in seconds. Moreover, the clothing no longer needs to be stored by article, size and colour, which means that less storage capacity is needed.

The barcode system is accompanied by electronic order-systems, Just-In-Time (JIT) methods and direct product profitability (that is, direct calculation of all retailing costs, including special costs caused by untimely delivery of articles, costs due to marking down and sales bargains, etc.).

The advantages of barcode technology are:

- 1) fewer losses as a consequence of bargain-sales. In Canada, for instance, these marking-down losses are estimated at \$2,5 billion a year or 15% of turnover.
- 2) shorter production cycles thanks to timely information on the sale of an article. It also leads to lower stocks in the shops and at the factories.
- 3) more consumer-oriented factories. The direct information on sales has great influence on decisions in the factory. Together with shorter delivery times this is for European clothing firms of competitive importance with regard to imports from low-wage countries.

The requirement of shorter delivery times also applies to fabrics manufacturers, and this is a problem; their delivery times are often too long for European clothing manufacturers. A delivery time for fabrics of 14 days or more is unacceptable in Europe.

Concentration and Co-operation

Retailers are taking an increasing part in the stages before them in the sector (vertical integration). They are also increasingly employing their own designers to give their own collections a unique look. Together with this trend, there is the relatively new phenomenon of franchising (several retailers use one shopping formula). There is also much internationalization in (the distribution of) clothing (not necessarily because of EC 1992). The internationalization is being accompanied by the establishment of national buying-structures.

The textiles and clothing industry in the EC consists of 70000 firms with fewer than 20 employees and 20000 firms with more than 20 employees. Put another way, in the EC clothing industry 76% of the firms have fewer than 100 employees.

45 clothing companies in the EC belong to the group of the 100 largest textile and clothing firms in the world; 125 to the 250 biggest firms. So, despite the takeovers and mergers of recent years, the clothing and textile industry in the EC consists mainly of small and middle-sized firms.

In general, the clothing market is easy to enter for new firms and does not require much starting capital.

A further concentration of capital in retailing can be expected. If we use the US as an example, 39 clothing chains account for 77,4% of the value of clothing sales.

There are many reasons for this ongoing process of concentration in clothing production and retailing. One of the great weaknesses of the clothing industry is its considerable fragmentation. A very great number of production firms for instance have an output of less than \$5 million a year and fewer than 100 employees. Only a few concerns have the commercial capacity to supply important parts of their own home-markets with clothing products, let alone being able to supply a significant part of the European market. Most firms are not capable of reaching optimal scales of production. After 1992 many firms will be in the position of a subcontractor only.

The recent mergers and takeovers in clothing production in France, Italy and Germany especially - and before this in the UK - should therefore be seen as aimed at gaining more market influence (over the retailers, too). Important reasons were complementarity in products, markets and production capacities. Most mergers and takeovers, therefore, took place within one sub-sector (e.g. children's clothes).

I.7. Conclusions and implications for developing countries

Conclusions

West Germany is still the largest market in the EC, but it does not have the highest growth rate. In the '90s the highest growth rates are expected in the southern part of the EC.

In recent years there has been, regarding women's clothing, a shift from dresses and skirts to trousers and jeans. But there has also been a shift to combination clothing (skirt with blouse, etc.). Furthermore there is a relatively high consumption growth in the markets for pullovers, sweatshirts, etc. Differences can exist between countries but also between areas in one country.

Imports from developing countries increased rapidly in the '80s, especially for bulk products like T-shirts. At the moment the NICs' market share of the European clothing market is stabilising. Imports from other developing countries (especially China) and countries like Turkey are growing much faster. This will become even more evident if the NICs lose their existing privileges.

Important general factors determining the demand for clothing are: disposable incomes, an increase in the share of wealthy elderly people in the population, more 1 or 2 person households, and the price of clothing. Generally the demand for clothing increases with the same percentage of income growth. There is then also a shift in demand to higher priced clothing articles.

Important sales factors in higher-priced clothing especially are: assortment (choice), delivery times (quick response to the latest fashion trends), quality (of the garment itself but also of the material of which it is made), brand names (a proof of quality and fashion), fabrics (tendency to natural fibres) and fashion (colour, design, exclusivity, and styling).

The most important retail outlets are: independents, multiple chains and department stores. The first emphasise quality, fashion and service; the second sell nearly everything; department stores used to sell cheap clothes in bulk, but recently are increasingly establishing their own clothing departments.

There is a tendency towards the commercialization of clothing production. Through subcontracting, etc, clothing producers in Western Europe are evolving more and more into traders in clothing. However, retailers are also increasingly taking part in subcontracting and outward processing. At the same time there is a tendency to concentration amongst many retail outlets. Even independent retailers are joining this process, by becoming members of buying and selling combinations or franchise chains. Co-operation between retailers and special clothing (and fabric) producers is also increasing. The typically rapid changes in consumer clothing demand are strengthening this process.

All this has required improvements in the logistics process. Quick response and just-in-time deliveries are currently common in the whole clothing-column. The use of barcodes is generally being introduced. Regular and rapid exchange of information on fashion trends, etc, has become essential.

Implications

-In general a new kind of world division in the production of clothing is starting to appear. High price-quality production is taking place in northern Europe; low price-quality production in southern Europe (Portugal, Greece) and in the developing countries. Eastern European countries produce at a quality level somewhere in between. The quality production in northern Europe operates with comparatively small series per product.

- The position of the NICs in the world clothing market is weakening, especially because of the rising labour costs in these countries. Their position is being taken over by other Asian countries and especially by Turkey, which is expected to become the chief exporter to the EC during the '90s. The share of the southern European countries is also expected to increase.

- The exchange of information between producers and retailers/wholesalers is of the utmost importance. Changes in trends in the factors mentioned above (fashion, etc.) must be communicated to the producer immediately. In the other direction a producer must inform his sales outlets of his technical and other facilities, and especially about his capacity to meet delivery time and quality demands. Rapid response, just-in-time deliveries and rapid exchange of information (including the use of barcodes) are the key words.

