ANIMA

Euromediterranean Network of Investment Promotion Agencies

# The textile and clothing sector in the Euro-Mediterranean region


Collective work directed by
Fabrice Hatem

*Invest in France Agency (AFII)*


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## References

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## Acronyms

- ANIMA: Euro-Mediterranean Network of Investment Promotion Agencies
- CEEC: Central and Eastern European Countries
- IPA: Investment Promotion Agency
- FDI: Foreign Direct Investment
- MEDA: group of 12 partner countries of the EU: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia, Turkey
- MIPO: Mediterranean Investment Project Observatory (ANIMA)

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# Contents

# Summary

The textile and clothing sector plays a key role both in the Mediterranean economies and in trade between the latter and the European Union. The leading industrial sector in Turkey or in Tunisia, it represents overall 50% of manufacturing exports from the MEDA region towards the EU. Conversely, the MEDA countries represent important outlets for the European textile industry, whose products are transformed South of the Mediterranean later to be re-exported in the form of garments, towards the West European market. An important complementarity has thus been created in the sector between the two shores of the Mediterranean.

However, this complementarity is currently threatened by two concomitant movements:

- On the one hand, the rise in power of the clothing industries of Eastern Europe, towards which investment flows and subcontracting contracts from Western Europe are increasingly directed;
- On the other hand, competition from Asian industries, especially the Chinese, which is likely to continue to grow in years to come as a result of the phasing out of the Multi Fibre Arrangement in 2005, following the signing of the Textile and Clothing Agreement (ATC) in Marrakech in 1995. Between now and 2005, all the quantitative restrictions on the trade of textile and clothing products should be lifted.

Faced with the double-edged challenge of increased competition on the European market as well as on their domestic markets, the Mediterranean textile industries must modernise.

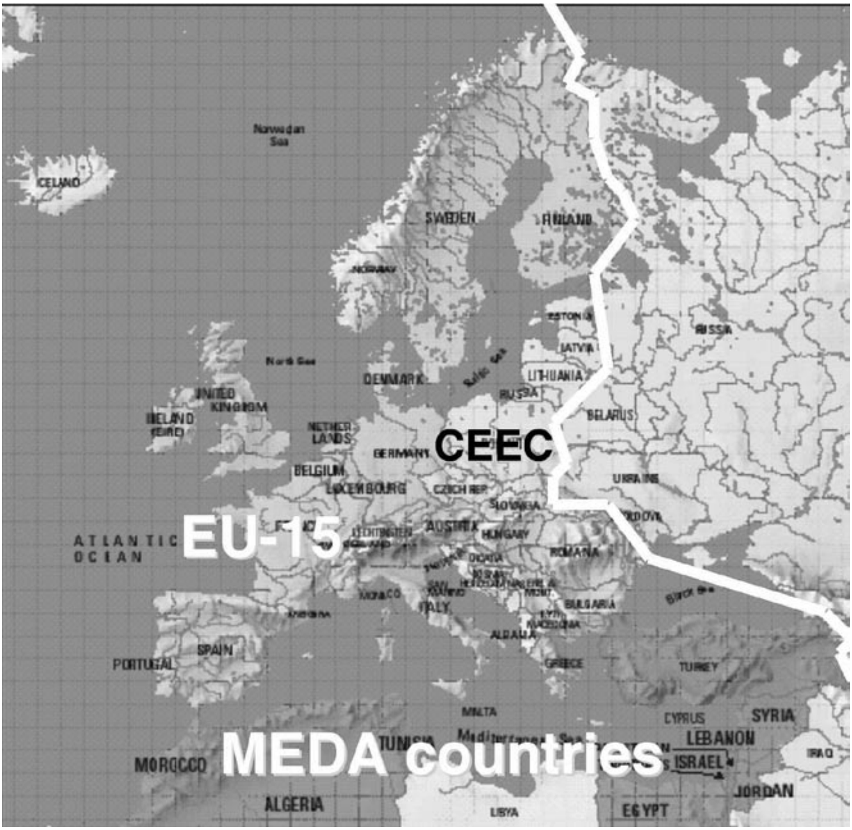
As for the European textile and clothing sector, it has been particularly hard hit by the industrial relocation movements which have taken place over the past 20 years to the benefit of the Eastern and Southern peripheral areas of the continent. Representing an opportunity for those countries with low labour costs, (for example, Romania), this movement is symmetrically perceived as an industrial desertification factor for those countries with high internal costs (for example, France), and presents a problem of reconversion for those countries with intermediate features which had initially based their industrial take-off on labour intensive activities and which have witnessed their labour costs rise in line with the development process as it has taken shape (for example, Tunisia).

It is therefore interesting to study this activity in a systemic perspective which both throws light on the sets of problems which affect a developed country such as France and those of countries situated at different stages of the industrialisation process such as those of the MEDA region and the countries of Eastern Europe. This is what is proposed in this report (see definition of the zone taken into account Figure 1), which links the two points of view, to subsequently examine the extent to which coordinated industrial policies are possible or desirable.

An analysis of the sector brings to light, however, the marked specificities of the industrial segments upstream (textile) and downstream (garments-clothing), whose very different technico-economic features therefore involve, for the companies concerned, very distinct location behaviour and geographical configurations. It is for this reason that the textile industry, more capital intensive, with a more concentrated industrial offer, will locate more willingly in areas offering a highly structured industrial environment and qualified labour resources. The garment industry, on the other hand, represents an activity with relatively low investment costs (at least for the make-up/assembly phase), relatively little concentrated and highly sensitive, at least for mass production, to unqualified labour costs.

Without altogether eliminating the problem set of textiles, the present study focuses essentially on the garment manufacturing sector. In the first part, the analysis concerns the industry structures and the overall trends currently in force on the European market concerning the supply, the demand, and the important technological evolutions. In the second part, an examination will be made of the evolution underway in the geography of the activities within the Euro-Mediterranean area and their consequences for the different groups of countries concerned: Western Europe, first and second generation Eastern Europe, countries from the MEDA region etc. In conclusion, certain proposals of action specific to the countries of the MEDA region are made.

*Figure 1. Area taken into account in the study (Europe of 15, new members and candidates from the East, countries from the MEDA region)*



# 1. Organisation and evolution of the textile sector

## Presentation and definition of the sector

### A sectoral approach

The textile and clothing sector is composed of two very distinct industries:

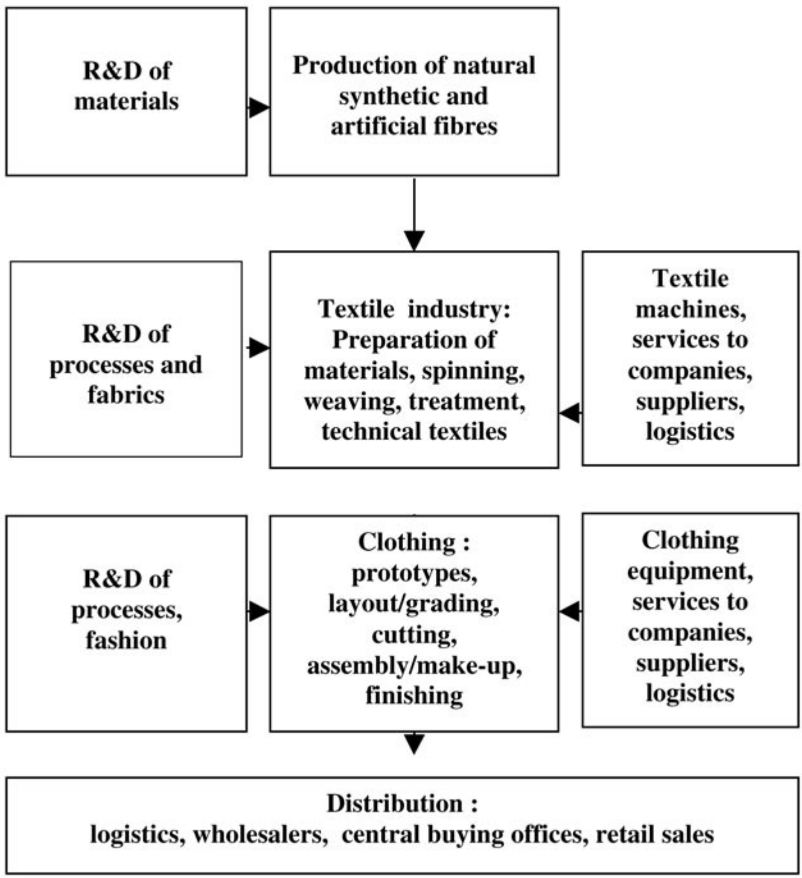
- on the one hand, upstream, the textile industry, which produces the fabrics with the following stages: preparation of the raw materials, spinning, weaving or knitting, treatment;
- on the other hand, downstream, the garment and clothing industry which covers the manufacture of an article of clothing, furnishing and textiles for technical uses. Well upstream are to be found the raw material suppliers (natural, artificial and synthetic fibres), and further downstream, the distributors.

