TEXTILES AND CLOTHING IN THE MEDITERRANEAN REGION: OPPORTUNITIES AND CHALLENGES OF RETURNING TEXTILES AND CLOTHING TO GATT DISCIPLINES

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Abstract

The purpose of this study is two-fold: assessing trade policy towards textiles in the main exporting south Mediterranean countries and in their major export markets (the EU and the USA) and analyzing the likely impact of full implementation of the Agreement on Textile and Clothing (ATC) in light of regional expansion of the EU to integrate central and east European countries. To this end, restrictions to external trade faced by seven south Mediterranean countries (Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey) and the preferential treatment they enjoy are highlighted; as well as the actual progress achieved under the ATC and increased access provided are also reviewed. The potential impacts of regional integration in the Mediterranean region and with the enlarged EU on the competitiveness of this industry domestically and in EU markets are assessed. The analysis shows that the impact of the present quota system on the Mediterranean countries should not be exaggerated. Jordanian, Lebanese, Tunisian and Moroccan exports are not subject to any quota limitations in the EU and the USA. Only Turkey and Egypt are subject to quotas on textiles and clothing in US markets, while Syrian yarns and Egyptian yarns and fabrics are restrained in the EU by duty free quotas.

1. Introduction

Textiles and clothing play an important role in the economies of the Mediterranean region. They significantly contribute to manufacturing production, employment and trade in several of these countries, particularly Egypt, Morocco, Syria, Tunisia and Turkey and, to a lesser extent, Jordan and Lebanon.
Although total exports of textiles and clothing from these countries are relatively small as compared to other developing countries' exports, such as China, Hong Kong, Korea or even India and Pakistan, they represent a higher share of merchandise trade in these countries as compared to the share of textiles in world merchandise trade. The shares of these countries in world textile and clothing exports are much higher than their shares in world manufacturing exports indicating that they enjoy a comparative advantage in the textiles and clothing sector[1].

These sectors have traditionally been persistently protected in developing countries through tariffs and quantitative restrictions. This domestic protection has, until the Uruguay Round (UR), been somewhat justified by the protection to textiles and clothing industries in industrial countries. Through a set of bilaterally negotiated agreements under the Multi-fiber Arrangement (MFA), industrial countries, principally the European Union (EU) and the United States (USA)[2], in violation of the fundamental GATT principle of nondiscrimination, and of the injunction against the use of quantitative restrictions, apply widespread and restrictive quotas against imports from developing countries. Additionally, imports of textiles and clothing have been restricted by high tariffs and tariff escalations. These tariffs are, on average higher (15 percent), in industrial countries, than tariffs on industrial products (6 percent). They also tended to increase with the stage of processing. To give an example, the average tariff on fibers in industrial countries is about one percent, while it often exceeds 20 percent on clothing[3], thus enhancing the effective protection to higher value-added products in these countries.

Developing countries managed, at the UR of negotiations under GATT, to reach a compromise agreement to integrate and liberalize trade in textiles and clothing over a transition period of ten years, starting the implementation of the UR agreement on January 1st, 1995. The Agreement on Textile and Clothing (ATC) is the transitional agreement that regulates trade in textiles over this ten-year period of phasing out of the MFA. It is to be noted that importing industrial countries as well as a large number of developing exporting countries were in favour of this transition period to prepare their domestic industries to face the expected enhanced competition resulting from freeing trade in textiles.

Now that almost half of the ten-year phase-out period has elapsed, it is useful to assess the progress achieved towards elimination of restrictions. Thus the purpose of this study is two-fold: assessing trade policy towards textiles in the main exporting Mediterranean countries and in their major export markets (the EU and the USA) and analyzing the likely impact of full implementation of ATC in light of regional developments, especially the EU expansion to integrate Central and East European Countries (CEECs).

The paper is organized as follows: Section 2 presents the current trends in the textile and clothing sector in the Mediterranean region and the structure of external trade of this sector. Section 3 describes the restrictions imposed on external trade of the main textile exporters in the region as well as the preferential treatment enjoyed. Section 4 reviews the progress achieved under ATC and the increase in access actually provided to textiles exporters in the region. Section 5 presents an assessment of potential impacts of regional integration in the Mediterranean region and also considers the impact ofthe enlarged EU on the competitiveness of this industry domestically and in EU markets. A final section sums up the findings and concludes.

[1] ERF Indicators, 1998, Economic Research Forum for the Arab Countries, Iran and Turkey, p.98.

[2] Canada and Norway are also among the main countries imposing MFA restrictions. However, Canada has very few quotas imposed on countries of the region and there are no quotas on Mediterranean countries in Norway. Furthermore, Norway has eliminated all the quantitative restrictions except for three quotas on fishing nets from Indonesia, Malaysia and Thailand.

[3] Kirmani, N. et al.: "The Uruguay Round and International Trade in Textiles and Clothing" in The Uruguay Round and the Arab Countries, edited by Said El-Naggar, IMF, 1996, p.134.

2. Current Trends in Textiles and Clothing Sector

This review will be restricted to south Mediterranean countries which export textiles and clothing, namely: Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey.

Turkey, is the largest producer, alone contributing close to 58 percent of the combined output of textiles and clothing in the region. It is followed by Egypt, Syria, Tunisia and Morocco. Lebanon and Jordan are much smaller producers. The shares of textiles in total manufacturing have declined in some countries (Egypt and Jordan), implying a tendency towards greater diversification in their economies, while it increased in others (Tunisia and Turkey).

This industry is the largest employer in the region. It provided around 30 percent of jobs in manufacturing in 1995, a slight increase from its 1985 level (27 percent). However, unlike in other countries of the region, the share of labour employed in textiles has tended to decrease in both Egypt and Syria. This industry is particularly important, in terms of employment generated, in Morocco and Tunisia where its share of employment in manufacturing revolves around 40 percent. These figures may be underestimated in some countries where the informal sector provides important employment opportunities, especially in the manufacturing of clothing[4].

Although the contribution of these countries - with the exception of Turkey[5]- in world trade of textiles and clothing has been modest (Table A-1); it grew over the decade 1985-1995 at an average rate of growth of around 15 percent. Exports of textiles and clothing dominate the structure of exports in most of these countries especially Tunisia and Turkey (with shares of textiles and clothing in merchandise exports of around 40 percent) followed by Morocco (25 percent) and Egypt (30 percent) as of 1995. These shares have significantly increased in the first three countries over the period 1980-1995, while they have declined, between 1990 and 1995, for Egypt and Syria[6] as shown in Table 1.