CHAPTER II

THE CONSEQUENCES OF THE REALIZATION OF THE EC INTERNAL MARKET

II.1. Current restrictions on clothing imports

The EC is a member of the Multi-Fibre Agreement (MFA; see Chapter 3). In this framework the EC has arranged bilateral 'agreements' with 19 countries to restrict the volume of clothing exports from these countries to the EC. For each of these countries the EC has set quota for annual clothing imports. These quota are divided over EC member states according to an agreed formula. In this way the Benelux-countries get 9,5% of the EC-quota. For a full list of MFA quota by EC member states see Appendix IV.

In practice many quota have not been used, either because the quatum for a specific member state was too high or because the member state had clothing firms able to compete with imports from low-wage countries.

Nevertheless, after 1992 it is expected that quota fulfillment will increase. In principle, no allocation of quota to individual member states will exist after 1992, only Community-wide quota. The clothing trade will increase especially in those markets which are most protected at present, either because they got a very small part of the EC-quota and/or because of their regular use of article 115 (the EC safeguard-article). With regard to the first factor it is well known that France and Italy got too small a share of the EC quota compared to their total share in EC clothing consumption.

Some of the present imports in individual member states come from other EC members who got higher EC quotas, which they re-export - after some finishing - to other member states. If individual quota disappear these indirect imports will probably be replaced by direct imports.

Article 115 enables EC member states to protect themselves against transit trade of products within the EC. It concerns products for which there are quantitative restrictions and it can only be applied in case of a distortion of the national market. But when controls at the national frontiers between EC states are abolished, it will no longer be possible to apply this article. The abolition of article 115 will mean that it will no longer be admissable for a member state to refuse temporarily the transit trade from another member state of products under a quantitative restriction. However, there is a great chance that some kind of quotation will survive.

Moreover France, Italy and Spain fear an increase in imports from developing countries if they are not allowed to use article 115.

The EC also has a special Declaration (Nr. 636/82) regarding subcontracting outside the EC. It concerns textile and clothing products. It is valid for already restricted products (so mostly regulated in the MFA).

Subcontracting outside the EC is also currently subject to quota by country. The largest part of this quota was given to Benelux and West Germany, and in future France and the UK will demand a larger part of it. There also will be a weighing-up of interests between EC members (especially those of Portugal and Greece) on the one side and those of Eastern Europe and North Africa on the other. Eastern Europe, especially, can count on preferential treatment. The preferential regime for the Mediterranean countries will be frozen.

Import tariffs in the EC for clothing vary mostly from 13% to 14% (in accordance with MFA-categories). However, there are several agreements (GSP, Lomé, Nagreb, bilateral agreements) which offer the developing countries (and increasingly, Eastern European countries) opportunities to export clothing duty-free to the EC (for a list of countries with general preferences and one of least developed countries, see appendices V and VI).

- Imports of clothing from ACP countries can enter the EC duty-free.
- For GSP countries, annual quota are fixed which may enter the EC duty-free.
- If imports exceed the duty-free quota, normal import tariffs are charged.
- For GSP countries too the quantitative restrictions of the MFA are valid.

In 1989 the European Commission wanted to diminish the tariffs for specific products from real developing countries by 9%, which would have allowed these countries about ECU 25 billion worth of business tariff-free or with lower tariffs in 1989 alone. 'Sensitive' products such as textiles and garments could eventually also have been part of this general reduction in tariffs (though countries like Brazil and the NICs would have been excluded).

The clothing industry as a whole, and clothing traders especially, have benefitted more than any other sector by the abolition of internal tariffs since 1958.

Technical Standards

The most important technical standards in clothing concern the fireproofness of fabrics. There are fire norms for nightwear, children's wear and grey wear (work clothing).

Otherwise technical standards for clothing are generally unimportant. The import restrictions stemming from different systems of size measurement are much more relevant and will not be harmonised before 1992.

There have therefore been pleas, especially from the retailing side, to develop uniform standards (International Standards Organization or ISO-standards) for clothing sizes (same measure norms and universal use of the metric system).

Rules of Origin

The EC Rules of Origin are the basis for determining whether products receive preferential treatment or not. The origin of a product is determined by the economic nationality of the product, which (amongst others) may depend on the finishing stage, added-value, etc. In general the origin of a product depends on the amount of value which is formed in a specific country. The first target of these rules is to ensure fair use of the preferential systems. For instance, to be acceptable under GSP a product must be produced mostly in the country asking for preferential treatment. Sometimes the concept of 'last radical changes' is employed. An interpretation of this can be that the product gets properties which it did not have before. It can also be determined by comparison of the different processes within the total production process.

Rules of origin are an important trade restriction instrument in the clothing sector. There will be no significant change in the system the EC presently applies for determining rules of origin after 1992.

Brand Imitation

A problem which is especially important in the clothing sector is that of brand-imitation. There are several forms of imitation:

- 1) exact imitations: same form, label and colour-mix, but made from other fabrics. For example, importing non-printed clothing in the EC through Rotterdam, then printing somewhere in the Netherlands and re-exporting all over Europe
- 2) half-imitations: part of an article is original, for instance cheap shirts from the Far East, but real Lacoste labels (a famous brand-name) are sewed onto them
- 3) non-exact imitations (same form, same colour-mix and sometimes the same motif, but another brand-name). For example, sweaters with a motif similar to Lacoste's, but with the brand-name 'Crocodile'; or jogging-suits styled or printed exactly like those of a well-known sports brand but with a different brand-name.

Not all brand-imitation is against the law. In 1986 an EC Regulation on measures for the abatement of the trade in counterfeit products was established. According to this regulation the following imitations are against the law:

'All goods on which illegally a trade or factory name is printed which resembles, or cannot essentially be distinguished from, a brand that is registered validly for those goods in the member state where the goods for free trade were administered, and that in this way violates the rights of the holder of the brand according to the law of the member state.'