The clothing field itself comprises the following stages: research and development (design offices, trends, prototypes), layout and grading, cutting, make-up, finishing. It is often assimilated to the garment industry. However, it should be noted that the production of the garment sector (and a fortiori the textile sector) is not entirely intended for the clothing sector, as part of it is used by other industries: manufacture of household linen, furniture manufacturing, wall coverings, technical uses (see Figure 2).

### Main features of the activity in the Euro-Mediterranean region

In 2001, the textile and clothing sector in the Euro-Mediterranean region represented a production of around 250 billion Euros including 200 for Europe (see Figures 3 and 4). It employed 7 million workers, including 2 million in Western Europe, 1 million in the CEEC countries and 4 million in the MEDA countries. The total

*Figure 2. Textiles-clothing-garments: a simplified diagram*




market represented 272 billion Euros, including 227 for Western Europe, 32 for the MEDA region and 13 for the CEEC countries. Western Europe in more specialised in the upstream part, the CEEC countries and the MEDA region in the downstream operations. As a matter of facts, textiles represent 65% of European production in the sector against only 35% for the garment industry,

*Figure 3. The clothing industry in the Euro-Mediterranean region in 2001[1]. Source: DREE, 2004*

| | Production (€ bn) | Exports (€ bn) | Imports (€ bn) | Consumption (€ bn) | Jobs (million) |
|---|---|---|---|---|---|
| UE | 197 | 41 | 71 | 227 | 2,1 |
| CEEC | 13 | 10 | 10 | 13 | 1,0 |
| MEDA | 42 | 17 | 7 | 32 | 3,9 |
| of which Turkey | 30 | 10 | 3 | 23 | 2,5 |
| Total | 252 | 68 | 88 | 272 | 7,0 |

1. The figures concerning especially CEEC and MEDA areas should be considered with a certain amount of care, given the difficulties in statistical measurements (underground economy…).

*Figure 4. Synopsis of the clothing industry*

| Domain | Characteristics and evolution | Implications for strategies of internationalisation |
|---|---|---|
| Market/ Demand | Around 270 billion euros in the MEDA region for the whole sector, including 230 for Western Europe. Weak progress in European demand. | Installation of extra-European providers in Europe<br>-Internationalisation of European companies for access to the world market. |
| Technico-economic features | -Labour intensive industry<br>-Little capital investment | - Relocation of mass production towards low cost areas with phenomenon of cascade migration |
| Technologies | - Overall low R&D rate, but:<br>- Product innovation (fashion, new textiles) and process (CAO, PAO, etc.) | - The competitiveness of the Northern countries is better in segments with strong innovation intensity (new textiles, fashion…) |
| Industrial offer | -Low concentration of offer; weak entry barriers<br>-Distinction between outworkers/ subcontractors and designers of products<br>-Growing role of distributors | - Distributors supply strategies towards low cost areas<br>-Importance of locations without investment (local sub-contractors, outworkers) |
| Political and regulatory evolutions | -Disappearance of MFA quotas<br>-Creation of the EuroMed area | -Possibility of building international production networks<br>-Globalisation / regionalisation of competition |

compared with respectively 55% and 45% for the remainder of the Euro-Mediterranean region.

The sector represents, for certain countries of the MEDA and CEEC regions, a major economic stake (Figure 5). It is, for example, the leading industrial sector and the top export segment for Tunisia, Turkey, Morocco and Romania.

*Figure 5. The clothing industry, a major stake for the countries of the MEDA region*

Each of the Mediterranean countries has made a speciality for itself: hosiery products for Turkey, Morocco and Egypt, jeans for Tunisia and Turkey and finally tee-shirts for Turkey, Syria and Egypt. Turkey, Syria and Egypt are also producers of cotton. Among the 300 largest world textile and clothing companies, nineteen originate from Turkey, two from Egypt, two from Israel and one from Syria. Turkey provides more than half the textile and clothing production in the Mediterranean area. In total, the Mediterranean countries export 18 billion dollars' worth of textile and clothing (2002).

• Turkey has climbed to the number one spot among Mediterranean countries, by providing a little more than half of this production. Textile and clothing account for 40% of Turkish exports and employ 2 million people. The main advantage of Turkey derives not from low wages but rather from the quality of its industrial structure. During the 90s, the country made a great effort to modernise. The result is that companies are bound to find all the supplies they require on site. However, despite large efforts in modernisation and productivity, the textile sector imports more than 2.7 billion dollars' worth of raw materials (fibres, threads, fabrics).

• Textiles are a pillar of the Tunisian economy. The efforts to modernise and the arrival of foreign investors are among the positive signs. Tunisia is an importer of textile fibres, yarn and fabric, as well as accessories for the clothing industry. During the next few years, this trade should continue and become oriented towards more technical, more sophisticated materials, hence with higher added value. For Tunisian companies to be more competitive, they will need to incorporate weaving which has increased over the past two years, albeit insufficiently. Similarly, knitted yarn, which is relatively little developed compared with other countries, is also a profitable sector.

• To attract foreign investors to textiles, Morocco can count on tax exonerations for exporting companies and on the creation of free zones. Today, textiles remain the country's main industrial activity, but are suffering from competition from Asian countries, where wages are lower.

• With production neighbouring one million tonnes per annum, Syria is one of the leading world producers of raw cotton. The industry employs 15% of the working population. On the other hand, the country does not make textile machines.

• Since the beginning of 2002, a noticeable boost in textile activity has been felt in the private sector in Algeria. The re-opening of factories which had been closed for security reasons provides opportunities to investors. Among the assets of this sector, is the large production capacity and abundant and inexpensive labour.

According to de Saint-Laurent *et al.* (2004)

In Western Europe, in 2001, there were more than 110,000 enterprises in the sector, employing 2 million people and with a turnover of nearly 200 billion Euros, 70 billion of which for the garment segment.

However, these industries, subjected to very strong relocation movements, are on the decline, at least in employment terms. For example, the French clothing industry lost more than 63% of its jobs, between 1986 and 2001, that is more than 100,000 jobs. On the other hand, the turnover remained more or less stable (Figure 6).

*Figure 6. Evolution of turnover ( in value terms) and jobs in France in the textile and clothing industries. Source: SESSI*

| | **Jobs (000s)** | | **Turnover (€m)** | |
|---|---|---|---|---|
| Activity | 1995 | 2001 | 1995 | 2001 |
| Knit | 27 | 19.9 | 2.3 | 1.9 |
| Textile articles | 42.2 | 37.8 | 4.9 | 5.1 |
| Spinning, weaving, treatments | 58.9 | 44 | 7.5 | 7.1 |
| Artificial and synthetic fibres | 3.0 | 2. 3 | 0.6 | 0.6 |
| Leather, footwear | 47 | 37.7 | 4 | 4.2 |
| Clothing and furs | 109.6 | 73 | 10.2 | 10.6 |
| Total | 287.7 | 212.4 | 29.5 | 29.5 |

## The market and the demand

The European market represents by far the main export outlet for the clothing industries of the MEDA region countries. It is therefore useful to analyse in detail the structures and the evolution[2].

2. It is important, however, not to forget the market of the MEDA countries, which represents a non-negligible stake (more than 30 billion euros, with more rapid growth than that of the European market).

## The size of the market

Clothing represents the second most important budget item for European households, for a total market estimated at around 230 billion Euros (for the whole sector). However, the share of clothing in total household expenditure in Europe is tending to decline: 4% in 2000 against 5.9% in 1980 (Figure 7).

*Figure 7. Share of clothing in total household consumption expenditure in the EU. Source: Eurostat*

| **Year** | **1960** | **1970** | **1980** | **1990** | **2000** |
|---|---|---|---|---|---|
| Budget share | 7% | 7.4% | 5.9% | 5% | 4% |

Germany, France, the United Kingdom and Italy alone represent more than 70% of the West European market (Figure 8).