Exports of clothing to industrial countries dominated the region's exports of textiles and clothing, ranging, in 1995, between 46.8 percent in Egypt to around 95 percent in Tunisia, as reflected in Table 2. The largest exporter of clothing is Turkey ($ 5.1 billion), followed by Tunisia ($ 2.4 billion) and Morocco (around $ 1.2 billion). As for textiles, the largest exporter is again Turkey ($ 1.5 billion), followed by Egypt ($ 500 million).

3. Restrictions and Preferential Treatment of Exports of Textiles and Clothing

With the exception of Egypt and Turkey, Mediterranean countries have not been subjected to MFA restrictions. However, some of them face restrictions on their exports in industrial countries imposed outside the MFA.

Under the MFA many industrial countries were restricting their textiles and clothing imports from developing countries. The main restricting countries were the USA, the EU, Canada, Austria, Sweden, Finland and Norway. Japan and Switzerland, although important industrial importers, have never imposed quotas on their imports from developing countries. As of 1995, which marked the transition from MFA to the ATC, four parties are still using quotas to restrict their imports of textiles, and are required to phase-out these quotas over a period of ten years. They are the USA, the EU, Canada and Norway.

The EU and the USA are the two major markets for textile trade. Out of about $332 billion of total world trade in textiles and clothing in 1997 the USA imports amounted to $63 billion and the EU $65 billion[7]. While Japan's imports exceeded $ 22.5 billion and Canada's imports were about $6 billion (Table A-3). The EU and the USA are also the two major users of the quota system and the two most important markets for the Mediterranean region (Table A-4).

The European Union is the main export market for Mediterranean countries that are significant producers of textiles and clothing. The EU accounts for over 60 percent of Turkish exports of textiles and clothing, for over half of Egyptian exports and for between 70 percent to 80 percent of Tunisian and Moroccan exports of these products. Jordan and Syria sell less than 15 percent of their

[4] ERF Indicators, 1998, op.cit., pp 93-94

[5] Turkey currently ranks 10th on the list of large exporters of textiles and clothing in the world.

[6] It is worth noting that these shares overestimate the share of textile and clothing in both Egypt and Syria, as they include fiber exports; Syria and particularly Egypt are significant exporters of cotton lint.

[7] These values represent respectively for the U.S. 18.9% and for the EU 19.7% of total world imports of textiles and clothing.

textiles and clothing exports to EU markets. The United States account for around 10 percent to 15 percent of Egyptian and Turkish exports of these products and for even less in the cases of Morocco, Tunisia and the other Arab exporters in the region.

Textiles and clothing exports from all countries in the region currently enjoy duty-free access to the EU markets. Furthermore, most of them enjoy unrestricted access to these markets under the free trade agreements signed under the Euro-Mediterranean Partnership Initiative (MEDA). Morocco, Tunisia, Lebanon and Jordan have successively signed such agreements starting in 1995. Turkey, in 1996, formed a customs union with the EU[8] while Egypt and Syria are still negotiating. Egyptian yarns and fabrics exports to the EU, although enjoying duty-free access - are still constrained by non-tariff barriers in the form of negotiated quotas under the Cooperation Agreement. They are also subject to anti-dumping measures. Syria has been restrained for yarn exports under a Cooperation Agreement with the EU.

In the United States, Egypt and Turkey face tight restrictions on their textiles and clothing exports. Egyptian cotton yarn and fabric have been restrained by quotas and Some made- up textiles and clothing items have also be constrained by binding quotas[9]. Similarly Turkey faces quota restrictions on its yarn and fabric exports to the USA, additionally nineteen of its export categories of clothing have been subjected to quotas[10].

Neither Egypt nor Turkey enjoys preferential duty treatment under the Generalized System of Preferences (GSP) as the USA does not include textiles and clothing under this scheme. They both face high most - favoured nation (MFN) tariffs in the USA. Before the implementation of the ATC in 1995, these tariffs averaged 19 percent, their rates increased with the stage of processing from 3.5 percent on fibers, to 9 percent on yarns, 11.5 percent on fabrics and 22.5 percent on clothing[11].

To illustrate the relative importance of constrained to unrestricted export markets for textiles, Table 3 shows the shares of Egyptian exports of yarn and fabric exported to the EU and the USA under quota restraint.

Over the past three years, the share of Egyptian yarns exported under quota restrictions increased from 63 percent to 83 percent, while that of fabrics fluctuated between 69 percent and 75 percent. The European Union is by far the largest importer of Egyptian textiles, with shares varying between around 54 percent and 66 percent for both yarns and fabrics. The share of the USA in yarns exported under quota restraint has almost doubled in 1998. The value of yarn exports to the USA also increased by 56 percent in spite of the world recession and the significant decline of textiles exports, exceeding in 1998, 21 percent for yarn and 50 percent for fabrics. Furthermore, Egyptian exports of yarns to quota restricted markets have increased on average at the rate of 26.2 percent annually over the period 1996-1998, while they declined in unrestricted markets by 28.8 percent annually. Exports of fabrics declined over the same period by a higher average annual rate in unrestricted markets (19.8 percent) than in restricted markets (18.6)[12]. These observations contradict the evidence that MFA quotas restrict exports from developing countries, as a group[13]; they imply that quantitative restrictions under ATC have not always been the constraining factor to exports from the Mediterranean region, as will be shown in the next section.

[8] It should be mentioned here that Turkey imposed a quota on Egyptian exports of yarns and fabrics starting 1996 as a prerequisite to forming a customs union with the EU. This violates one of the ATC requirements that no new quantitative restrictions will be added. Nevertheless, this quota has never been binding as the rate of its utilization has been 30%, 43% and 24% for yarn in the years 1996 to 1998 successively. As for fabrics, the respective rates of utilization for the same years were 12%, 13% and 17%. (Egyptian Textile Consolidation Fund).