This regulation only offers protection against imitation when the brand is registered in all member states of the EC. However, after 1992 there will be a uniform regulation on the registration of trade and factory brands.

The regulation is not effective when the production of imitation articles takes place within the EC. Moreover, it regards imports but not exports. Besides this, protection is limited to one intellectual property right, namely the brand, but not to the model, design or colour-mix. In consequence it is possible to import brandless articles from the Far East into a member state of the EC, where they are provided with imitation brand labels or motifs and then exported to other member states.

In The Netherlands a working group of the Ministry of Justice stated in 1983 that one can only speak of imitation if the brand and the properties (design, colour, aim, function) of the original product and the imitation are identical, and if the brand is registered according to Benelux brand law, and if it concerns an exact imitation - in both model and design - according to the Benelux Design and Model Law.

To sum up: all forms of imitation in which one cannot speak of product identity (famous brand names) or brand identity (brand motif) are not identified as piracy.

'EC 1992' will mean the abolition of all customs controls which will make the abatement of the trade in imitation articles more difficult. On the other hand there will be new regulations for product liability which will reduce the attractiveness of trading in imitation products.

Lastly, since the mid-'70s it has been possible to apply for a European Patent, but there are no decisions yet on a European Trade Brand. Besides, the European Patent is unenforceable.

Harmonization of Taxes

The VAT (Value-Added Tax) on clothing in EC countries lies between 15% and 20%. Only in the UK is it a 5% tariff and zero for children's wear. Harmonizing VAT tariffs will not have much consequences for clothing. Some fiscal measures, however, will lead to lower prices for some production factors (machines). The clothing industry is labour-intensive so this will not lead to great effects. But it may be expected that competition from outside the EC, together with harmonization of regulations, will lead to relatively lower import prices for fabrics.

Furthermore, the abolition of national frontiers within the EC will depend, amongst others, on the harmonization of indirect taxes (VAT and levies). In August 1991 the EC came to a compromise agreement on VAT. The harmonization of this tax will basically involve:

- 1) a minimum standard VAT tariff (e.g. for garments) of 15%;
- 2) a minimum for the low tariff (for basic foodstuffs, culture, refuse collection, public transport, hotel accommodation, house-building) of 5%.

Lastly, the transport of goods will benefit from the considerable time saved by no longer having to perform administrative practices at the frontiers.

II.2. Consequences of EC 1992 for developing countries

More European unity will probably lead to a further movement of textiles and clothing production to (southern) Europe, the reason being that for many clothing sectors price and cost are becoming less important than quality and quick and flexible delivery (to a growing home market). Production nearer to the big European markets is therefore becoming more important. This is being reinforced by rapid changes in fashion and the existence of more than two fashion cycles a year, so that a retailer cannot commit himself to an order long before sale-time. He must be able to respond more flexibly to market changes.

On the other hand, import quota per member state will disappear and it will no longer be so easy to employ article 115 of the EC Treaty. This will mean:

- 1) better fulfillment of EC import quota;
- 2) altered trade flows.

The possible response of European clothing manufacturers may be a further specialization in products and market sectors where competition from low-wage countries is relatively unimportant. These firms can direct themselves more to the fashionable clothing sector, where quick deliveries are important, and to the production of exclusive and high quality clothing. Another part of their strategy will be to save costs through further automation, the use of illegal ateliers, and savings in labour and distribution costs.

In general 'EC 1992' holds no great surprises for the textiles and clothing industry as the sector has been internationally oriented for a long time. However, imports from outside the EC will probably increase, as this applies particularly to the imports of bulk products like T-shirts. The EC clothing industry is likely to largely abandon the production of these items, and this will create trade opportunities from the developing countries. Moreover, 'EC 1992' will rule out national safeguarding clauses.

Probably the most important of the effects of 'EC 1992' for individual firms within the clothing industry will be the reduction of costs for transport and stocks (currently estimated at 0,5% of total cost price). The abolition of frontier controls is estimated to lead to savings of 7% in transport costs in the EC. The savings in administration costs are estimated at 1 - 2% (or 0,2% in total cost price). Savings due to volume advantages in production may reduce costs by another 0,5% - 1,5%.

Through the abolition of frontiers, transport can also be organised optimally. The nascent transformation of European transport firms into fully integrated, logistic businesses, taking care of transport, distribution, storage and reconditioning, will be encouraged.

CHAPTER III

CONSEQUENCES OF THE GATT AND MFA NEGOTIATIONS

The most important effect of the current GATT negotiations on international trade liberalization on the clothing sector will of course be the final outcome on the future of the Multi Fibre Agreement (MFA).

World trade in textiles and clothing is presently regulated by this Multi Fibre Agreement. The existing MFA was recently prolonged until the end of 1992. The textiles and clothing industry in the West has been protected in this way for more than 25 years.

The MFA operates with quota per product and per country. The quotas contain built-in growth rates. In the exporting countries it favours the established, bulk exporters, because they have the contacts and they understand the complicated quota rules very well. Firms already having a quatum often automatically acquired a extension of it, mostly with the help of importers (e.g. a big Western clothing-chain) whom they know well.

In the '80s there was a great expansion of production in non-quota categories and from non-quota countries. In many quota categories the ceilings were exceeded.

The MFA is an influential agreement. Today 44 countries are MFA members, including European countries and the USA. On the basis of the last agreement (dating from 1986) the USA, for instance, concluded much stricter bilateral agreements than before. The EC was less strict. For example, the EC scrapped 25% of the quota (which had been mostly unfulfilled). Further, it gave dispensation to six exporting countries from Latin America and to Bangladesh and relaxed the controls on finishing capacity outside the EC.

Italy, France and Belgium have small quota at the moment, so they will be at some disadvantage when the MFA is abolished. The UK, West Germany and the Netherlands already get little protection from the MFA. At the moment EC member states are allowed to apply some flexibility in the exchange of quota.