*Figure 8. Share of the European clothing market by country (EU, 1998, billions of euros).* Source: Eurostat

| **Country** | **Market in Billion €** | **%** |
|---|---|---|
| Austria | 5.1 | 2.3 |
| Belgium | 7.6 | 3.4 |
| Denmark | 3.3 | 1.5 |
| Finland | 2.0 | 0.9 |
| France | 29.8 | 13.4 |
| Germany | 56.1 | 25.2 |
| Greece | 4.7 | 2.1 |
| Ireland | 1..3 | 0.6 |
| Italy | 38.9 | 17.4 |
| Netherlands | 7.1 | 3..2 |
| Norway | 3.1 | 1.4 |
| Portugal | 3.0 | 1..3 |
| Spain | 15.0 | 6.7 |

| | | |
|---|---|---|
| Sweden | 4.4 | 2.0 |
| Switzerland | 5.9 | 2.7 |
| United Kingdom | 35.8 | 16.0 |
| Total EU | 223 | 100.0 |

Women spend the most: in the ready-to-wear segment, they represent 54% of sales in percentage of turnover, while men only represent 34%. The remainder of the market concerns children.

The demographic factors (volume and population growth rate) influence the consumption of garments. Today, the share of the under-25 year olds is increasingly important in annual clothes expenses. On the other hand, the share of older people is much less (Figure 9).

*Figure 9. Annual clothes expenses by age range in France in 1999 (At 1980 prices, % compared with total expenses)*. Source: INSEE

| Age | <25 | 25/35 | 35/45 | 45/55 | 55/65 | 65/75 | >75 | All |
|---|---|---|---|---|---|---|---|---|
| Budget share | 6.2% | 4.4% | 4.3% | 5.1% | 3.5% | 3.3% | 2.9% | 4.2% |

The share of clothes expenses grows in relation to the level of income, as is shown by the analysis by socio-professional category (SPC, Figure 10).

*Figure 10. Annual clothes expenses by socio-professional category (SPC) in France in 1999*. Source: INSEE

| SPC | Sen. Execs., Professions. | Intell. Profs. | Empl. | Agr., art., shop. | Hrly paid | OAPs | All. |
|---|---|---|---|---|---|---|---|
| Budget share | 5.0% | 4.6% | 4.3% | 3.7% | 3.7% | 3.3% | 4% |

## Market segmentation

The European clothing market may be divided into four segments: the top-of-the-range, the classic, the fashion and the basic, each with its own features: higher added value per capita, investment rate and publicity effort particularly for the top of the range (Figure 11).

*Figure 11. Segmentation of the clothes sector in France. Source: IFM, 1999*

| | Top of range | Classic | Fashion | Basic |
|---|---|---|---|---|
| Turnover par capita (kF) | 1 263 | 686 | 911 | 504 |
| Added value par capita (kF) | 313 | 210 | 215 | 152 |
| Investment rate | 15% | 4% | 5% | 6% |
| Publicity / T/O ex VAT | 4 | 2 | 1 | 1 |

## The quantitative evolution of the market

Slow growth in the demand for clothes products may be observed in developed countries. The low demographic dynamism, the drop in comparative prices, the relative saturation of basic needs explain a continual decline in the share of the expenses of clothes in household budgets, a movement which should continue in the medium term. There is more rapid growth in demand in the CEEC and MEDA countries, for the opposite reasons: higher demographic dynamism (for the MEDA countries), basic needs unsatisfied, more rapid growth in per capita income, etc.

## The qualitative trends in demand

It is important to analyse these trends insofar as they may have important consequences on the location strategies of the clothing producers. Indeed, the demand for increased personalisation of the product, the effects of fashion trends leading to the accelerated renewal of the ranges, are just some of the trends potentially favourable for a part of the production facilities remaining in the immediate vicinity of the final market, especially for short runs of « fashion » and « top-of-the-range » products. On the contrary, the basic products, where the consumer is more sensitive to the price effect, are increasingly likely to be relocated towards countries with lower costs. An analysis of the main trends currently at work is proposed in Annex 2.

# Technological evolutions

As with all industries, the textile and clothing sector is currently faced with extremely rapid technological evolutions, both as far as production processes are concerned as well as the very nature of the products. These evolutions, by transforming the very fundamentals of the activity, are likely to have a profound effect on the decisive factors of its geographical location within the Euro-Mediterranean region. For example, the evolution towards more highly developed production technology, while reducing the role of unqualified labour, may create an obstacle to the relocation movement, linked to a search for low production costs. On the contrary, the development of technologies which provide for the remote transfer of data may facilitate the use of sub-contractors who are far from the final market. An analysis of the trends at work, as much in matters of process as products, is proposed in Annex 3.

# The offer and the players in the sector

After having described the industrial players and their strategies, based on a dozen case studies concerning large corporations in the Euro-Mediterranean region, close attention will be paid to the trends at work in the distribution sector, which play a powerful role in the acceleration of the relocation movement of the industry through systematic strategies of sourcing from countries with low costs.

## Industrial actors and their strategies

### Overall description

The European clothing sector is overall very little concentrated. The companies are generally very small in size, since 85% of them employ less than 20 staff[3]. In France, the clothing companies, on average, only employ 73 people, against 130 in industry overall. Apart from the leather clothing and industrial clothing sectors, the

3. It should be noted, however, that companies with more than 20 staff represent more than 70% of the payroll and generate 75% of the turnover of the European clothing industry.

offer in Western Europe remains highly diffuse, as illustrated by the French case (Figure 12).

*Figure 12. Concentration of the clothing industry in France (1999). Source: IFM, 2000.*

| | Share (%) of the first 4 companies according to: | | |
|---|---|---|---|
| | Payroll | Sales | Exports |
| Leather clothes | 52.3 | 49.7 | 57.8 |
| Working clothes | 26.7 | 25.6 | 57.7 |
| Mens' outerwear | 18.2 | 17.2 | 24.3 |
| Other clothes and accessories | 15.3 | 29.4 | 21.3 |
| Underwear | 14.9 | 16.1 | 31.1 |
| Women's outerwear | 8.1 | 13.2 | 19.7 |

Among the industrial players in the clothing sector, it is possible to distinguish (see SESSI, 2001):

- The *traditional integrated manufacturers* or « own accounts ». These are the classic manufacturing companies which combine the functions of design, production, and marketing. They therefore integrate the whole production cycle for different ranges of products. They possess their own production tools, in their own country and/or abroad. But today, only a very reduced number of own accounts undertake their own production on their national territory. Since the end of the 1980s, companies have gradually been reorganised in «mixed structures», bringing together, in variable degrees, three forms of production: own account production, subcontracts given and/or received (part time outworking so as to optimise the production tool in periods of under activity), finished product purchasing…
- The *principals* buy the fabric, keep for themselves the tasks of design and marketing of the products, and entrust the industrial manufacturing (which can go from cutting to make up of the products) to specialist companies, outworkers. This enables them to offload the problems of production, technological investment, employment (management of staff, of social conflicts, of working time…) onto the subcontractor. On the contrary, they have to face the problems caused by the use of subcontracting (quality of the products, delivery lead times…). Two types of principals are present on the markets: 1) Principals who have little

by little rid themselves of their productive structure and no longer have a production structure, that are referred to here as « concept developers »; 2) Partial principals, who along with their own production facilities also use subcontracting and/or purchasing techniques.

• *Outworkers* are subcontractors who carry out work according to instructions and are paid for the time spent in cutting and sewing the products. The outworker in the clothing sector does not therefore finance any stock of raw materials or finished products. Three types of outworker may be distinguished:

*1. The traditional outworkers carry out tasks for manufacturers which go from cutting to make-up but also operations which require special know-how (embroidery…). They are vendors of clothing-making time who make their production facilities and their labour available, either to manufacturers who no longer possess their own manufacturing facilities or who find themselves faced with an overload of production, or distributors who want to have short runs made with reduced lead times that foreign subcontractors cannot make. They work from a schedule of specifications provided by the principal who also supplies the pattern with its indications, the raw materials and the ancillaries (zips, threads, buttons…). These outworkers, who are called upon to make basic products, are considered as simple agents bound to respect the expected level of quality and the lead times.*

*2. The outworker- entrepreneurs are outworkers who, in order to reinforce their position, have been led to modify their strategy in such a way as to adapt to the new working conditions imposed by the market. So as to bind themselves in a lasting way to the new principals and thus capture new outlets, certain have decided to widen their field of intervention by developing new skills. Thus, they propose their services for stages in the manufacturing process which until then were not covered by their domain of expertise: on the one hand, technical assistance (preparation of the schedule of specifications, making of patterns, of prototypes…) and on the other hand, advice for the development of a collection. Sometimes they are referred to as co-contractors.*

*3. The partial outworkers: in periods of under-activity, so as avoid partial unemployment, certain integrated manufacturers transform themselves into subcontractors and undertake work for principals.*

## The strategy of some large Euro-Mediterranean textile companies

This paragraph presents the strategy of a handful of major players of the clothing sector in the Euro-Mediterranean region, the list of which, together with the general characteristics, are to be found in Figure 13. These monographs throw particular light on the massive character of the relocation strategies implemented by the manufacturers, at least for those products where the labour costs play a crucial role in the competitiveness of the product.

