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Competitiveness of the Polish Textile and Clothing Sector within the European Integration Process and the Liberalization Procedures of GATT/WTO Agreement (ATC)

Abstract

The aim of the chapter is to discuss the liberalization process within the ATC (Agreement on Textiles &Clothing) within GATT/WTO and its impact on the competitiveness of the EU and Poland in the global market of T&C. The Agreement of Textiles and Clothing as a transitional instrument, built on the following key elements:

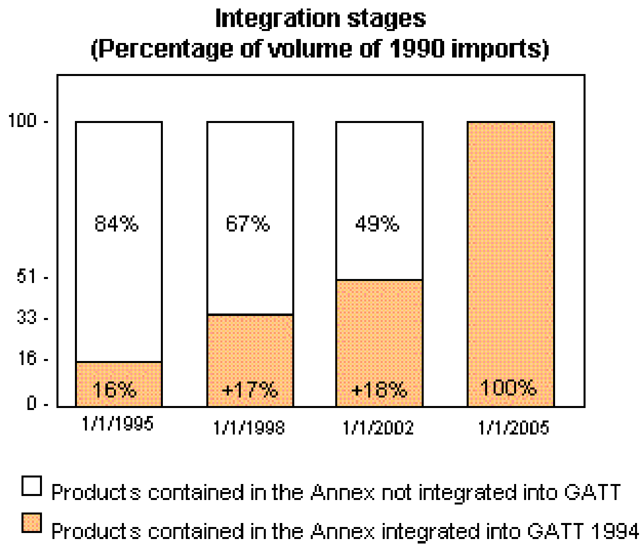
- *the product coverage,*
- *a programme for the progressive integration of these textile and clothing products into GATT 1994 rules,*
- *a liberalization process to progressively enlarge existing quotas (until they are removed) by increasing annual growth rates at each stage.*

The paper focuses also on the analysis of recent trends in T&C in the EU and Poland with special reference to the shaping of comparative advantage indices of Polish exporters in the EU internal market.

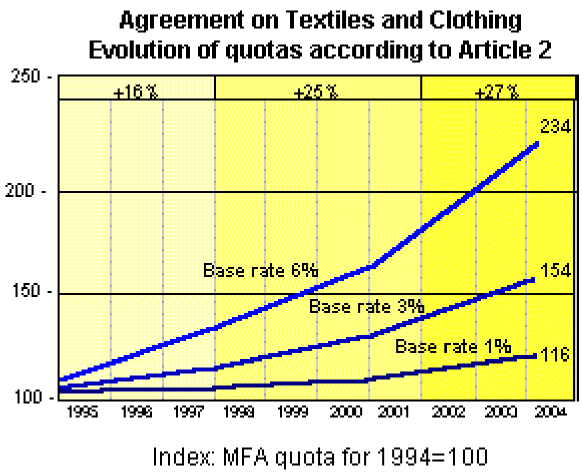
Introduction: Protective measures and limitations on trade admissible under the WTO Agreement

Starting from the year 2005 all products chosen from each of the following categories: tops and yarns, fabrics, made-up textile products, and clothing, would be integrated into the GATT 1994. All Multifibre Arrangement (MFA) restrictions in place on 31 December 1994 had been carried over into the new agreement: the WTO Agreement on Textiles and Clothing (ATC) and maintained until such time as the restrictions are removed or the products integrated into GATT. For products remaining under restraint, at whatever stage, the agreement lays down a formula for increasing the existing growth rates.

The integration process was carried out progressively in four stages, over a ten-year transition period (3 years, 4 years, 3 years). On 1 January 1995 Members were required to integrate products from the list in the Annex to the Agreement which represented not less than 16 per cent of the total volume of their imports of all those products in 1990. At stage 2, on 1 January 1998, not less than a further 17 per cent was integrated; at stage 3, on 1 January 2002 not less than a further 18 per cent was integrated. Finally, at the end, on 1 January 2005, all remaining products (which could amount to 49 per cent as a maximum) will automatically stand integrated and the ATC will terminate.



Source: Agreement on Textiles and Clothing, www.wto.org.



Source: Agreement on Textiles and Clothing, www.wto.org.