Liberalization of world trade will encourage European producers to aim more than ever at upmarket products and niche markets. The argument that the elimination of the quota system will favour the final consumer is only partly valid, for small cost reductions are often not transmitted to the consumer. Besides, decisions to buy garments are increasingly taken on grounds such as styling, reliability of delivery and speed of response (and not on price). Many retailers in Western countries no longer attach importance to 'lowest costs'.

As has already been emphasised, the clothing market is very differentiated. In markets where MFA countries are in a weak position (for example lingerie and men's suits) the abolishment of MFA will not lead to a reduction of export prices. In cases where MFA countries are in a stronger position (e.g. for shirts) only part of the market will be affected by lower export (and therefore consumer) prices.

It can be estimated that the advantage to the consumer of the abolishment of MFA will be only 5% of the consumer price of clothing. This will be even less for EC countries with large existing quotas such as the UK and West Germany which already import large quantities from the Far East.

Finally, many EC clothing manufacturers in the EC have become outward processors and/or importers. These traders do not fear abolishment of the MFA at all; on the contrary, they favour its demise.

In general, the restrictive effects of the fourth and most recent MFA do not seem to go much further than that of the third. However, for the first time it contains paragraphs on counterfeit products. As we have seen, this concerns brands, designs, models and certificates of origin.

According to opponents of the MFA, the system has become so complicated that its management requires an vast bureaucracy. In the EC alone there are already more than 3000 quota. Many products have to be permanently monitored. If the MFA were abolished, the free import of products from developing countries should increase the pressure for efficient production in Western countries.

Despite the existence of the MFA, imports of clothing and textiles from low-wage countries into the West have continued to grow. Amongst other reasons this has been caused by the fact that the bilateral MFA-agreements concerned only the timing and spread of the growth of imports (e.g. allowing a gradual increase in the import of specific articles). The import from developing countries into the EC has therefore continued to rise by 10% - 20% a year. Only since 1988 has there been any stabilization, but this has been brought about mainly by the 're-runaway' (manufacturing industry moving back to Europe as price became less of a competitive issue) trend in clothing firms.

Abolition of the MFA would increase exports from developing countries and would lead to lower prices for consumers in Western countries. It would also mean that the existing restrictions on subcontracting in low-wage countries would disappear, so that - especially in a trading country like the Netherlands - many clothing firms could work competitive cost-prices. The reason for this is that the average cost-price, consisting of a relatively high one for production at home and a relatively low one for the subcontracted production, could be adapted according to need. Should low price be an important sales factor, the Western clothing firm can subcontract in the developing world; if the quality or the style is more important than the price then production closer to home is indicated, and the increased cost-price is not so crucial.

Western entrepreneurs in the clothing and textile industry and their trade organizations have gradually diminished their resistance to the abolition of MFA (especially in Europe). Increasingly they agree with bringing the world trade in textiles and clothing under GATT-rules: but under strict conditions. They have been demanding a relatively long transition period and stricter safeguarding clauses. They feel that other GATT-rules affecting the textile and clothing trade should also be made stricter.

Furthermore they are of the opinion that developing countries with high textile and clothing exports should sign the GATT-Code on Subsidies. As has already been mentioned, they want an extension of GATT-Article XIX (the safeguard-clause). They also want to see it used selectively (against specific products and/or countries), in contradiction to the most-favoured-nation principle of GATT. In case of market disruption they want it to be possible to apply Article XIX quickly. However, they agree that it should be used for only a limited period of time.

The entrepreneurs also wish that all tariffs above 20% should be reduced and that all tariffs should be bound. Non-Tariff Barriers, such as the forbidding of imports, restrictions of volumes, arbitrary granting of import licences and restrictions on the availability of currencies, should be abolished. They want the procedures for settlement of conflicts in GATT to be improved. The GATT-Code on Dumping should be extended to second-generation dumping (e.g. weaves from dumped yarns). In cases of dumping the import prices should be compared with market prices in the EC. Lastly they consider that a Code on Counterfeit Products should be agreed upon, encompassing brands, designs and models.

Firms in the southern member states of the EC (Portugal, Greece, Spain, and to a lesser degree France) are against the abolition of the MFA because their textile and clothing firms are scantily modernised and cannot therefore compete with cheap imports from developing countries. Most trade unions in Europe are also opponents of MFA abolition. They use the argument that cheap imports are the consequence of the exploitation of people (low wages, long working hours, child labour, lax dismissal procedures and a lack of workers' rights).

Nevertheless, in most of the EC countries the fear of competition in textile and clothing imports from developing countries is diminishing, because in European countries simple, low-technology products are hardly produced anymore.

The abolition of the MFA will require, according to the **EC negotiators**, stricter agreements regarding:

- 1) reciprocity in the textiles and clothing trade between the EC and the NICs;
- 2) safeguard clauses in GATT, especially on fraudulent imports, dumping or non-allowed subsidies;
- 3) arrangements on intellectual property and brand protection.

In a transition period of at least ten years the quota for the least developed countries, and those least invoked, should be abolished first.

The EC has also demanded international co-ordination of the liberalization of trade through verification procedures. The distribution of quota between member states would be abolished.

In July 1990 the EC proposed that:

- a) all tariffs on clothing and textiles should be reduced to a maximum of 20% by developed countries and NICs, and to a maximum of 35% by developing countries (excluding the least developed countries);
- b) Non-Tariff Barriers should be removed progressively, while protection for 'balance of payments reasons' only will be allowed if fully justified and regularly reviewed.

Some countries in GATT want to establish a link between workers' rights and trade agreements. It ought not to be allowed, they claim, that firms and national legislation do not care for the health and safety of employees, that they oppress trade unions and that they use child labour. They also want to reduce environmental pollution caused by the manufacturing processes used in the textiles and clothing industry, amongst others through GATT-regulations.