[9] For Egypt, the restrained items are specifically: yarns (category 300/301), fabrics (categories from 218 to 227 and from 313 to 326), clothing includes cotton knit shirts and blouses (categories 338/339), cotton and man-made fibers (m.m.f.) shirts (340/360), wool trousers (category 448) and shop towels (category 369S).

[10] The quota restrained Turkish exports of clothing to the USA are: play suits (332), infant sets (239), cotton coats (335), cotton and m.m.f. dress (336/636), cotton and m.m.f. knit shirts (338/639), cotton shirts (340/640, 342/642), cotton trousers (347,348), cotton dressing gowns (350), cotton nightwear (351), wool trousers (448).

[11] Kirmani, N., op. cit., P. 139.

[12] These percentages and growth rates have been calculated from Egyptian Cotton Textile Consolidation Fund figures shown in table A5.

[13] Erzan R., J. Goto and P. Holmes: "Effects of the Multi – Fiber Arrangement on Developing Countries' Trade: An Empirical Investigation".Ch. 4 in C. B. Hamilton (ed.) Textiles Trade and the Developing Countries: Eliminating the Multi – Fiber Arrangement in the 1990s, World Bank (1990).

Instead, they may be considered as a means to guarantee access to the restricted markets.

Quota Administration

In the case of Egypt, quotas are allocated among producers by the Cotton Textile Consolidation Fund according to their past export performance. New requests for quota allocations are submitted to the Commercial Committee of the Consolidation Fund for consideration. This committee includes government officials as well as representatives of producers and exporters in the public and private sectors. Resale of quotas is not officially permitted. Unused quotas should be given up and the Consolidation Fund would reallocate them. In practice, exporters who do not have the benefit of a quota share may export indirectly under the name of other producers holding export licenses under the quota. The price of this service is not documented as direct transfer of quotas between firms is prohibited. Tight quotas have rarely been observed in Egypt, making such practices unnecessary. Quota transfers are only necessary in cases of binding quotas, when foreign demand (or orders) is in excess of supplies availability.

Although there is no quota transfer in Egypt and generally quotas are not usually filled, there was a situation, in 1998, when exporters were queuing to acquire a share of the U.S. quota on cotton knit shirts and blouses (categories 338/339). Even in this instance there is no indication that quota shares were transferred. Thus there is no evidence of existence of a transfer price for quotas or of its increase or decrease under the ATC.

Elements of flexibility to exceed the quota limits, applied under MFA and subsequently under ATC, include: transferring 6 percent of the unfilled quota volume from the previous year to the current year (carry over), prior utilization of 6 percent of next year's quota (carry forward) or transferring the quota from one product to the other within the limit of 6 percent of the quota requested to be increased (swing). These flexibility advantages are usually transferred to quota beneficiaries in cases of tight quotas, which again have not been frequently observed.

Turkey has a strict system of quota management. Quotas are only distributed to exporters who are at the same time producers of textiles and clothing. Only 15 percent of the total volume of the quota is reserved for established suppliers. The remaining 85 percent is divided among other suppliers such that every request receives only 3 percent of the quota. Applications for quota allocation should be endorsed by the Chamber of Commerce and Industry before being submitted to the Ministry of Commerce. A special committee in the Chamber of Commerce is in charge of recommending quota policies. This committee has on its board representatives of the textile industry and government officials.

Quotas allotted to any supplier cannot be transferred or sold. For reasons of transparency the Turkish government has put all information about the quota distribution on the internet.

It should be noted that Turkish textile exports are only restricted in the U.S. market. Restrained items valued, in 1997, at around $1 billion represented only 10 percent of Turkey's total exports of textiles and clothing to the whole world.

4. Progress in ATC Implementation

The transition to trade liberalization in textiles and clothing is to be achieved under ATC through:

- The gradual removal of existing quotas described by the agreement as "integration"[14].
- Accelerated growth of remaining non-integrated quotas which is called "liberalization."

Integration is required from two groups of countries: those who have maintained quotas under the MFA, principally the USA, the EU, Canada and Norway, and any other WTO member which chooses to retain the right to use the special safeguards provision of article VI of the ATC. Integration is to be carried out over three stages. For the first stage, which started on January 1st, 1995, WTO members were to integrate 16 percent of the total volume of their 1990 imports. In the second stage, which started on January 1st, 1998, 17 percent of the total volume of the 1990 imports were to be integrated and for the third stage, which is to start on January 1st 2002, 18 percent are to be integrated. Finally, on January 1st 2005, the rest of the total volume of 1990 imports, totaling 49 percent, must be integrated. Extension of ATC is explicitly excluded. Products to be integrated are

[14] Integration is a UR term which refers to applying the GATT principle of prohibiting quantitative restrictions to the textile sector.

left to the choice of the importing country, but they have to be spread to cover at least one item from each of four groups of products: yarns and tops, fabrics, made-ups and clothing.

Concurrently with the process of integration, products remaining under restriction should be allowed an additional increase in growth rates above those agreed upon under the MFA. Such products should have their quota increased by an additional 16 percent in the first stage, 25 percent in the second stage and 27 percent in the third. Small suppliers are to be accorded an even higher percentage additional growth rate of 25 percent, 27 percent and 27 percent over the three stages successively. This process of increasing the negotiated growth rates is sometimes called “growth-on-growth” provision[15].

ATC also provides for major reviews before the end of each stage to assess the implementation of the integration and liberalization processes. Review of the first stage showed that developing countries were not satisfied with the progress achieved.

Actual revision of implementation showed that although 33 percent of trade has been integrated to fulfill the minimum legal requirements of the Agreement, the process has contributed little towards the realization of the main objectives of ATC, namely the progressive phase-out of quotas or liberalization of trade. The list of items given by the EU and the U.S. to the Textiles Monitoring Body (TMB) indicates that until the end of the year 2001, none of the integrated quotas affect the Mediterranean countries. In fact, the integrated products were either of little importance to the major importers or were not originally restrained by quotas. The same observation applies to the integration program declared by the USA for the third stage. Out of 750 quotas imposed by the U.S. only two have been removed in stages one and two and 11 have been removed by early elimination with respect to Romania alone. For the EU, which has a total number of quotas of 219, 14 have been eliminated by integration in the stages one and two [16], no early elimination has been reported. Quota increases, by virtue of the growth-on-growth provision has also been minimal.