*Figure 13. Some of the main clothing providers on the market of the Euro-Mediterranean region*

| Name of group | Brands | T/O (€m, 2001)(1) | Net profit ( €m) |
|---|---|---|---|
| Pinault-Printemps-La Redoute | Cyrillus, La Redoute, Orcanta, Verbaudet, Somewhere, Gucci | 2,500 | 300 |
| H&M | H&M | 53.2 | 6 |
| Inditex | Zara, Massimo Dutti, Pull and Bear, Bensnka, Feradivarius, Oysho | 30.2 | 3.2 |
| Vivarte (ex groupe André) | La Halle aux vêtements, Caroll, Kookaï, Spot, Creeks, Vetland | 158.2 | 16 |
| Lacoste | Chemises Lacoste | 650 | - |
| Etam | Etam, 1.2.3, Tammy | 1,099 | 19.7 |
| Benetton | United colors of Benetton, Sislye, Killer Loop, Nordica, Rollerblade, Playlife | 2,098 | 148 |
| Timberland | Timberland | 1,198 | 106.7 |
| Naf-Naf | Naf-Naf, Chevignon, NC Kids | 240 | 11.6 |

(1) Clothing activity

## a. Pinault-Printemps-Redoute

*Presentation.* PPR moved into the luxury sector in 1999, with its acquisition of the Gucci Group. The latter designs, manufactures and retails high quality luxury goods. The Gucci Group is one of the top luxury multi-brand groups in the world thanks to its brands Gucci, Yves Saint-Laurent, Sergio Rossi, Boucheron, Bottega, Veneta, Bédat & co, Alexander McQueen, Stella McCartney and Balenciaga.

*Strategy analysis.* Apart from ready-to-wear, the group's offer includes handbags, leather goods, footwear, watches, jewellery, ties and scarves, spectacles, perfume, cosmetics and skin care products. The Gucci Group markets its products through the network of stores that it manages throughout the world (336 stores, including 173 for Gucci and 46 for Yves Saint-Laurent), in franchised stores and duty free boutiques, in department stores and specialist stores. In terms of price, PPR practices high prices for products with a luxury image, a guarantee of quality which creates customer loyalty. Finally, the promotion activity targets a very specific patronage and uses international poster campaigns to show off the image of the products, as well as personal invitations for private sales.

### b. H&M

*Presentation.* H&M was created in Sweden in 1947 and today has 84 stores in 17 different countries. The business concept is « fashion and quality at the best price ». The industrial strategy aims at obtaining the lowest possible prices.

*Strategy analysis.* H&M sought to diversify its offer by launching into cosmetics. Its strategy consists in developing young « trendy » products at very reasonable prices.

*International development.* The group has no factory in its own name, but works with around 900 suppliers, half of them located in Europe and the other half in Asia (« decentralised » model similar to that of Nike). It has 21 buying offices throughout the world: 10 in Europe, 10 in Asia and one in Africa. In terms of promotion, H&M is today present in 17 countries.

### c. Inditex

*Presentation.* The first Zara store opened in Spain in 1977. The Inditex group is today composed of more than one hundred companies whose activities extend from design to production and to distribution, but only in the textile and clothing domain.

*Strategy analysis.* The business concept is very much oriented towards innovation and flexibility. The group seeks to position itself on all the links of the value chain, which explains the existence of the numerous subsidiary companies. Prices are relatively high. In terms of promotion, Inditex seeks to develop its sales through the web.

International development. The group's stores are mainly to be found in Spain and the countries of South America, but Inditex is also present in all European countries.

## d. Benetton

*Presentation.* The group was created in 1963 by Luciano Benetton who is still at the head of the business today. The mother company, Benetton SPA, is located in Treviso, Italy. Originally positioned in the knitwear sector, it subsequently extended its activities to the ready-to-wear clothing sector for « men, women and children » as well as accessories such as belts and bags. Today, it has become highly internationalised and is developing into sectors such as sports equipment, motor sport, motorway restaurants and mobile telephones.

*Strategy analysis.* In order to achieve the largest possible market share, Benetton has developed a large number of brands which target various classes of customers: 15-30 years old with United Colors of Benetton (casual wear), known throughout the world for its advertising campaigns illustrating the theme of multi-raciality through the photographs of Oliviero Toscani; female customers between 20-35 years old with Sisley (casual wear) ; 10-18 years olds with Killer Loop (casual wear) and Play Life; sporty types with Nordica (Sportswear) and Rollerblade (skiing, skating, surfing…). International development. Present throughout the world, Benetton nevertheless makes the major part of its turnover in Europe (69%), against 10% in North America and 9% in Asia. The company designs its products itself in Italy, but subcontracts a large proportion of its manufacturing, for the most part to countries such as Hungary, Croatia, Tunisia and Spain.

## e. Etam

*Presentation.* Created in Germany in 1916, the Etam group specialises in the design and distribution of women's fashion products ( ready-to-wear, lingerie, accessories).

*Strategic analysis.* Etam proposes three complementary brands: Etam, 1.2.3 and Tammy Girl, which enables it to cover the major part of the female clothing market. Etam offers women from 20-40 years old ready-to-wear products adapted to the needs of everyday working and social life, (town, sportswear), at reasonable prices; 1.2.3 targets a wealthy, more classic clientele with city and professional style and is today one of the leaders of the top-of-the-range ready-to-wear segment with high prices. Tammy Girl offers young girls a complete range including lingerie, ready-to-wear, shoes and accessories, at very low prices.

*International development.* Each brand designs its own collections and calls upon a network of subcontractors throughout the world for its production. Etam achieves 58% of its turnover in France (58%), and is especially active in Southern Europe, in Belgium, in England and in China.

## f. Naf-Naf

*Presentation.* Founded in France, thirty years ago, by the Pariente brothers, Naf-Naf is today one of the European leaders in ready-to-wear for men, women and children. Its turnover witnessed a rapid growth in the years 2000 and 2001.

*Strategy analysis.* Naf Naf operates through three brand names: Naf Naf (Female town clientele between 18-25 years of age with two ranges – citywear and sportswear – at reasonable prices) ; Chevignon (wealthy male clientele between 25-35 years old, top-of-the range sportswear at high prices); NCKids (citywear and sportswear for children and adolescents, at very reasonable prices.

*International development.* In 2001, the group produced more than 900 million units, in factories still partly situated in France, but largely relocated in the countries of Eastern Europe and the Maghreb. The group achieved 35% of its turnover outside France. It has sites in Europe, North America, South, America and Asia.

## g. Timberland

*Presentation.* Created in Boston (Massachusetts) in 1918, the company was initially a footwear manufacturer. It subsequently diversified its activities in the direction of the sale of clothing and accessories.

*Strategy analysis.* Timberland offers a wide selection of top-of-the range sportswear clothing, with two collections (United States and Europe).

*International development.* Timberland achieved 30% of its annual turnover in the United States and 70% overseas (Asia, Europe) in 2001. It is seeking to open production sites on each of the continents where it sells its products.

## h. Lacoste

*Presentation.* Founded in 1933, the company initially manufactured a single model of shirt intended for the French market. From the 1950s, it undertook a twin diversification movement (ready to wear and accessories) and the international market (particularly through the granting of licences to foreign partners).