All the members of the WTO obliged also themselves to undertake actions necessary to meet the rules and regulations of GATT 1994 so as to:

– improve access to textile and clothing markets by means of such measures as e.g. reduction and tying of tariff rates, reduction or elimination of non-tariff restrictions and simplification of customs, administrative and licensing formalities,
– ensure the application of trade policy measures connected with honest and just conditions of trade in textiles and clothing in such areas as provenance rules and antidumping procedures, subsidies and compensatory funds and protection of intellectual property,
– avoid discrimination of imports in the textile and apparel sector while taking measures dictated by the rules of general trade policy.

The Agreement provides for an appropriate procedure of notifying the integration actions. The MFA participants applying no quantitative restrictions on 31 December 1994 (Poland was among them) and wishing to obtain the right of a temporary protection clause had to notify the Textiles Monitoring Body (TMB) of their actions in the framework of the integration program not later than 60 days after the WTO- instituting Agreement came into life.

Textiles and clothing industry in the EU at the beginning of the new century

After the period of deep restructuring of the EU textile and clothing sector during the nineties, at the beginning of the new century it is observed again the tendency of the decreasing of the employment in both textile and clothing sectors from 2.404 000 in the year 1999 until 2.072 000 employees in the year 2002 (the decrees is observed especially in the clothing sector from 1.194 000 till 980 000 in the above mentioned years, because in the textiles sector in the year 2000 it was noticed the increase of employment from 1210 000 till 1556 000 employees, but in the years 2001 and 2002 we could observed the decrease till 1142 000 and next to 109200 employed people)[1]. During the same time (1999-2002) the total number of firms in the EU textile sector was reduced from 76000 to 70000 and in the clothing sector from 125000 to 107000. EU statistical data concerning the turnover allow to stress the increase of total turnover in the EU clothing sector from 67,2 bn Euro in the year 1999 until 88,1 bn Euro in the year 2002 but in the EU textile sector similar tendency was observed during the years 1999-2000 (increase from 121,1 bn Euro until 128,2 bn Euro) and later we could noticed the decrease until 126,0 bn Euro in 2001 year and in the year 2002 the decrease was much higher and the turnover achieved the level of 115,6 bn Euro).[2] The above mentioned trends in the EU T&C sectors allow to indicate the improvement of the productivity of the manufacturing processes (and especially of labour productivity that during the period of 1979-2001 is evaluated at 2,3 annual growth in the textiles industry[3]) and also the relocation of investment in these sectors to the associate countries and to newly industrialised Asian countries with special reference to China and India. (the reduction of investment in the EU textile sector was relatively high and achieved the level of 2 bn Euro during the 3 years 2000-2002, but in the clothing sector it was noticed the opposite trend and the increase achieved the level of 0,4 bn Euro: from 1,1 in 1999-2000 until 1,5 bn Euro in 2002). In the year 2002, the total turnover of the EU T&C products amounted to 203,7 bn Euro. The EU is the first biggest exporter of textile products and the second exporter of clothing products in the world economy. During the recent years the EU achieved the positive trade balance in textiles sector. In the year 2002 it was the highest and amounted 7,863 bn Euro. In the clothing sector the EU noticed during the recent years the negative trade balance and in the year 2003 it achieved the highest amount of –

[1] Textiles and clothing, statistics, http://europa.eu.int/comm/enterprise/textile/statistics.htm.

[2] As above.

[3] Fostering structural change: an industrial policy for an enlarged Europe, COM (2004) 274 final, Brussels, 20.04.2004, p. 41.

34,719 bn Euro)[4]. At the end of nineties it was also observed in the EU the drop of the cost competitiveness in textiles sector (calculated according to unit labour costs) from 106,2 in 1994-1996 years until 78,9 in 1999-2001 years[5].

According to statistical data presented by the EUROSTAT, China, Turkey, India, Pakistan, Czech Republic, Switzerland, USA, South Korea, Poland and Japan belong to top 10 Community suppliers in textiles, China, Turkey, Romania, Bangladesh, Tunisia, Morocco, India, Hong Kong, Poland and Indonesia are the biggest EU suppliers in clothing. According to the same source of data EU textile sector exports products mainly to 10 following countries: USA, Poland, Romania, Tunisia, Turkey, Morocco, Czech Republic, Switzerland, Hong Kong and Hungary. During the recent years Switzerland, USA, Japan, Russia, Romania, Norway, Czech Republic, Hong Kong, Tunisia and Poland belonged to 10 top EU markets in clothing[6].