Much criticism about the phase-out programs of the U.S., the EU, and Canada has been voiced by the whole trading community and especially by the textile and clothing exporting developing countries. There are reports that the U.S. did not liberalize more than 1.3 percent of its quotas during the first and second stages of ATC integration. The corresponding EU and Canada figures are 3.5 percent and 2.75 percent. It is estimated that 94 percent of textile trade will remain under restriction until the end of year 2004[17].

In fact none of the exports of Egypt and Turkey to the U.S. will be liberalized before the end of the ten-year transition period of integration under ATC. There are thus no new opportunities created by the phase-out (integration) stages under the ATC.

It is noteworthy that quotas in EU markets and in the U.S. have not been fully utilized. To take again Egypt as an illustrative case, it appears that most quotas were underutilized during the period, 1990-1998, as shown in Table 4.

In EU markets, the quotas has been underutilized in almost all years during the period 1990-1998 with the exception of 1993-1994 when adverse climatic conditions led to a cotton crop failure in both India and China and resulted in sharp increases in international cotton prices. This induced European manufacturers to shift their demands from cotton lint to cotton yarn and grey fabrics, in the corresponding years.

In the U.S., the quotas on yarns and fabrics have persistently been under utilized. However, they have been constraining in some clothing items where Egypt appeared to have a cost and quality advantage. These products are specifically T-shirts, cotton and man-made-fibers (m.m.f.) shirts and ladies woolen trousers. Negotiated increases in allowed quotas generally alleviated these constraints.

Practical experience has shown that safeguards and anti-dumping measures have increasingly been used to restrict trade and exports to both the EU and the U.S. Some believe that quotas are a better alternative. Similarly, Turkish experience

[15] Abdel-Fattah, M.M.: Challenges and Opportunities of the Uruguay Round Agreement on Textiles and Clothing for ESCWA Countries, a study for ESCWA,1996

[16] A report by ITCB: “Experience with the Implementation of the ATC: Main Areas of Concern, Article- by - Article”, International Textiles and Clothing Bureau, April 1999.

[17] ITCB, ibid.

with textile and clothing exports to the EU – prior to the formation of its customs union with the EU- supports the view that anti-dumping measures were overly applied to constrain Turkish exports to the EU[18].

Additionally, changes in the U.S. rules of origin which substantially altered its rules for determining, the origin of textile and clothing products, starting July 1st, 1996, had adverse effects for exports to intermediary countries and created an incentive to importers to source their materials from countries free of the possibility of being restrained by quotas[19].

5. Potential Impacts of ATC Implementation

Within the context of regional integration efforts in the Mediterranean region with the EU and in light of its likely enlargement to incorporate CEECs what are the expected impacts of such developments on exports and imports of the region?

The implications of the ATC for the countries of the region depend principally on the relative importance of restricted markets for these countries' exports, on the significance of the textiles and clothing sectors in their external trade and on future trends in competitiveness. As mentioned earlier, with the exception of Egypt and Turkey, countries of the region were not subjected to MFA, although some of them still face restrictions in industrial countries imposed outside this agreement (Syria in the EU)[20]. Egypt's exports are still constrained in the EU, while Egyptian and Turkish exports are constrained under ATC in U.S. markets. Industrial country members of the WTO, in addition to their commitment to phase-out quantitative restrictions - whether imposed under MFA or otherwise - are to reduce MFN tariffs on textiles and clothing under the WTO.

Countries in the region, in turn, keep tight quantitative restrictions on their imports of textiles and clothing, including bans, in addition to an escalating system of tariffs. These restrictions were not fully effective. To take again the case of Egypt as an example, tariffs were not applied in free zones and continuous smuggling from these zones made these products domestically available. Egypt had already "removed" the ban on fabrics in January 1998, replacing it with an increased import tariff, but maintained the right to keep bans on imported clothing until January 1st 2002. Egypt is further committed to reduce bound tariffs by January 2005, from 45 percent on yarns, 60 percent on fabrics, 65 percent on made-ups, 70 percent on clothing to 15 percent, 30 percent, 35 percent and 40 percent respectively. Turkey has made corresponding commitments.

Potential Direct Effects of ATC on Mediterranean Exports

Removal of yarn quotas in the U.S. under the ATC and the WTO or under the partnership agreements with the EU will expose Mediterranean exports to increased competition from countries with efficient yarn industry and with large export capacities who have fully utilized their quotas. As an example, in the EU, India, and Pakistan may challenge Egyptian, Syrian and Turkish yarn exports. Other potential competitors such as Brazil and Korea are not likely to present a serious challenge in the EU, as they were far from filling their quotas as documented for 1994-1996[21]. Keen competition in fabrics is also expected from Thailand and Malaysia, which have exceeded their quotas to the EU. Other competitors from Asia, South America, Russia and Central and Eastern Europe have not filled their respective quotas to the EU, and are not likely to threaten export performance of the region, *ceteris paribus*[22]. However, elimination of quotas - which may be considered as a guaranteed access to small and to less efficient producers – will open the market to those efficient, relatively large suppliers who have exceeded their quotas or are close to fulfilling them.

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[18] Ozdem, C. and O. Demirkol: "The Implications of the WTO Uruguay Round on Turkish Economy", Arab Exports Meeting on WTO Impacts Analysis on Arab Economies, League of Arab States, Cairo, July 1994.

[19] ITCB report, op.cit.

[20] As noted earlier, quantitative restrictions on Tunisia and Morocco have been phased out in the EU starting in 1995 as a result of the partnership agreement. Free access for export textiles from Turkey have also been granted under the customs union agreement in 1996.

[21] India has filled 107% of its yarn quota to EU in 1994/96, while Pakistan and Indonesia filled 150% and 130% of their respective quotas during the same period. However, Argentina only covered 33% of its quota in 1994/95, and the percentage quota utilization reached 6% in Brazil, 51% in Peru, 56% in Thailand, 77% in South Korea (see Clement, 1996).

[22] The rates of quota utilization for fabrics main exporters to EU for 1994/1996 were as follows: Argentina 34%, Brazil 28%, Bulgaria 94%, Czech Republic 90%, Egypt 74%, Hong Kong 16%, Hungary 37%, India 93%, Indonesia 80%, Malaysia 101%, Pakistan 98%, Peru 24%, Poland 28%, Romania 34%, Thailand 108%, Turkey 71%, Singapore 5%, Slovakia 44%, South Korea 46%, (see Clement (1996)).