*Strategy analysis.* Lacoste, apart from shirts and polos, has gradually diversified its activity towards a much wider range of clothing and accessories (sports clothing and footwear, sunglasses, perfume, (Jean Patou), childrens' collections, underwear…

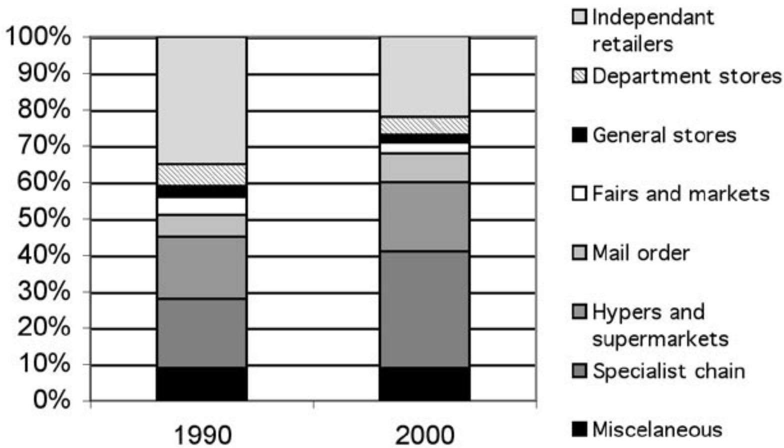
*International development.* Lacoste seeks to sell its products throughout the entire world. It is currently present in 103 countries through a network of specialist retailers and in the 677 Lacoste boutiques and 1651 « corners ». The design/production of products is carried out by the Devanlay Group, a subsidiary of the Devanlay-Lacoste Group (own production and subcontracting), or through licence-holders. Seeking the lowest production costs necessarily leads to the relocation of production activities towards countries with low wage costs (for example, Romania) and the closing of numerous sites in France (Bar-sur-Seine, Romilly-sur-Seine, Chaource…).

# The increasing weight of the distributors

## Concentration of distribution in Europe

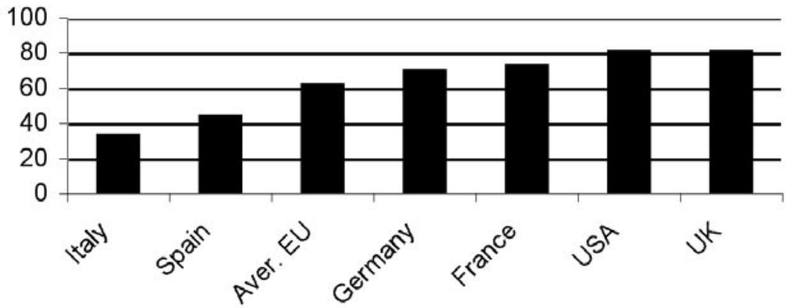
During the course of the past twenty years major shake-ups have been observed in the structure of European distribution, especially with the boom in new distribution chains, offering wide and varied ranges of products. Independent stores have seen their share of the market decline, to the benefit of the specialist chains, hyper- and supermarkets, and to a lesser extent, mail order. This movement has continued and increased in recent times (Figure 14).

*Figure 14. Market share by type of distributor in France. Source: Lacoste*




The progress in this movement is, however, very unequal from one country to another. Very marked in France, it is somehow less developed in the rest of Europe, where the share going to the retailers remains overall larger, with wide disparities depending on country (Figure 15). For example, the market share of the independent stores remains very high in Mediterranean countries and that of the department stores and popular stores is high in the English-speaking countries.

*Figure 15. Concentration in the European clothing distribution sector in 2002 by country (share of department stores, hyper-, supermarkets, Mail order and specialist chains, in %). Source: IFM*




## The strategies of distributors and their consequences on the industrial offer

### The growing power of the distributors

The specialist distributors and the large super- and hypermarkets have gradually increased their market share in clothing sales since the end of the 1970s. This movement has affected the capacity of manufacturers to determine the selling prices themselves. Indeed, this restructuring has been accompanied by a weakening of the traditional « manufacturer-wholesaler-retailer» distribution circuit which enabled the manufacturers to control their selling prices. These new distributors can make the manufacturers compete with each other, have an effect on prices and finally, penetrate the production activity, as a result of the weakness of the entry barriers. This phenomenon of the take over of power by the distributors has created a complete turmoil of the operational rules of the sector and the strategies of the traditional companies.

### The internationalisation of distributors and the new outsourcing strategies

Affected as they are by the saturation of the European market, the large specialist and generalist distribution companies seek in their turn to internationalise. They also attempt to differentiate their offer by turning towards a policy of brand/label, with collections prepared in advance and deliveries programmed in the stores, so as to increase the value of their brand in the eyes of consumers. Although the two traditional collections per annum continue to prevail, the distributors seek to offer 6 to 8 themes per season.

Today, the distributors, through the intermediary of their buying offices, practice three types of outsourcing (see also box in Figure 16): a. pure subcontracting, characterised by the negotiation of the purchase of the fabric and the payment of the «manufacturing time » to the subcontractor in relation to a model supplied; b. controlled trading, or fixed price contract, where the model is supplied and the type of fabric specified in the technical specifications; c. pure trading, that is to say the purchase of finished goods.

Today, there is a trend to the reduction in the market share of pure trading, which is now limited to opportunity products, peripheral products and brands, as well as a stabilisation of subcontracting to a level of less than 50%, despite the direct gain in margin and a better control of the product. Finally, the development of controlled negotiation to the detriment of pure subcontracting favours the players capable of providing an overall offer.

## The development of house brands and the upstream move by the distributors

For a number of years, the distributors have been applying themselves to what is for them a new profession, that of creator-designer. They participate in the collections, often manage their supplies of raw materials, and become directly involved in the process of creation and manufacturing. They finally build links with the national and foreign manufacturers and outworkers. Those manufacturers who work with the large supermarket chains thus find themselves faced with customers with a considerable purchasing power and are subject to very tough conditions for payment and lead times, rebates, discounts and promotional operations. In addition, the large chains are organising themselves to develop their own brands by importing or having a part of their requirements manufactured directly abroad. There is therefore a movement up-stream of the sector with the appearance of specialist chains which integrate everything from distribution to manufacturing, through the intermediary of subcontracting (indirect integration).

*Figure 16. The development of trading by the large retail chains*

At the outset, it was above all a question of obviating the need of the services of French importers and Asian agents for supplies of textiles, footwear, variety goods, tools, toys, electronics and household appliances. The aim was to recover the margin made by these intermediaries. Depending on the products, the direct purchases enabled French distributors to economise between 15% and 50% of the purchase price.

But buying direct also means improving the quality of the purchases. The trading companies of the large retail chains identify the most competitive local suppliers on the basis of specifications defined by the marketing departments in France. Once the order has been placed, either by the trading company, by the stores themselves or even, in the case of Carrefour, by the purchasing departments of the twenty or so countries where the banner has stores, the in-house specialists assist the suppliers' manufacturers to optimise their production line. They then follow manufacturing quality up until the shipping of the containers.

Among the trading companies of European retail groups, should be cited for example: Gemex, the enormous buying office of the German group Metro; the Auchan trading company installed in Bangkok ; Siplec International, a subsidiary of Leclerc, installed in Hongkong and Madras (India) ; Comi Asia, a subsidiary of Intermarché in Hong-Kong. The purchasing company of Casino, installed in Hong-Kong, merged with that of Cora, to form Opéra Asie, a subsidiary of the new joint buying office.

***The example of Carrefour***

Carrefour Marchandise International (CMI) is one of the most discreet companies in the Carrefour group. It is, however, directly attached to the General Management of Carrefour. Its mission: coordinate all the foreign purchases of the hypermarkets throughout the world, more especially by developing direct buying from factories in China, in South East Asia and on the shores of the Mediterranean. It is the international buying structure of Carrefour, especially the Hong-Kong company, which enabled the group to successfully launch its " mois historiques " promotional campaign in the autumn of 1998 then 1999. In 1999, world " sourcing " of Carrefour would have generated some 9 billion francs in equivalent turnover at retail prices, that is around 4% of the world turnover of the group (before its merger with Promodès) and nearly 10% of its non-food turnover, the only domain really concerned by this type of purchase. Since then, the new number two of world distribution has considerably raised this percentage, and has set up new trading companies on other parts of the world (Eastern Europe, Latin America).

This movement concerns particularly the generalist distributors, that is the mail order companies, the hypermarkets and supermarkets, as well as the department stores. Indeed, the very large volumes moved by these distribution channels give them advantages at several levels: a. the development of house brands favours differentiation ; b. the control of the value chain provides important reductions in costs; c. the considerable volumes handled by the buying offices give them increased weight and efficacy.

The arrival on the scene of the specialist chains also constitutes a phenomenon with considerable consequences. The footprint of the latter on the market makes it difficult today for players without a distribution network to take their place in the market.