According to the **Final Proposal of the Chairman of the Negotiation Group on Textiles and Garments in the Uruguay Round** the inclusion of the international trade in textiles and garments in GATT should begin in January 1992 (which will now be impossible - Author's note). Proposals from the negotiating group for the transition period range from 6½ years (developing countries) to 15 years (EC; later, 10 years). The idea was that, beginning in 1992, each country would bring a certain percentage of its exports under GATT-rules; for example, a transition period of ten years and 10% a year. An importing country would eventually be allowed to use safeguard procedures. However, it would then have to prove 'serious damage' to its producers because of imports (so the damage could not be caused by technological progress or changes in consumer preferences). Besides, the safeguard measures would be temporary and imports from the poorest developing countries and from small-export countries would be treated more flexibly. The rules on dumping, subsidies and the protection of intellectual property (regarding counterfeit products) would be carried out strictly.

We may expect European manufacturers to take recourse to other import-restricting measures if the MFA is abolished. Starting anti-dumping procedures against exporters and applying for safeguard measures are then the first most logical options.

Anti-dumping cases can take many months of investigation and that is much longer than the life cycle of most clothing products.

Furthermore, a price comparison between clothing products on the domestic market and those on export markets is required by GATT in an anti-dumping case. However, many textile and clothing products are manufactured for export alone.

Lastly, anti-dumping cases cost a great deal of money.

Because of all these facts, the following proposals regarding dumping have been raised:

- 1) the investigation process should be shortened;
- 2) action should be taken against dumping.

The present GATT Article XIX (safeguards) is regarded by the EC as inadequate, particularly as it can only be applied universally (and not selectively). The EC wants, in carefully determined circumstances, selective application without the risk of retaliation.

III.1. Implications for developing countries

The negotiations taking place in the Negotiation Group on Textiles and Clothing in the Uruguay Round point to the abolition of the MFA as a probable result; but not without conditions. The GATT safeguard clause (Art. XIX) must be improved, and there should be better regulations on dumping, counterfeit products, subsidies and government procurement. It remains open to question whether the situation will really improve for the developing countries, especially the many small exporters now more or less protected by the MFA-quota.

Tightening up the GATT safeguarding clauses and anti-dumping procedures could well lead to insecurities amongst producers in the developing world. It remains a question of interpretation (when is there 'damage' to an EC business concern? How do we define 'dumping'? and so on). On the other hand it does not mitigate the fact that the EC plaintiff is equally bound by GATT arbitration and conflict-resolving procedures. This means that a GATT panel decides, for example, whether or not dumping has actually taken place.

A possible disadvantage to producers in developing countries might also be that production or export subsidies could be forbidden. This will of course also apply to producers in the EC countries, so for certain products of the developing countries such a ban could actually be advantageous. The same applies to the arranged purchase by (semi-)governmental agencies, which is often by definition the case in 'national' crops.

As far as the imitation of brands, styles and models is concerned, it may be noted that this is already forbidden to a large extent. Were GATT to enforce similar measures, the plaintiff could - in instances where illegal imitation has been established - put obstructive industrial measures into practice.

CHAPTER IV

CONSEQUENCES OF THE DEVELOPMENTS IN EASTERN EUROPE

In recent years total production of clothing has declined by 30% - 50% in Eastern European countries because of political turmoil and economic uncertainty. For some countries only 50% of the quota to the EC markets is currently being used.

Up till now selling in bulk at relatively low prices has been the norm throughout Eastern Europe, but it is only a matter of time before the textiles and clothing industry of Eastern Europe will suffer from rising costs. Competition with countries like Portugal and Turkey will then get more difficult.

The EC textiles and garments industry often sees the imports from Eastern Europe as disturbing the market. It points out that prices are fixed there, often at below cost-price. It is therefore just to regulate Eastern European imports through MFA, the firms say. They fear that if Eastern European countries receive preference from the EC, other low-cost countries will demand the same. Besides, competition with clothing from Eastern Europe is no longer restricted to price but increasingly concerns quality, innovation in design and service. However, Eastern European countries are generally disadvantaged with respect to most clothing products, as unless made to order for foreign clients the styles of most Eastern European garments tend to be old fashioned.

Despite the attitude of the manufacturers, the European Commission has tended to give preferences to some Eastern European countries (especially Poland, Hungary and Czechoslovakia). In 1990 and 1991 the import-possibilities for Poland and Hungary had already been increased. In the '80s, bilateral agreements with all the countries of Eastern Europe (including the Soviet Union) were concluded.

Within the so-called 'Phare Program', launched at the beginning of 1991, quota ceilings for direct import into the EC (from Poland, Czechoslovakia and Hungary) were raised. Preferential tariffs were admitted, which used to be given only to developing countries. Re-export of clothing manufactured in the three Eastern European countries to another EC member state is possible without conditions (so Article 115 will not be invoked). In future, even re-exporting through EFTA-countries (the Scandinavian countries, Iceland, Austria and Switzerland) will be possible.

The co-operation of EC firms with companies in Eastern Europe can take the form of subcontracting, licensing, joint ventures, or the establishment of an affiliate.

At the moment subcontracting occurs the most often, but West German firms especially are increasingly involved in joint ventures in Eastern European countries; Levi Strauss has several licensing and sales agreements in those countries.

A trading country like the Netherlands typically uses subcontracting. About 60% of the clothing production of Dutch firms is subcontracted, of which 1/3 in Belgium, 1/3 in Eastern Europe (especially in Yugoslavia, but also in Poland and Hungary) and 1/3 in the Mediterranean countries (mainly Morocco, Tunisia and Portugal). It is expected that there will be a slight shift in the next few years from Belgium towards Eastern Europe, Greece and Turkey.