The EU cannot provide any of the Mediterranean countries additional preferential treatment as they currently enjoy duty-free treatment. However, the EU preferential arrangements with the CEECs together with its commitments to reduce tariffs under the WTO[23], would lead to the erosion of preferences enjoyed by Mediterranean countries. This may explain the conclusion[24] that the region will suffer a net loss from its textiles and clothing liberalization under the WTO. Any expected shift away from these countries towards other suppliers, would be larger than any potential export increase most countries of the region (with the probable exception of Turkey) could achieve in the EU market, unless their textile industries achieve greater efficiency in production, by reducing costs and improving the quality of their products to benefit from possible enhancement of export opportunities.

An important opportunity for exports available to countries in the region which have already reached a partnership agreement with the EU, is the potential increase in outward processing activities. Clothing in these countries produced with EU fabrics will enjoy free access to the EU according to the rules of origin. European investors may increasingly engage in sub-contracting activities in the regional partner economies by creating new productive units and supplying the existing ones with fabrics, accessories, designs and know-how to produce high value added products to be exported to European markets.

Comparison with other countries reveals that after the conclusion of partnership agreements with the CEECs, total outward processing activities significantly increased to account for about 18 percent of their total exports to the EU in 1993, up from 10 percent in 1989. For garments alone, such activities account for around 74.5 percent of CEECs[25] exports to the EU, compared to 12.2 percent in Morocco and 16.5 percent in Tunisia in the same year[26]. Although these activities may improve the efficiency of domestic textile industries and promote exports, they are subject to various criticisms. The Moroccan experience suggests they may result in a dualism of the economy as they install production units alien to the rest of the economy and their externalities benefit the world rather than the domestic economy.

More generally, prospects for growth in the area of garments making may be quite promising if Mediterranean countries, benefiting from their proximity to the EU focus on higher quality niche products. "Since clothing products are becoming almost as perishable as fruits or vegetables with new fashions being introduced every few weeks or months, being close to final demand is an advantage that needs to be exploited."[27] Opportunities for EU and local private investment could be available in export processing zones, where modern industrial infrastructure, duty-free treatment of imports and access to new technologies and technical vocational training for regional workers would provide attractive incentives for production and exports. The partnership agreements with the EU would enhance such activities to the extent it would provide improved access to the best international fashion design, new production techniques, accessories, patterns, dyes and finishes as well as marketing and advertising services. This would have a significant effect on improving competitiveness and on creating distinct and differentiated products which would have their own niche markets both within the region and externally.

Countries in the region which are important exporters of textiles (Egypt and Syria) and which are still negotiating partnership agreements with the EU may find new export opportunities emerging for their textile exports when the agreement is implemented. They may direct their exports to other countries in the region which

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[23] The EU would have to reduce its tariffs to 6% on yarns, to 7% and 8% on fabrics and to 10% on clothing.

[24] Yeats, A.: Export Prospects of Middle Eastern Countries: A Post- Uruguay Round Analysis, the World Bank (1994).See also Hertel, T., W. Martin, K. Yanagishima and B.Dimaranan: "Liberalizing Manufactures Trade in a Changing World Economy", in W.Martin and L.Winters (eds.) The Uruguay Round and the Developing Economies, World Bank(1995) and Yang, Y., W. Martin and K.Yanagishima: "Evaluating the Benefits of Abolishing the MFA in the Uruguay Round Package", Chapter 10 in T.Hertel (ed.) Global Trade Analysis : Modeling and Applications, Cambridge University Press, Cambridge, Massachusetts, 1997.

[25] It should be noted that the main exports of CEECs are wool and m.m.f. products, while the majority of exports from most Mediterranean countries is cotton manufactures.

[26] World Bank: "ARE: Egypt into the Next Century", Report No. 14048 EGT, Washington, D.C., May 1995.

[27] The authors wish to thank Dr. Dean Spinanger from Kiel Institute of World Economics for having highlighted this point in his comments on an earlier draft of the paper.

have already concluded free trade agreements with the EU that allow for cumulation of the rules of origin[28].

It should be noted, however, that the asymmetric treatment receive by Mediterranean countries which have concluded free trade agreements or customs union with the EU, as compared to the countries which have not signed such partnership, has negatively impacted exports of the latter group. To give a specific example, Egyptian exports of yarn and fabric to the EU have drastically fallen in 1998 (as it may be observed from Table 4) and continue to fall in 1999. One reason for such a decline is the sharp decrease in the Turkish cotton yarn export price to the EU without fear of any dumping accusations. This deliberate price decrease is intended to divert cotton yarn exports to the EU to compensate for the decline in Turkish exports to Russia and other CIS countries due to the deep recession these economies are facing[29].

The reduction in MFN tariffs on textiles and clothing under the WTO will benefit Mediterranean countries in markets where they did not enjoy preferential treatment and where they were restrained by quotas. Egypt and Turkey are likely to gain in the U.S. market, where their textiles and clothing exports are subject to high MFN tariffs (tariff peaks). Export opportunities will also expand upon complete elimination of quantitative restrictions under ATC or more generally under WTO. The beneficial impact may be important for knit clothing items that face binding quotas in the U.S[30]. This impact is likely to be minimal for exporters such as Syria, Tunisia and Morocco that were not subjected to MFA and were not facing binding quotas in their export markets[31].

The extent to which regional exporters of textiles and clothing can effectively benefit from opportunities created by the complete implementation of the ATC will depend on their ability to improve their relative competitiveness over the transition period. Factors such as labour costs, transport cost, the cost of capital, transaction costs, real exchange rate will be significant determinants in this respect.

Finally, although the MFA did not directly restrict trade in fibers, its phasing out may be expected to have a favourable impact on fiber production through increasing the long-term demand for, and hence the price of, textile fibers. The MFA phase-out is likely to have two distinct effects: an output effect arising from increases in the volume of textile and clothing output and hence fiber input, and a substitution effect resulting from elimination of the distortions between fibers created by the MFA. For cotton producers, the substitution effect may be relatively large, since it has been reported that the MFA has imposed an implicit tax of around 20 percent on cotton producers relative to man-made fiber products[32]. These effects may be of particular importance for the major cotton producers of the region - Egypt and Syria.