The EU T/C sector is predominantly an SME-based industry. Enterprises of less than 50 employees account for 60% of the workforce in the EU clothing sub-sector and produce almost 50% of value added[7].

Recent trends in the EU industrial policy related to T&C sector

The European Union's industrial policy will continue to follow a horizontal approach. Its instruments aim to provide the framework conditions in which entrepreneurs and businesses can take initiatives, exploit their ideas and build on their opportunities. In December 2002, the European Commission published a communication on " Industrial policy in an Enlarged Europe"[8]. This Document recalled how equally important are the three pillars of sustainable strategy. In addition, two dimensions were particularly highlighted. Firstly, that all EU policies need to contribute to competitiveness and it is important to optimize the synergies between EC policies and industrial competitiveness. Secondly, while providing the best horizontal framework conditions for enterprises, horizontal policy has to take into account the specific needs of industrial sectors[9].

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[4] Textiles and clothing, statistics, op.cit.

[5] Fostering structural change: an industrial policy for an enlarged Europe, op. cit, p. 44.

[6] Textiles and clothing, statistics, op.cit.

[7] http://europa.eu.int/comm/enterprise/textile/update_of_financial_guide.

[8] Industrial policy in an Enlarged Europe, http://europa.eu.int/comm/enterprise/enterprise_policy/industry/communication_policy.htm.

[9] As above.

In October 2003 it adopted the Communication "The future of the textiles and clothing sector in the enlarged European Union"[10]. How best to give the EU textiles and clothing industry the chances to compete in the face of new and unprecedented challenges is the subject of this Communication. These challenges are mainly related to developments in its international environment, in particular the elimination of import quotas on 1st January 2005 and the challenges and opportunities of a new round of multilateral negotiations; the evolution of competitiveness factors increasingly associated with innovation, research, skills, quality and creativity; the preparation for EU enlargement both in the present Member States and in the Acceding Countries; and a permanent process of restructuring and modernization.[11]

New requirements concerning the market access are connected with environmental impact of textile production. This impact starts with the use of pesticides during the cultivation of plants from which natural fibres are obtained, the erosion caused by sheep farming of the emissions during the production of synthetic fibres. Especially eco-labels are used to distinguish a product in a positive "greener" way from the competitors. They are relatively important in the textile and clothing sector and their role is very positive in creation of cleaner production.[12]. The above mentioned Commission's Communication " The future of the textiles and clothing sector in the enlarged European Union" of October 2003 also addresses several aspects of labeling for the textiles and clothing sector[13].

In April 2004, on the eve on EU enlargement, the Commission adopted a follow-up Communication: "Fostering structural change: An industrial policy for the enlarged Europe"[14]. This Communication calls for action in three areas: a better regulatory environment for business, better mobilization of all EU policy to boost competitiveness, and further work with individual sectors to develop policy responses which match specific needs, help them to move up the value chain, and anticipate and accompany structural transformations[15].

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[10] The future of the textiles and clothing sector in the enlarged European Union, http://europa.eu.int/comm/enterprise/enterprise/textile/com.2003.htm.

[11] As above.

[12] Environmental Quick Scan Textiles, CBI, Rotterdam, 1998, p. 7-9.

[13] The future of the textiles and clothing sector in the enlarged European Union, op.cit.

[14] Fostering structural change: an industrial policy for an enlarged Europe, op. cit. pp. 1-45.

[15] As above, Executive Summary, p. 2-3.

Competitiveness of the Polish Textiles and Clothing Sector in the EU Internal Single Market

Starting from the year 1998 the Polish exports of T&C achieved the access to the European internal market free from customs duties and quotas. In the year 2004 Poland as a new member country of the EU is also the member of the customs union and has adapted the external tariffs of the EU on its external (eastern) border with the third countries. Many Polish T&C products are still able to compete on the European internal market because of the relatively high comparative advantage (see table 1). There are first of all workwear; made-up textile articles, except apparel; man-made fibres; textile yarn and thread; cordage, rope, twine and netting and other textile n.e.c. (comp. table 1).