In fine, the control of the distribution networks has henceforth become one of the most important elements of competitiveness. The distribution chains have, among other things, the possibility of granting longer production cycles than those of traditional manufacturers which do not integrate distribution, since they are sure to sell their products thanks to their access to the consumer.

## The reaction of the manufacturers

Faced with the growing weight of the distributors, the industrial manufacturers and outworkers have reacted by seeking increasing efficacy from their production facilities (flexibility, cost, quality) through increased use of technological innovation. A downstream integration counter-strategy has also been developed through the purchase of stores or the introduction of a distribution network. As for outworkers, in competition with imports, they have been forced to innovate and widen the range of their competence, with among other consequences, the birth of outworker entrepreneurs.

# 2. Localisation of activities: what attraction for MEDA countries?

The gradual opening up of frontiers, made possible by regulatory evolution, has led to a massive movement of the relocation of activities of the garment and clothes sector, that may be illustrated by an analysis of the flows of direct investment into the Euro-Mediterranean region. This movement has led to increased competition, as well as a growing complementarity between the different national industries of this zone, with each possessing specific advantages and handicaps.

## Regulatory evolutions: a gradual opening of frontiers[4]

### Past evolutions

The efforts of the liberalisation of trade undertaken within the context of the GATT have always been faced with particular obstacles in the textiles and clothing sector, which led to a need for regulation. For more than 30 years, this sector was regulated by special regimes (cf. Annex 4): the 1961 short term agreement concerning the international trade of cotton textiles, the long term agreement concerning the international trade of cotton textiles from 1962 to 1973, and the Multi Fibre Arrangement (MFA) concerned all textile fibres from 1974 to 1994. The decision to include this sector in the field of the multilateral trade negotiations in the 1986 cycle of the Uruguay Round was therefore especially important. Seven years of complex negotiations led to the Agreement on Textiles and Clothing (ATC).

4. See the site http://www.wto.org/english/thewto whence this presentation was taken.

# Present and future evolutions

## Dismantling the MFA

The objective of the negotiations in this domain was to ensure a seamless integration of the textile and clothing sector into the framework of the 1994 GATT on the basis of reinforced rules and disciplines. The Agreement on Textiles and Clothing is a provisional agreement which was to rest in force for ten years and was not to be extended. Its main provisions were designed gradually to eliminate the quantitative restrictions, particularly the bilateral contingents negotiated within the context of the Multi Fibre Arrangement (MFA). The restrictions, applied under the MFA, which were in force on 31st December 1994, were carried over into the new agreement and to be maintained until the designated products are integrated into the framework of the 1994 GATT. Integration signifies that once the product is integrated, trade in this product is governed by the general rules of the 1994 GATT. The integration programme comprises four stages and all the products must be integrated by 1st January 2005 at the latest. As concerns those products which continue to be subject to restrictions, at whatever stage in the transition period, the Agreement sets out a formula which enables the existing growth coefficients to be increased. As long as one particular category of products is not integrated, the importing country members may apply a specific transitory safeguard mechanism against a determined exporting country, if certain conditions clearly set out in the Agreement are met.

**Regional agreements:
the creation of the Euro-Med area and its objectives**

The Euro-Med process was launched in Barcelona in 1995. Its objective is the creation of a vast free trade area, on the model of NAFTA, between the European Union and the 12 Mediterranean countries of the MEDA region. Beyond a reciprocal lowering of customs duties and an opening of the markets, the project provides ideally for the establishment of a common external tariff, a common trade policy, and unified rules in terms of competition, markets and standards. It aims to increase the global competitiveness of the area, trade between partner countries and the development of each of the signatory countries.

This project has had particularly far-reaching consequences for the textile and clothing sector by encouraging the development of trade and the enhancement of complementarities between the North and South regions of the Mediterranean. A self-sufficient area, with a globally stabilised textile industry in terms of employment and production, could see the light of day alongside the other large integrated zones: Asia and NAFTA. The manufacturers would find here all the components of an integrated sector and thus avoid having to face the costs and the logistic complexity of distant relocations.

## A powerful movement for relocation outside Europe

### A little history

The textile and clothing industry has historically been one of the main driving forces of the industrialisation of today's developed countries, such as Western Europe, North America and Japan. But since the 1960s, this situation has been upset, with the new producer countries providing increasingly heavy competition for the industries of the North, which has been made possible by the opening up and the internationalisation of markets. While the developed countries, with Western Europe in the forefront, still dominated the main trade currents in 1960, this supremacy has gradually been shaken by new producers from the South (Figure 17).

Initially, relocation mainly concerned the downstream operations of the sector, that is to say the clothing industry. In fact, textiles are a capital intensive industry with heavy and sophisticated production tools which are difficult to transport. On the contrary, in the clothing field, the capital investment remains limited and labour represents a large part of the cost price of the product. Today a movement may be seen, however, towards the higher technology professions such as the transformation of textiles. The whole of the

*Figure 17. The share of Western Europe in world exports of textile products and clothes. Source: CEPII, base Chelem*

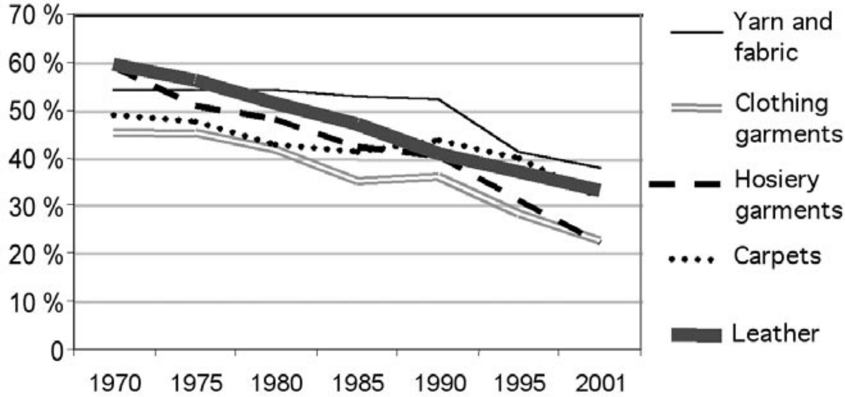
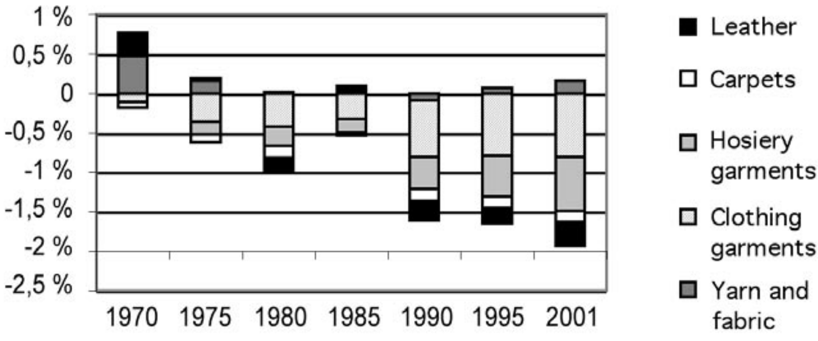



*Figure 18. Evolution of the West European external balance in textile and clothing industries (% of total external trade). Source: CEPII, Chelem base*




sector is therefore gradually being reconstituted outside the early industrialised countries. Whence a gradual increase in the trade deficit, linked to the rapid growth of imports (+350% for Western Europe between 1980 and 1994), which the explosion in exports (270%) has not managed to compensate. In 2001, the European

Union balance of trade was in deficit to the tune of 30 billion euros. This deficit was entirely concentrated on the clothing activity, with the textile sector remaining in surplus by around 5 billion euros (Figure 18). In this latter activity, Western Europe still remains the leading world exporter (Figure 19).