Potential Impact on Imports

Removal of quantitative restrictions and bans on imports of textile and clothing products will result in a surge of competing imports from cheaper sources particularly from Central and Eastern Europe and from East and South Asia. China is likely to be the largest competitor in the area of lower priced clothing, while India and Pakistan are expected to be leading in the area of yarns, and Thailand and Malaysia in the area of fabrics.

If liberalization is only achieved according to WTO rules, no preferential treatment will be given to EU products. However, immediate removal of quantitative restrictions under the partnership agreements signed between the EU and several countries of the region and eventual complete elimination of tariffs after the negotiated transitional period elapses, will give textile products from the EU additional preferential access in the region as compared to countries subject to MFN tariffs, as these tariffs, within the WTO framework, are to be reduced rather than completely eliminated.

[28] Kheir -El-Din, H. and H. El-Sayed: "Potential Impact of a Free Trade Agreement with the EU on Egypt's Textile Industry" in Regional Partners in Global Markets: Limits and Possibilities of the Euro-Med Agreement, A. Galal and B. Hoekman (eds.), CEPR and ECES, 1997, pp. 220-221.

[29] Egyptian Cotton Textile Consolidation Fund.

[30] Kirmani, N.: op. cit..

[31] Remember that clothing and made-up textiles are not subject to any restriction in the EU.

[32] Martin,W.: "The Abolition of the Multi-Fiber Arrangement and its Implications for Fiber Market", paper prepared for the conference on The WTO and the Uruguay Round Agreement: Implications for South Asian Agriculture, Kathmandu, April 1996.

As a result, yarn imports from the EU will not significantly increase, the main current suppliers to the region being India and Pakistan which export their yarn at a significantly lower price than the EU. Intermediate imports of fabrics may be diverted towards the EU as a result of the rules of origin (bilateral cumulation). Imports of fabrics for final consumption and of ready-made garments from the EU may also increase, depending on the elasticity of these imports with respect to tariff reductions and on the pattern of tariff reduction (front-loaded, uniform or back-loaded) as a result of the FTA signed with some countries of the region. The pattern and level of MFN tariff reductions within the WTO framework will also affect the extent of trade diversion. This increase in competing imports is likely to harm domestic producers which have been enjoying significant protection.

Imports of machinery and other intermediate inputs for the textile industry are not subject to quotas and usually face lower tariffs than textiles. They are essentially imported to the region from Western Europe, Japan and the U.S. Trade diversion will occur in countries which have signed FTAs with the EU, to the extent trade liberalization with other countries is delayed and depending on the initial height of the MFN tariffs. Overall, this effect will be beneficial as it is likely to contribute to cost reduction in the textile industry[33].

6. Summary and Conclusions

The study has focused mainly on two major elements in international trade of textiles and clothing in the Mediterranean countries namely: the Agreement on Textiles and Clothing (ATC) under the WTO and the preferential arrangements between the EU and the Mediterranean countries.

The countries involved are: Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey. The textile sector is of paramount importance to the economies of these countries, although their share in world trade is relatively small compared with other countries in Asia such as China, Hong Kong, Korea, or even India and Pakistan. With the exception of Turkey which currently occupies the 10th place on the list of large exporters of textiles and clothing with exports exceeding lately $ 10 billion, countries of the region are small exporters: Tunisia and Morocco export around $2.5 billion each, Egypt’s exports are less than $ one billion, exports of Jordan, Lebanon and Syria are negligible.

The main markets for textile trade of the Mediterranean countries are the EU and the U.S. In 1997 total U.S. imports reached $62.8 billion and EU imports amounted to $65.2 billion. Almost three quarters of these imports are clothing. Japan and Canada provide also significant markets. Their imports reached respectively billion $22.5 and 5.9 in 1997. However, they represented a small share of Mediterranean exports.

The impact of restrictions imposed under the MFA and hence by the ATC on the exports of these countries is small. The exports of Jordan, Lebanon, Tunisia, Morocco are not subject to any quota limitations in the main restraining markets - the EU and the U.S. - while Syria is restrained in one item (yarn) in the EU. Only Turkey and Egypt are subject to quotas in the U.S. market. While Turkey enjoys quota-free access as a result of its customs union with the EU, Egypt is restrained on two categories (yarn and fabrics). The proposed FTA between Egypt and the EU will result in abolition of these quotas. Thus the impact of the present quota system on the Mediterranean countries should not be exaggerated.

The ATC is a ten-year transitional arrangement to phase-out the MFA quotas. However the implementation commitments by the main users of the MFA to integrate gradually trade in textiles and clothing into GATT/WTO discipline has proven that the majority of quotas will be maintained until the end of the ten - year transition period.

Views differ on whether the quota system is beneficial or harmful to the prospects of future exports of the seven Mediterranean countries under study. The quota system may be considered as a guaranteed access to the main export markets to the extent that other suppliers are restrained. This situation will certainly change when quotas are eliminated and competition becomes the norm. Other views tend to believe that quotas are limitations on the possibility for growth. There were cases when this was true. Turkey and Egypt faced some difficulties on a number of occasions when quotas were fully utilized and requests for increase were denied and when quotas were imposed on items which were previously unrestrained.

[33] Kheir-El-Din H. and H. El-Sayed: op.cit

The ATC on the other hand, has imposed on developing countries to open up their long time protected markets (Article VII of the ATC). This would mean facing competition not only in the export markets but within their own markets, and not only competition from developed countries but also from other more efficient suppliers in developing countries. However, countries of the region are unlikely to be significantly affected by ATC.

The impact of the preferential arrangements between the EU and the Mediterranean countries is likely to be more significant than the ATC. Since 1977, the EU has provided the Mediterranean countries duty-free access for their industrial exports. Textiles and clothing benefited from this preferential treatment although some of these products were subjected to quota restrictions. Recently preferential treatment changed from being one-sided from the EU to the Mediterranean countries to a two-way reciprocal treatment. These countries are to open their markets to competition from the EU industry by the end of the negotiated transition period, and eventually EU exports of textiles and clothing will enter the Mediterranean markets free from tariffs and from quantitative restrictions.