In many of the Polish regions (with the exception of the Podlaski Region) it was observed during the period of 2001-2002 the relatively high share of some of 4 below mentioned groups of T&C commodities in their total exports (see table 2):

PCN.60. Knitted or croached fibres

PCN. 61. Articles of apparel and clothing accessories, knitted or croached

PCN 62. Articles of apparel and clothing accessories, not knitted or croached

PCN.63. Other made-up textile articles; worn clothing and worn textile articles; rags

The highest share in the regional export of T&C products was noticed in the following regions having long traditions in the development of the textile industry and in the competition in the foreign markets: łódzkie warmińsko-mazurskie, wielkopolskie, kujawsko-pomorskie and lubelskie. Analysis presented in the table 1 and 2 still confirm the relatively high ability of the Polish T&C industry in foreign markets with special reference to the European Union internal market.

Table 1. Ranking of Revealed Comparative Advantage Indices for the Polish T&C export in the relation to the EU external exports in 2001-2002 according to CPA Classification of the EU

Code CPA		Index RCA years	
		2001	2002
1821	Workwear	4,30	3,93
1740	Made-up textile articles, except apparel	3,56	3,79
2470	Man-made fibres	2,07	1,94

Table 1. Ranking of Revealed Comparative Advantage Indices for the Polish T&C export in the relation to the EU external exports in 2001-2002 according to CPA Classification of the EU – continuation

Code CPA		Index RCA years	
		2001	2002
1710	**Textile yarn and thread**	**0,31**	**1,74**
1754	**Other textile n.e.c.**	**1,34**	**0,96**
1752	**Cordage, rope, twine and netting**	**0,34**	**0,31**
1823	Underwear	-0,04	-0.06
1751	Carpets and rugs	-0,59	-0,58
1760	Knitted or crocheted fabrics	-0,17	-0,17
1772	Knitted and crocheted pullovers, cardigans and similar articles	-0,20	-0,65
2111	Pulp	-1,03	-1,24
1824	Other wearing apparel and accessories n.e.c.	-1,37	-1,33
2614	Glass fibres	-2,61	-2,54

Technical remarks: The positive index RCA means Revealed Comparative Advantage in the Polish export to the EU in the relation to the EU external export.

Source: own calculations according to statistical data of the Central Statistical Office, Warsaw.

Table 2. Structure of Textiles and Clothing export of textiles and clothing from the 16 Polish regions according to PCN Classification

Years	2000	2001	2002
Shares in the export of regions	**Shares**		
Regions	**dolnośląskie**		
Total export in Mio of USD	**3386,0**	**3733,8**	**4429,2**
PCN 62. Articles of apparel and clothing accessories, not knitted or croached	3,96	3,45	2,78
PCN. 61. Articles of apparel and clothing accessories, knitted or croached	0,84	0,88	0,76
	kujawsko pomorskie		
Total export in Mio of USD	**1409,1**	**1430,2**	**1692,1**
PCN 62. Articles of apparel and clothing accessories, not knitted or croached	9,17	8,15	6,53
PCN.55. Man-made staple fibres	1,48	1,21	1,42
PCN. 61. Articles of apparel and clothing accessories, knitted or croached	1,16	1,19	1,01
PCN.63. Other made-up textile articles; worn clothing and worn textile articles; rags	2,48	2,55	2,40

Table 2. Structure of Textiles and Clothing export of textiles and clothing from the 16 Polish regions according to PCN Classification – continuation