*Figure 19. Distribution of world exports (%, 2001).*
*Source: CEPII, Chelem base*

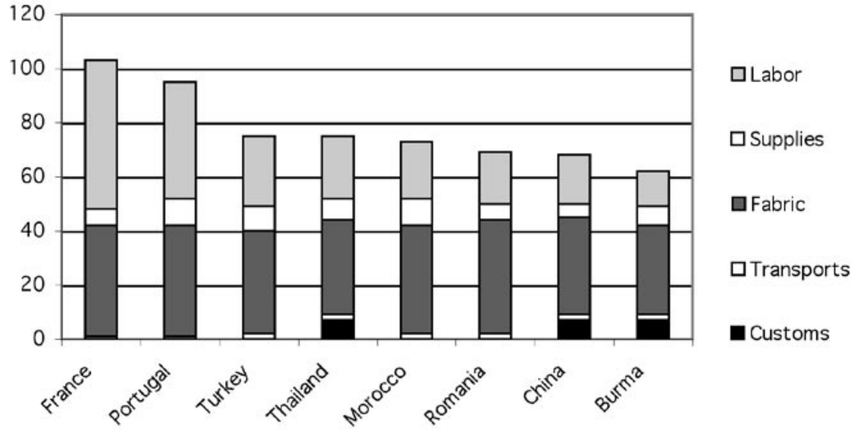
| Yarn and fabric | | | | Clothing | | | |
|---|---|---|---|---|---|---|---|
| With intra-EU trade | | Without intra-EU trade | | With intra-EU trade | | Without intra-EU trade | |
| EU (15) | 36.5 | EU (15) | 20.1 | EU (15) | 22.0 | China | 22.5 |
| S. Korea | 9.8 | S. Korea | 12.3 | China | 19.2 | UE (15) | 8.8 |
| Taiwan | 9.6 | Taiwan | 12.0 | Italy | 6.3 | Asia-Ocea. | 6.1 |
| Italy | 9.0 | US | 8.8 | Asia-Ocea. | 5.2 | S. America | 6.0 |
| Germany | 8.6 | China | 8.0 | S America | 5.1 | Mexico | 6.0 |
| U.S. | 7.0 | Japan | 6.9 | Mexico | 5.1 | Hong-Kong | 5.6 |
| China | 6.4 | India | 4.2 | Hong-Kong | 4.8 | US | 5.1 |
| Japan | 5.5 | Indonesia | 3.2 | US | 4.4 | Turkey | 3.9 |
| Others | 7.6 | Others | 24.5 | Others | 27.9 | Others | 36.0 |
| Total | 100% | Total | 100 | Total | 100% | Total | 100% |

# The causes of relocation

## Relocation has been made inevitable by a series of factors:

• *The differential in labour costs.* The differences in the cost of labour between the developing and developed countries explain, to a large extent, the loss of competitiveness of the latter. Thus, for example, the cost of one hour's work in France represented the equivalent of 60 hours in China, 10 hours in Tunisia. For this reason, whatever the extra costs of a relocation (supply costs, customs duties, etc.), French manufacturing would no longer seem competitive for bottom to mid range products (Figure 20).

*Figure 20. Elements of the production cost of a shirt for the French market (FF). Source UIT (2003)*




• The opening up of markets and the lowering of international transport costs, which in the past were large obstacles to the circulation of goods. The cost of sea freight has dropped by 40% in constant francs from 1985 to 1992, air freight by 30%.

• The inequality in competition conditions: industries in developing countries benefit from other « competitive advantages» such as the absence of labour legislation, environmental protection. Moreover, counterfeiting also contributes to the tarnishing of the prestige of a brand, since counterfeit goods are rarely of an equivalent quality to those products counterfeited. It is estimated that this prejudice is 5 % to 10% of the turnover of the European clothing industries.

• Other factors: geographical proximity, the productivity of the personnel and its know-how, the state of the infrastructure, local fiscality.

## The forms of relocation

Relocation, that is to say the transfer of production, takes different forms:

- Relocation with capital investment: this involves the creation of a subsidiary or a merger-acquisition. In this case, the company acquires a factory with manufacturing facilities which will be used for all or part of its production. The company takes the maximum risks. If there is a drop in orders, or a rise in the cost of labour, the cost of changing the manufacturing site will be high.
- Relocation without capital investment: here the concession of a licence or subcontracting will be used. In the case of a licence, the manufacturer grants a foreign company a licence to manufacture in return for royalties. In the case of subcontracting, the principal asks the foreign subcontractor to manufacture a product for him for which he will also provide a schedule of specifications and often the raw materials. The principal who subcontracts may interrupt his orders at any moment, or modify his quantities.
- International trading: this is an accessory form of relocation since the company purchases products to resell them.
- There is a difference in the forms of relocation depending on the type of products. In the "knitted fabric" activity, which requires lesser skills, the proportion of subcontractors, simple "order takers" from European companies is higher; on the other hand, in the "warp and weft" activities , which require more highly skilled labour, the proportion own brands (European manufacturers who have relocated or co-contractors) is greater (this is particularly the case for Turkey).

## High complementarity between the countries of the Euro-Mediterranean region

Within the Euro-Mediterranean region, the relocation phenomenon has taken on another dimension if it is analysed in terms of the exploitation of the potential complementarities which exist between the different countries. The intensity and nature of current trade flows (Figure 21) in fact show that there has been an international division of labour: specialisation of Western European countries upstream of the sector (textile products) more intensive in capital and in R&D effort, specialisation of the MEDA and CEEC countries downstream (clothing) which are more labour intensive.

1. The Euro-Mediterranean region is by far the largest export market for textile production in the area (Figure 21). In particular, the MEDA and the CEEC countries represent (excluding intra-European trade) the main international outlet for West European textile products (Figure 22).

*Figure 21. Share of imports coming from the Euro-Mediterranean region (%). Source: IMF 2000*

| Importing country | Total yarn | Total fabric |
|---|---|---|
| European Union | 78% | 67% |
| Morocco | 69% | 86% |
| Tunisia | 63% | 92% |
| Turkey | 33% | 23% |
| Poland | 60% | 59% |
| Hungary | 74% | 67% |
| Romania | 94% | 93% |

*Figure 22. Share of the MEDA and CEEC countries Western European exports of textile products (excluding intra-European trade).*
*Source: CEPII, Chelem Base*

| Country | 1972 | 1982 | 1992 | 2002 |
|---|---|---|---|---|
| CEEC | 18.0% | 17.5% | 25.2% | 38.4% |
| MEDA | 13.1% | 16.6% | 23.5% | 22.7% |
| Total | 31.1% | 34.1% | 48.8% | 61.1% |

2. The share of the CEEC countries and the countries of the Mediterranean basin in the European clothing imports has tended to grow, at least until the beginning of this century, to the detriment of Asia and NAFTA. Symmetrically, Europe represents currently, and by far, the main outlet for exports of clothing products of the MEDA and CEEC countries: 83% in 2002 (Figures 23 and 24).

*Figure 23. Share of Western Europe in the exports of clothes from the CEEC and MEDA countries. Source: CEPII, Chelem Base*

| Country | 1972 | 1982 | 1992 | 2002 |
|---|---|---|---|---|
| CEEC | 31.9% | 34.4% | 76.9% | 89.3% |
| MEDA | 47.1% | 88.5% | 85.9% | 77.5% |
| Total | 33.3% | 48.8% | 82.0% | 82.6% |

*Figure 24. Main garment exporting countries towards the European Union. Source: CEPII, Base Chelem*

| 1988 | | | 2000 | | |
|---|---|---|---|---|---|
| Country | Value | % | Country | Value | % |
| 1. Hong Kong | 2.4 | 16.6 | 1. China | 5.7 | 14.8 |
| 2. Turkey | 1.2 | 8.2 | 2. Turkey | 4.6 | 11.7 |
| 3. Yugoslavia | 1.1 | 7.7 | 3. Hong Kong | 2.6 | 6.0 |
| 4. S. Korea | 1.1 | 7.6 | 4. Tunisia | 2.5 | 6.5 |
| 5. China | 1 | 7.0 | 5. Morocco | 2.2 | 5.7 |
| 6. Morocco | 0.6 | 4.1 | 6. Poland | 2 | 5.3 |
| 7. Tunisia | 0.6 | 4.0 | 7. India | 1.9 | 4.8 |
| 8. India | 0.6 | 4.0 | 8. Romania | 1.7 | 4.3 |
| 9. Austria | 0.5 | 3.8 | 9. Bangladesh | 1.6 | 4.2 |
| 10. Taiwan | 0.5 | 3.4 | 10. Indonesia | 1.4 | 3.6 |
| Other | 4.8 | 33.7 | Other | 12.7 | 32.6 |
| Total | 14.2 | 100 | Total | 38.9 | 100 |

The same phenomenon has taken place within NAFTA, the creation of which has contributed to a reinforcement in American regional integration. It is for this reason that, in 1999, Mexico has become the leading clothing supplier to the United States, and in 2000 represented 20% of American imports. Conversely, at the same date, Mexico accounted for 36% of the textile exports of the United States. Other countries from Central America, such as Honduras or the Dominican Republic, also witnessed a rapid increase in their trade with the United States. This free trade area has enabled the imports from Asia to be contained in a while, for in the year 2000 it represented only 56% of American clothing imports. In the recent year, nevertheless, US imports from Asia and especially from China boomed again.