Duty-free treatment already enjoyed by the Mediterranean countries in the EU will be eroded on two accounts: first as a result of commitments to reduce tariffs as part of the Uruguay Round agreements, the EU would have to reduce its tariffs on yarn, fabrics and clothing; and second, as a result of all the association agreements concluded with different countries, especially the CEECs, the erosion of preferences cannot be avoided although the Mediterranean countries will continue to enjoy a margin of preference against other countries especially from Asia and Latin America. Competition in the EU markets from the CEECs will be encountered in wool and m.m.f. products, but cotton products are not likely to be highly affected.

Mediterranean countries will face competition, particularly for finished fabrics and clothing from the EU within their own markets.

Thus, major exporters of textiles and clothing in the region may be affected positively by the liberalization in industrial countries’ markets but negatively by the erosion in their preferential margins with the EU and by increased competition from third parties. The net impact will depend primarily on their ability to compete and to adapt to the new, more efficient global environment resulting from effective - although doubtful - implementation of ATC.

The implementation of the ATC and FTAs concluded with the EU will create new opportunities for the Mediterranean countries’ exports, but it will definitely impose new challenges for these countries. They will face competition not only in their export markets but also in their own home market. Although there is still a transitional number of years left for them to adapt, yet efforts to face the new situation should start now. The danger is imminent.

In the textiles and clothing sectors, steps are specifically required to increase productivity and competitiveness through upgrading of labour skills, investment in new technology, restructuring and modernization of the spinning and weaving processes. Market-based policies are further required to facilitate a shift into the more efficient product lines within the textile and clothing sectors. This may warrant increased investment and deregulation. An efficient legal and institutional framework must also be secured to facilitate the operation of markets and reduce transaction costs.

Although there may be potentially adverse effects on some countries of the region in some areas of production, the transitional costs will be spread over a long implementation period - at least ten years under ATC - half of which has already elapsed. Countries in the region should urgently utilize the remaining time to promote industry-specific adjustments and more general reforms to meet the challenge of the new world market structure arising from the implementation of the ATC/WTO and more specifically from liberalization vis-a-vis the EU and eventually among themselves.

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Table 1: Relative Importance of Textiles and Clothing in Exporting South Mediterranean Countries

Country	% of Mfg Output		Employment Share of Textiles & Clothing in Total Mfg (%)		Exports of Fibers, Textiles & Clothing Share in Merchandise Exports (%)		
	1980	1995	1985	1995	1980	1990	1995
Egypt	30	13	30	29	24	35	30
Jordan	7	6	7	11	5	5	4
Lebanon	n.a	12	n.a	21 (*)	8	n.a	n.a
Morocco	n.a	16	27	38	10	22	25
Syria	n.a	26	35	33	13	25	18
Tunisia	19	24	33	41	18	36	46
Turkey	15	20	24	30	28	39	41

Source: 1998 World Development Indicators, The World Bank and UNCTAD. Handbook of International Trade and Development Statistics, 1996/1997.

Table 2: Exports of Textiles and Clothing of Mediterranean Countries to Industrial Countries, 1995

	Value of Exports ($ Million)			% Share in Total	
Country	Textiles	Clothing	Total	Textiles	Clothing
Egypt	500	439	939	53.25	46.75
Jordan	5	30	35	14.29	85.71
Lebanon	3	23	26	11.54	88.46
Morocco	131	2242	2372	5.52	94.48
Syria	14	100	114	12.28	87.72
Tunisia	132	2399	2531	5.22	94.78
Turkey	1504	5135	6639	22.65	77.35

Source: Comtrade Data Base, see also Table A2 in the Statistical Tables.

Table 3: Relative Importance of Quota Restricted Egyptian Exports of Textiles, 1996-1998 (%)

Category	Yarn			Fabrics		
	1996	1997	1998	1996	1997	1998
Exports under Quota	**62.5**	**76.7**	**82.9**	**71.5**	**75.1**	**68.7**
EU	53.7	66.3	62.2	66.4	64.6	55.1
USA (under ATC)	8.8	10.4	20.7	5.1	10.5	13.6
Unrestricted Exports	**37.5**	**23.3**	**17.1**	**28.5**	**24.9**	**31.3**
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated from information obtained from the Egyptian Cotton Textile Consolidation Fund.

Table 4: Degree of Egypt's Utilization of Textiles and Clothing Quotas in EU and USA Markets, 1990-1998

Category	1990	1991	1992	1993	1994	1995	1996	1997	1998
Percentage of actual Egyptian exports to quotas in EU markets									
Cotton Yarn	94	77	80	73	124	75	50	83	52
Fabrics	103	94	73	108	129	74	77	76	28
Percentage of actual Egyptian exports to quotas in USA markets									
Cotton Yarns	34	100	70	90	87	92	45	76	95
Fabrics	58	79	43	39	49	51	8	17	8
Cotton Knit Shirts & Blouses	60	91	84	74	69	80	90	118	97
Cotton & m.m.f.shirts	-	-	-	-	119	100	67	45	49
Wool Trousers	-	-	-	105	105	112	90	98	93
Shop Towels	-	102	102	70	72	63	97	96	94

Source: Egyptian Cotton Textile Consolidation Fund.

Appendix:
Table A1: Share of Mediterranean Countries in World Exports of Selected Textile and Clothing Products, 1994/1995

		Egypt		Lebanon		Morocco		Syria		Tunisia		Turkey	
SITC	. Product	% of Country Exports	% of World Exports	% of Country Exports	% of World Exports	% of Country Exports	% of World Exports	% of Country Exports	% of World Exports	% of Country Exports	% of World Exports	% of Country Exports	% of World Exports
651	Yarn	10.26	1.15	-	-	-	-	-	-	-	-	2.78	1.79
652	Cotton Fabrics	3.33	0.61	-	-	-	-	-	-	-	-	-	-
658	Textile Articles nes	2.26	0.68	-	-	-	-	-	-	-	-	2.26	3.87
842	Men's Outerwear not Knit	-	-	3.33	0.08	6.13	1.02	-	-	19.28	3.70	-	-
843	Women's Outerwear not Knit	2.05	0.19	-	-	-	-	-	-	10.16	1.40	5.21	2.82
844	Undergarments not Knit	-	-	-	-	-	-	-	-	2.84	1.17	-	-
845	Outerwear Knit Nonelastic	-	-	-	-	5.37	0.76	2.66	0.32	3.73	0.61	8.84	5.69
846	Undergarments Knitted	2.14	0.36	-	-	-	-	1.42	0.26	4.50	1.09	5.68	5.45

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1996/1997.