According to a survey by Fenecon (a Dutch employers' organization in the clothing industry) Eastern Europe will be an uncertain factor in the world production of clothing. Until the political upheavals in the '80s, the countries in Eastern Europe took advantage of their relatively low wages. The manufacture of grey cloth (working garments), uniforms and men's suits in particular was subcontracted to Eastern Europe. At that time the lack of flexibility in these countries already restricted trade to relatively large series. In future, however, after restructuring, they may be able to manufacture smaller series of more fashionable products.

In the '90s it is expected that Eastern Europe will increase its supplies to the EC, at the expense of preferential supplies from North African countries. It is also expected that investment in Eastern Europe will increase.

The example of Hungary: about 40% of the production of the Hungarian clothing industry is exported. Low wages and relatively high qualified labour favour conditions for these exports. Hungary is also an important market for subcontracting by Western European firms. The Hungarian government would prefer this to be achieved in joint ventures. Hungarian subcontractors are increasingly leasing the machines from their Western counterparts.

Despite all these developments, official production figures in 1988 were still at 1975 levels, and 10% lower than in 1980. One of the reasons for this was a shift from export production to subcontracting, because this meant that the value of the imported fabrics (the material being re-exported) was not included in the production figures which are consequently lower. The Western clothing world sees the Hungarian clothing industry as producing items of average quality and a moderate fashion level.

V.1. Implications for developing countries

Competition between clothing producers in Eastern Europe and those in developing countries has, until now, been negligible.

One reason for this is that the two regions produce different items (Eastern Europe making more suits than T-shirts or other mass products). Though, as we have seen, both regions often work as subcontractors to EC clothing firms, different types of clothing are ordered from developing countries than from Eastern Europe.

This subcontracting pattern is not likely to change much during the '90s. Products, like fashionwear, for which fast delivery times are important will go on being ordered in Eastern Europe. Products for which a six-month wait is immaterial - less fashionable items - will go on being ordered in developing countries.

The political and economic situation in Eastern Europe is very uncertain at the moment. In 1990 the production of textiles and garments declined in most of these countries, sometimes by more than 30%. Most countries did not use up their quota.

With the coming of the 'free market' a large-scale restructuring of the textiles and garments industry may be expected. That could mean a further shift away from the production of bulk products to higher-quality clothing. This last trend could already be detected in the subcontracting business where clothes were made to Western European buyers' specifications. But for the first half of this decade Eastern European clothing manufacturers are not going to make much more of a market impression. Were Western clothing interests to decide to invest capital into the outdated Eastern European clothing factories and ateliers, their competitiveness, especially in higher market sectors, would certainly improve. But Western investors have up to now been wary of Eastern Europe. They have decided to wait and see.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

V.1. Conclusions

- The position of the NICs in the world clothing market is weakening, especially because of rising labour costs in these countries. Their position is being taken over by Asian countries and especially by Turkey, which is expected to become the chief exporter to the EC in the '90s. The share of the southern European countries will increase. Future imports from Eastern Europe will be, after a process of restructuring in the clothing industry, in a higher price class.
- The demand of clothing at macro level is determined first by income per person. The total amount of income per household, but also the number of persons in a household, is important. The increasing number of relatively wealthy and fashion-conscious older people in the EC will increase the demand for certain items of clothing. The price (and exchange rate as one of the determinants of the import price) is becoming a less important factor in the demand for clothing, particularly in the high quality, high fashion category of clothing products.
- Satisfactory information exchange between producers and retailers/wholesalers is of the utmost importance. Changes in trends in the factors mentioned above (fashion, etc.) must be communicated to the producer immediately. On the other hand a producer must inform his sales outlets of his technical and other facilities, and especially about his capacity to meet delivery times and quality demands. Quick response, just-in-time deliveries and rapid exchange of information (including the use of barcodes) are the key words here.
- For most developing countries exporting clothing to Europe, 'EC 1992' will probably not mean very much. Only the NICs risk getting into a worse position, but that has more to do with their position within GATT.
- The MFA will probably be abolished, in which case a worldwide quota regime will no longer exist. The question is, by what will it be replaced? More strictly applied safeguard clauses or more anti-dumping procedures could be more destabilizing than quota, even though a fixed procedure would have to be followed.
- At the moment production and exports (including subcontracting) of clothing from Eastern Europe are falling. We can certainly expect this trend to continue in 1992. For the rest of the '90s it is uncertain what will happen. Some maintain that Eastern Europe will export - after a restructuring process - higher-quality clothing. They will, in any case, be in a worse position to produce bulk clothes as wage rises are certainly forthcoming.

APPENDIX I

CONSUMPTION BY COUNTRY

West Germany

The domestic consumption of clothing increased from DM.27,7 billion in 1985 to DM.31,3 billion in 1988, an annual growth of 2,3%. From 1976-1986 the growth of consumer spending on clothing was 1,1% a year. For the period 1986-1992 it was expected to be 2,1% a year and for 1993-2000 also 2,1% a year.

However, in the meantime the reunion between West and East Germany has taken place. In the short term this will not alter much in German clothing consumption, but in the long run there will be an increase in the demand for clothing. Part of the supply could come from the low-cost production facilities in East Germany, but these are expected to disappear in the future.

United Kingdom

Consumer spending on clothing increased in constant prices (1983 = 100) from £9824 million in 1983 to £14275 in 1989 (in current prices from £9824 in 1983 to £17438 in 1989), an increase of 78% since 1983. Most of this expansion was real growth.

Consumer spending on men's clothing amounted to almost £5,3 billion in 1989, that on women's clothing exceeded £8 billion. Consumer spending on outerwear totalled £4,9 billion for men in 1989, that on women's outerwear £6,7 billion.

Clothing consumption growth in the UK was the highest in the EC in 1976-1986, namely 4,6% a year. For the period 1996-2000 it is also expected to be the highest, namely 2,8% a year. However, for 1991 a decrease in clothing demand growth was predicted.

France

Clothing expenditure in France amounted to Ffr.75 billion in 1989 (current prices), of which Ffr.34 billion was spent on women's outerwear and Ffr.21 billion on men's outerwear. In 1980 constant prices the consumption of clothing was Ffr.71 billion in 1989 (or about ERE 30 billion).