Years	2000	2001	2002
Shares in the export of regions	**Shares**		
	lubelskie		
Total export in Mio of USD	**763,7**	**722,5**	**775,4**
PCN 62. Articles of apparel and clothing accessories, not knitted or croached	6,47	7,55	6,04
	lubuskie		
Total export in Mio of USD	**1092,2**	**1172,5**	**1350,1**
PCN.62. Articles of apparel and clothing accessories, not knitted or croached	3,94	4,02	3,58
PCN. 61. Articles of apparel and clothing accessories, knitted or croached	1,12	1,12	1,05
PCN.63. Other made-up textile articles; worn clothing and worn textile articles; rags	0,57	0,56	0,69
	łódzkie		
Total export in Mio of USD	**1289,6**	**1461,7**	**1613,6**
PCN 62. Articles of apparel and clothing accessories, not knitted or croached	16,23	15,40	16,69
PCN.63. Other made-up textile articles; worn clothing and worn textile articles; rags	2,70	2,54	2,07
PCN.55. Man-made staple fibres	1,32	1,04	1,06
PCN.60. Knitted or croached fibres	0,78	0,86	0,84
	małopolskie		
Total export in Mio of USD	**1503,3**	**1795,9**	**2236,5**
PCN 62. Articles of apparel and clothing accessories, not knitted or croached	0,42	3,85	2,64
PCN.63. Other made-up textile articles; worn clothing and worn textile articles; rags	1,15	1,19	1,13
	mazowieckie		
Total export in Mio of USD	**5733,5**	**6508,7**	**7149,0**
PCN 62. Articles of apparel and clothing accessories, not knitted or croached	3,86	3,48	2,27
	opolskie		
Total export in Mio of USD	**554,0**	**621,9**	**672,5**
PCN 62. Articles of apparel and clothing accessories, not knitted or croached	4,16	3,47	3,00
PCN.63. Other made-up textile articles; worn clothing and worn textile articles; rags	1,02	1,32	1,44
PCN. 61. Articles of apparel and clothing accessories, knitted or croached	1,04	0,95	0,74

Table 2. Structure of Textiles and Clothing export of textiles and clothing from the 16 Polish regions according to PCN Classification – continuation

Years	2000	2001	2002
Shares in the export of regions	**Shares**		
	podkarpackie		
Total export in Mio of USD	**1262,1**	**1434,1**	**1606,6**
PCN 62. Articles of apparel and clothing accessories, not knitted or croached odzież	2,69	2,31	1,93
PCN. 61. Articles of apparel and clothing accessories, knitted or croached	0,69	0,86	0,72
	podlaskie		
Total export in Mio of USD	**413,3**	**478,2**	**525,6**
	pomorskie		
Eksport ogółem w mln.$	**2679,0**	**3765,1**	**4672,1**
PCN 62. Articles of apparel and clothing accessories, not knitted or croached	2,21	1,88	1,45
PCN.63. Other made-up textile articles; worn clothing and worn textile articles; rags	0,64	0,50	0,40
	śląskie		
Total export in Mio of USD	**5478,1**	**5985,4**	**6438,2**
PCN.63. Other made-up textile articles; worn clothing and worn textile articles; rags	1,32	1,14	1,09
	świętokrzyskie		
Total export in Mio of USD	**315,4**	**370,3**	**473,7**
PCN.63. Other made-up textile articles; worn clothing and worn textile articles; rags	1,84	2,26	1,76
	warmińsko-mazurskie		
Total export in Mio of USD	**860,3**	**938,4**	**1066,7**
PCN. 61. Articles of apparel and clothing accessories, knitted or croached	3,28	2,33	1,52
PCN 62. Articles of apparel and clothing accessories, not knitted or croached	5,59	4,71	4,01
PCN.63. Other made-up textile articles; worn clothing and worn textile articles; rags	1,36	1,26	1,23
	wielkopolskie		
Total export in Mio of USD	**3357,3**	**3845,9**	**4696,7**
PCN. 61. Articles of apparel and clothing accessories, knitted or croached	2,16	2,14	1,80
PCN 62. Articles of apparel and clothing accessories, not knitted or croached	6,44	5,77	4,52
PCN.63. Other made-up textile articles; worn clothing and worn textile articles; rags	1,62	1,37	1,34

Table 2. Structure of Textiles and Clothing export of textiles and clothing from the 16 Polish regions according to PCN Classification – continuation

Years	2000	2001	2002
Shares in the export of regions	**Shares**		
	zachodniopomorskie		
Total export in Mio of USD	**1525,6**	**1737,7**	**1553,5**
PCN. 61. Articles of apparel and clothing accessories, knitted or croached	1,81	1,36	1,40
PCN 62. Articles of apparel and clothing accessories, not knitted or croached	4,60	3,96	3,76
PCN.63. Other made-up textile articles; worn clothing and worn textile articles; rags	1,45	1,39	1,74

Source: own calculations according to the Central Statistical Office data.

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