Table A2: Exports of Textile and Clothing of Mediterranean Countries to Developed Countries, 1993-1995

	1993		1994		1995	
	Value (mn.$)	**%**	**Value (mn.$)**	**%**	**Value (mn.$)**	**%**
Exports of Textiles						
Egypt	290	48.49	483	57.23	500	53.25
Jordan	4	16.00	6	15.38	5	14.29
Lebanon	3	10.00	3	12.50	3	11.54
Morocco	101	5.68	112	5.64	131	5.52
Syria	7	10.14	11	13.41	14	12.28
Tunisia	89	4.92	124	7.80	132	5.22
Turkey	996	20.78	1269	23.88	1504	22.65
Exports of Clothing						
Egypt	308	51.51	361	42.77	439	46.75
Jordan	21	84.00	33	84.62	30	85.71
Lebanon	27	90.00	21	87.50	23	88.46
Morocco	1678	94.32	1873	94.36	2242	94.48
Syria	62	89.86	71	86.59	100	87.72
Tunisia	1719	95.08	1466	92.20	2399	94.78
Turkey	3796	79.22	4044	76.12	5135	77.35
Total Exports of Textiles & Clothing						
Egypt	598	100.00	844	100.00	939	100.00
Jordan	25	100.00	39	100.00	35	100.00
Lebanon	30	100.00	24	100.00	26	100.00
Morocco	1779	100.00	1985	100.00	2373	100.00
Syria	69	100.00	82	100.00	114	100.00
Tunisia	1808	100.00	1590	100.00	2531	100.00
Turkey	4792	100.00	5313	100.00	6639	100.00

Source: Comtrade Data Base.

Table A3: Textiles and Clothing Imports by Major Importers

	1990		1994		1995		1996		1997	
	Value (mn.$)	%	Value (mn.$)	%	Value (mn.$)	%	Value (mn.$)	%	Value (mn.$)	%
Textiles Imports by Major Importers										
Canada	2325	2.22	2917	1.94	3205	2.13	3317	2.20	2867	1.85
USA	6730	6.44	9658	6.43	10441	6.93	10702	7.10	12463	8.03
EU	14237	13.62	15618	10.40	17704	11.74	17311	11.49	18268	11.76
Japan	4106	3.93	5152	3.43	5985	3.97	6075	4.03	5807	3.74
World	104510	100.00	150220	100.00	150760	100.00	150650	100.00	155280	100.00
Clothing Imports by Major Importers										
Canada	2388	2.19	2518	1.79	2669	1.64	2344	1.42	2996	1.70
USA	26977	24.74	38643	27.52	41367	25.47	43317	26.19	50297	28.53
EU	28295	25.95	38705	27.56	42908	26.42	45456	27.49	46980	26.65
Japan	8737	8.01	15265	10.87	18758	11.55	19672	11.90	16727	9.49
World	109050	100.00	140420	100.00	162420	100.00	165370	100.00	176310	100.00
Total Imports of Textiles & Clothing										
Canada	4713	2.21	5435	1.87	5874	1.88	5661	1.79	5863	1.77
USA	33707	15.78	48301	16.62	51808	16.54	54019	17.09	62760	18.93
EU	42532	19.92	54323	18.69	60612	19.35	62767	19.86	65248	19.68
Japan	12843	6.01	20417	7.02	24743	7.90	25747	8.15	22534	6.80
World	213560	100.00	290640	100.00	313180	100.00	316020	100.00	331590	100.00

Source: Comtrade Data Base

Table A4: Structure of Mediterranean Exports by Destination

	EU					USA & Canada				
	1970	**1980**	**1990**	**1995**	**1996**	**1970**	**1980**	**1990**	**1995**	**1996**
Egypt	15.0	48.2	38.9	45.8	45.6	0.9	8.0	8.8	15.4	13.1
Jordan	-	1.7	3.6	6.3	-	-	-	0.6	1.5	-
Lebanon	10.9	8.0	-	-	-	4.2	3.7	-	-	-
Morocco	74.6	64.1	65.9	62.1	61.5	1.6	1.8	2.3	4.0	4.2
Syria	35.6	64.1	41.7	57.0	-	0.4	4.3	0.9	1.6	-
Tunisia	63.4	72.3	78.1	79.0	80.1	1.0	1.5	0.9	1.3	1.4
Turkey	52.5	47.3	55.4	51.3	49.8	9.8	4.6	8.0	7.4	7.4

Source: UNCTAD: Handbook of International Trade and Development Statistics 1996/1997.

Table A5: Value of Quota Restricted and Unrestricted Exports of Textiles from Egypt to Various Geographic Areas, 1996-1998 (million L.E.)

Region	Year	Yarn	Fabrics
Under Quota	**1996**	**454.4**	**226.7**
	1997	**760.5**	**266.3**
	1998	**646.0**	**120.9**
EU	1996	390.2	210.6
	1997	657.2	229.2
	1998	484.7	96.9
USA	1996	64.2	16.1
	1997	103.3	37.1
	1998	161.3	24.0
Unrestricted Exports	**1996**	**272.5**	**90.3**
	1997	**231.0**	**88.4**
	1998	**132.9**	**55.2**
Western Europe	1996	96.1	47.7
	1997	66.7	39.4
	1998	26.8	22.1
CEECs	1996	30.7	1.6
	1997	29.7	0.8
	1998	35.4	0.9
Arab Countries	1996	23.8	36.8
	1997	23.8	36.5
	1998	8.8	21.9
Asia	1996	99.3	2.1
	1997	94.4	2.7
	1998	44.7	3.3
USA	1996	-	-
	1997	-	-
	1998	-	-
Other Regions	1996	22.6	2.1
	1997	16.4	9.0
	1998	17.2	7.0
Total	**1996**	**726.8**	**317.0**
	1997	**991.5**	**354.7**
	1998	**778.9**	**176.1**

Source: Egyptian Cotton Textile Consolidation Fund.