After Germany, France is the largest clothing market in the EC, although per capita consumption is much lower than in Germany. The growth rate of the French clothing market is also very low. For the period 1976-1986, a zero growth rate was registered. For 1986-1992 a growth rate of only 1,1% a year was expected, for 1992-2000 only 1% a year.

Italy

The apparent consumption of outerwear in Italy decreased in volume and in value terms in 1988 and 1989. In 1988 the volume of apparent consumption of clothing amounted to 157000 tons, of which 125900 tons was outerwear. The consumption of outerwear has been falling since 1986. In 1989 there was a further small decline in the consumption of outerwear of about 2%. This trend was expected to continue in 1990.

However, for the whole period of 1986-1992 a slight growth is expected. In the period 1976-1986 growth was 0,2% a year, for 1992-2000 a growth rate of 0,8% a year is expected.

Belgium

The apparent consumption of clothing in Belgium increased from about Bfr.59 billion in 1985 to Bfr.71 billion in 1989 (excluding knitwear; in manufacturer's and importer's prices). Consumer spending on clothing increased by 1,4% a year in 1976-1986. For the period 1986-1992 an annual growth rate of 1,3% was expected, and for 1993-2000 a growth rate of 1,6% a year is expected.

Netherlands

Since 1980 the consumption of clothing in the Netherlands has been falling. The share of clothing in total consumption decreased from 11% in 1980 to 7% in 1989.

In 1988 the value of the Dutch clothing market amounted to Hfl.13,2 billion (consumer prices), of which about 86% was spent on outerwear. Women accounted for 50,4% of total spending on clothing, men for 38,8% and children for 10,8%.

In 1989 the value of the consumption of outerwear declined by 0,1% (1988: -2,8%). The demand for women's outerwear declined sharply. However, because of a price deflation of 2%, there was still some volume growth in 1989. The prices for women's outerwear declined by 3%, those of men's outerwear remained stable.

Per capita spending on clothing in the Netherlands amounted to about Hfl.1075 a year in 1990, having increased slightly since 1980.

For the period 1991-1995 a growth in consumer spending of 2,6% a year is expected; for the period 1996-2000 this is also estimated at 2,6% a year.

APPENDIX II

IMPORTS BY COUNTRY

West Germany

West Germany accounted for half of the extra EC imports in 1989. Clothing imports increased from DM.10,5 billion in 1985 to DM.16,9 billion in 1988. This represents about half of total domestic consumption. In 1989 clothing imports increased by 15%. It is expected that imports from low-wage countries will continue to rise.

Imports of women's outerwear increased from DM.4 billion in 1980 to DM.7,4 billion in 1989 (including subcontracting DM.8,6 billion). Imports of men's outerwear amounted to DM.3 billion in 1989.

The most important exporters to West Germany are respectively: Italy, Hong Kong, Turkey, Yugoslavia, France, Belgium, Luxembourg, the Netherlands, Austria and China.

France

Clothing imports into France increased from Ffr.12,5 billion in 1987 to Ffr.18,1 billion in 1989. In 1987 about 40% of these imports came from other EC countries and in 1989 this was about 38%. The rest of the imports came mainly from North Africa (Morocco and Tunisia) and Asia. In 1989 these imports represented about 24% of total clothing consumption.

Subcontracting is on the increase in France. For men's clothes it amounted to 13% of the value of imports in 1989, for women's clothes this was 9%. It is concentrated in Mediterranean countries (4 million units), in the EC (2,5 million units) and it is expanding in Eastern European countries, where about 1 million units were manufactured in 1989.

Total imports of men's and boys' outerwear increased by 17% in 1989 to Ffr.10,2 billion. This surge in imports was mainly due to purchases from developing countries. Imports of women's and girls' outerwear from the EC increased in 1989 by 17%, those from the Mediterranean countries with preferential trade agreements (Maghreb) by 36%.

United Kingdom

Imports of clothing into the UK increased by 7% in volume in 1989. Extra EC imports of woven garments come mainly from (respectively) Hong Kong, the Philippines, South Korea, India, Pakistan, China, Mauritius and Bangladesh. Imports of knitted garments come from Hong Kong, South Korea, Mauritius, Turkey, the Philippines and Taiwan.

Hong Kong accounted for 21% of imports in 1988. Italy is the most important European supplier (9,5%), followed by West Germany (7,8%) and Portugal (5,9%).

Italy

The volume of clothing imports in Italy increased by almost 8% in 1988 to 40,5 million tons in (1986: 26 million tons), of which 29,4 million tons were outerwear. Imports represent about 19% of total consumption. The imports increased in value by 14% in 1989. Increased disposable incomes in Italy have enabled consumers to buy more foreign products. Imports continued to grow in 1989 as Italian consumers sought greater variety in the products available. They are very ready to try out new products.

The main suppliers come from the EC (in 1988 42,9% of the value of clothing imports in Italy) and from Asia (30,7%). China and India are important Asian suppliers.

Imports of men's and boys' outerwear rose from Lira 418 billion in 1986 to L.577 billion in 1988. The imports of women's, girls' and children's outerwear increased from L.339 billion in 1986 to L.509 billion in 1989.

Netherlands

Imports of (woven and knitted) clothing into the Netherlands increased from Hfl.4,2 billion in 1986 to Hfl.4,9 billion in 1989. In 1989 Hfl.3,3 billion was destined for the Dutch market; Hfl.1,6 billion was re-exported. The import of men's outerwear amounted to Hfl.2,2 billion in 1989; that of women's outerwear to Hfl.2,7 billion.

In the Netherlands there has been an increasing import penetration from other EC countries in the upper sectors of the clothing market. Dutch clothing manufacturers therefore aim at the better-off middle-class households. They try to reach selected target groups through the independent retailers. Department stores use Dutch producers in a limited way for seasonal orders and postal orders. With such a buying policy there is little room for a producers' service strategy.

Belgium

Imports of clothing (excluding knitwear) in Belgium increased from Bfr.52 billion in 1985 to Bfr.68 billion in 1989 (at manufacturers' and importers' prices). Imports represent more than 90% of apparent consumption, although part is re-exported. In the '90s imports will continue to grow, especially imports of high quality clothing from countries such as West Germany and Italy. About 80% of imports come from other EC countries (especially the Netherlands). The rest come from (respectively) Mediterranean countries, the Far East and Eastern Europe. Knitwear imports amounted to Bfr.39,8 billion in 1988.

EC imports in Belgium came mainly from the Netherlands, France and West Germany. However, 50% of the imports from the Netherlands probably came from the Far East. In recent years imports into Belgium from Italy and Portugal have been rising; imports from Portugal actually doubled in 1989.

Morocco

The EC imports from Morocco increased with 29,4% in 1989. It is now the sixth extra-EC importing country. About 64% of the EC imports from Morocco goes to France.

Tunisia

The EC imports from Tunisia increased with 23,8% in 1989. It is now the seventh extra-EC importing country.

India

The value of clothing exports from India totalled Rupia 21,5 billion (1 R = Hfl.0,13) in 1988, an increase of 16,1%. Exports to the EC amounted to R.9,4 billion. This makes it the most important export market for the Indian clothing industry. The value of exports to the EC rose, as mentioned, by 16,1% in 1988 (1987: +61%), the rise in volume was 7,8% (1987: +31%). West Germany imported R.3,2 billion worth from India, the UK R.2,3 billion. In 1989 EC imports from India increased by 7,5%. India is eighth in the list of importers into the EC.

Thailand

Clothing exports from Thailand increased in 1989 by 11% to \$2,1 billion (1988: +24%). The EC takes 26% of the Thailand's exports, the USA 18,5% and Japan 8%. Thailand has bilateral quota agreements with 18 countries, amongst which the USA, the EC and the EFTA countries.

EC imports from Thailand increased by 19% in 1989, overtaking Taiwan in the ranking list of importers into the EC. Its imports in the EC totalled ERE 552 million in 1989.

Others

Other important 'EC importers' (amongst the developing countries) are Mauritius, Taiwan and the Philippines. Within the EC Portugal is becoming an important competitor in clothing products from developing countries. In 1989 its exports of clothing and textiles increased by 25%. Most concerned subcontracting agreements with West German, Benelux and other firms. 18,6% of exports went to the UK, 17,5% to West Germany and 15% to France.

APPENDIX IV

DIVISION OF EC QUOTA BY MEMBER STATE

<u>Country</u>	<u>Percents</u>
Germany	25.5
UK	21.0
France	16.5
Italy	13.5
Benelux	9.5
Rest EC	14.0

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- Textile Outlook International
- Business Eastern Europe
- East European Markets
- East-West
- JTN (international textile magazine)
- Men's Wear
- Modis Professional
- Elle UK
- Vogue UK

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List of countries and territories enjoying generalized tariff preferences (1)

A. INDEPENDENT COUNTRIES

048 Yugoslavia	424 Honduras	612 Iraq
060 Poland	428 El Salvador	616 Iran
062 Czechoslovakia	432 Nicaragua	628 Jordan
064 Hungary	436 Costa Rica	632 Saudi Arabia
066 Romania	442 Panama	636 Kuwait
068 Bulgaria	448 Cuba	640 Bahrain
204 Morocco	449 St Christopher and Nevis	644 Qatar
208 Algeria	453 Bahamas	647 United Arab Emirates
212 Tunisia	456 Dominican Republic	649 Oman
216 Libya	459 Antigua and Barbuda	662 Pakistan
220 Egypt	460 Dominica	664 India
248 Senegal	464 Jamaica	669 Sri Lanka
268 Liberia	465 St Lucia	680 Thailand
272 Ivory Coast	467 St Vincent	690 Vietnam
276 Ghana	469 Barbados	696 Kampuchea (Cambodia)
288 Nigeria	472 Trinidad and Tobago	700 Indonesia
302 Cameroon	473 Grenada	701 Malaysia
314 Gabon	480 Colombia	703 Brunei Darussalam
318 Congo	484 Venezuela	706 Singapore
322 Zaire	488 Guyana	708 Philippines
330 Angola	492 Surinam	716 Mongolia
346 Kenya	500 Ecuador	720 China
366 Seychelles and dependencies	504 Peru	728 South Korea
370 Madagascar	508 Brazil	801 Papua New Guinea
373 Mauritius	512 Chile	803 Nauru
378 Zambia	516 Bolivia	806 Solomon Islands
382 Zimbabwe	520 Paraguay	808 Federated States of Micronesia
389 Namibia	524 Uruguay	808 Republic of the Marshall Islands
393 Swaziland	528 Argentina	808 Republic of Palau
412 Mexico	600 Cyprus	815 Fiji
416 Guatemala	604 Lebanon	816 Vanuatu
421 Belize	608 Syria	

List of least-developed developing countries

224 Sudan	350 Uganda
228 Mauritania	352 Tanzania
232 Mali	366 Mozambique
236 Burkina Faso	375 Comoros
240 Niger	386 Malawi
244 Chad	391 Botswana
247 Republic of Capé Verde	395 Lesotho
252 Gambia	452 Haiti
257 Guinea Bissau	653 Yemen
260 Guinea	660 Afghanistan
264 Sierra Leone	666 Bangladesh
280 Togo	667 Maldives
284 Benin	672 Nepal
306 Central African Republic	675 Bhutan
310 Equatorial Guinea	676 Burma (Myanmar)
311 São Tomé and Príncipe	684 Laos
324 Rwanda	807 Tuvalu
328 Burundi	812 Kiribati
334 Ethiopia	817 Tonga
338 Djibouti	819 Western Samoa
342 Somalia	

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