## The rise in relocation towards CEEC countries

Until the beginning of the 1990s, the regional integration movement within the Euro-Mediterranean region had above all benefited the MEDA countries (Turkey, Tunisia, Morocco, especially). But, since the end of the 1990s, an increasingly significant part of European relocations have been towards Eastern Europe. An analysis of the AFII/Ernst and Young data base enables a certain number of conclusions to be drawn on the recent evolution of job creation linked to « greenfield » investments:

- The amount of international investments in the sector is apparently low (17,000 jobs created in the sector between 1998 and 2002 against 150,000 in automobile equipment, cf. Figure 25).

*Figure 25. Number of jobs created per year in textiles and clothing by international investments in Europe*

| Year | Clothing | Textile | Total |
|---|---|---|---|
| 1998 | 1 810 | 1 778 | 3 588 |
| 1999 | 1 809 | 794 | 2 604 |
| 2000 | 1 748 | 1 191 | 2 939 |
| 2001 | 613 | 1 290 | 1 902 |
| 2002 | 1 778 | 3 955 | 5 733 |
| Total | 7 759 | 9 008 | 16 767 |

- This is probably linked to the fact that the relocations frequently take the form of subcontract flows rather than direct investment (cf. above) ;
- Despite the presence of some logistics/distribution projects, almost all the jobs created concern the production function (Figure 26) ;

*Figure 26. Jobs created per function and host country in foreign investments in textiles and clothing in Europe. Source: AFII, based on Ernst and Young*

| Country | Production | Other | Total | % |
|---|---|---|---|---|
| Germany, Austria, Sweden | 155 | 140 | 295 | 1.7 |
| Belgium, Netherlands | 72 | 186 | 258 | 1.5 |
| Bulgaria | 2 284 | 0 | 2 284 | 13.6 |
| Spain | 1 201 | 120 | 1 321 | 7.9 |
| France | 545 | 182 | 727 | 4.3 |
| Hungary | 1 636 | 0 | 1 636 | 9.8 |
| Ireland | 760 | 0 | 760 | 4.5 |
| Italy | 569 | 61 | 630 | 3.8 |
| Baltic States | 2 523 | 24 | 2 557 | 15.2 |
| Poland | 619 | 17 | 636 | 3.8 |
| Czech Republic | 2 008 | 35 | 2 043 | 12.2 |
| Romania | 1 283 | 0 | 1 283 | 7.7 |
| United Kingdom | 599 | 34 | 633 | 3.8 |
| Slovakia | 1 715 | 0 | 1 715 | 10.2 |
| Total | 15 979 | 787 | 16 766 | 100.0 |

• For the most part, the projects originate from West European countries: Germany, Italy, United Kingdom (Figure 27) ;

• The location behaviour is different in the case of clothing – where the low wage cost countries of Eastern Europe carry off a very large part of the market – and in that of textiles, where the share of developed countries is much higher (Figure 28). Econometric analyses which have been undertaken elsewhere on the AFII data base confirm that the « wage costs » variable is highly explicative of the location behaviour of clothing companies, while it is less the case of textiles, where other variables (GDP, GDP per capita, etc.) are equally significant.

• It should also be noted that the position of developed countries is better in terms of numbers of projects than jobs created. In other words, there still exists a large flow of textile and clothing projects towards the developed countries, but they are small in size, or poor in jobs and technology and know-how intensive (Figure 29).

*Figure 27. Jobs created per country of origin and sector in Europe (Source: AFII; based on Ernst and Young)*

| Country of origin | Clothing | | Textile | | Total | |
|---|---|---|---|---|---|---|
| | Number | % | Number | % | Number | % |
| Germany | 2088 | 26.9 | 1648 | 18.3 | 3736 | 22.3 |
| Belgium | 5 | 0.1 | 190 | 2.1 | 195 | 1.2 |
| Canada | 210 | 2.7 | 32 | 0.4 | 242 | 1.4 |
| China | 0 | 0 | 110 | 1.2 | 110 | 0.7 |
| Denmark | 1035 | 13.3 | 51 | 0.6 | 1086 | 6.5 |
| Spain | 60 | 0.8 | 150 | 1.7 | 210 | 1.3 |
| United States | 300 | 3.9 | 347 | 3.9 | 647 | 3.9 |
| Finland | 0 | 0 | 66 | 0.7 | 66 | 0.4 |
| France | 850 | 11 | 0 | 0 | 850 | 5.1 |
| Greece | 183 | 2.4 | 500 | 5.6 | 683 | 4.1 |
| Hong Kong | 150 | 1.9 | 0 | 0 | 150 | 0.9 |
| India | 0 | 0 | 75 | 0.8 | 75 | 0.4 |
| Italy | 655 | 8.4 | 1141 | 12.7 | 1797 | 10.7 |
| Japan | 127 | 1.6 | 397 | 4.4 | 524 | 3.1 |
| Korea | 0 | 0 | 3 | 0 | 3 | 0 |
| N. Zealand | 0 | 0 | 25 | 0.3 | 25 | 0.1 |
| Pakistan | 0 | 0 | 10 | 0.1 | 10 | 0.1 |
| Netherlands | 0 | 0 | 77 | 0.9 | 77 | 0.5 |
| Portugal | 0 | 0 | 145 | 1.6 | 145 | 0.9 |
| U K | 1073 | 13.8 | 416 | 4.6 | 1489 | 8.9 |
| Russia | 0 | 0 | 112 | 1.2 | 112 | 0.7 |
| Slovenia | 0 | 0 | 250 | 2.8 | 250 | 1.5 |
| Sweden | 684 | 8.8 | 914 | 10.1 | 1598 | 9.5 |
| Switzerland | 338 | 4.4 | 788 | 8.7 | 1126 | 6.7 |
| Turkey | 0 | 0 | 1560 | 17.3 | 1560 | 9.3 |
| Total | 7759 | 100 | 9008 | 100 | 16767 | 100 |

*Figure 28. Jobs created per host country and sector in Europe.*
*Source: AFII, based on Ernst and Young*

| Sector | Clothing | | Textiles | | Total | |
|---|---|---|---|---|---|---|
| Host country | Number | % | Number | % | Number | % |
| Germany | 0 | 0.0 | 157 | 1.7 | 157 | 0.9 |
| Austria | 25 | 0.3 | 78 | 0.9 | 103 | 0.6 |
| Belgium | 0 | 0.0 | 100 | 1.1 | 100 | 0.6 |
| Bulgaria | 1,158 | 14.9 | 1,126 | 12.5 | 2,284 | 13.6 |
| Spain | 889 | 11.5 | 432 | 4.8 | 1,321 | 7.9 |
| Estonia | 604 | 7.8 | 1,056 | 11.7 | 1,660 | 9.9 |
| France | 60 | 0.8 | 667 | 7.4 | 727 | 4.3 |
| Hungary | 506 | 6.5 | 1,130 | 12.5 | 1,636 | 9.8 |
| Ireland | 360 | 4.6 | 400 | 4.4 | 760 | 4.5 |
| Italy | 207 | 2.7 | 423 | 4.7 | 630 | 3.8 |
| Latvia | 230 | 3.0 | 0 | 0.0 | 230 | 1.4 |
| Lithuania | 235 | 3.0 | 420 | 4.7 | 655 | 3.9 |
| Netherlands | 0 | 0.0 | 158 | 1.8 | 158 | 0.9 |
| Poland | 560 | 7.2 | 77 | 0.9 | 637 | 3.8 |
| Czech. Rep. | 60 | 0.8 | 1,983 | 22.0 | 2,043 | 12.2 |
| Romania | 1,100 | 14.2 | 183 | 2.0 | 1,283 | 7.7 |
| U.K | 150 | 1.9 | 483 | 5.4 | 633 | 3.8 |
| Slovakia | 1,615 | 20.8 | 100 | 1.1 | 1,715 | 10.2 |
| Sweden | 0 | 0.0 | 35 | 0.4 | 35 | 0.2 |
| Total | 7,759 | 100.0 | 9,008 | 100.0 | 16,767 | 100.0 |

*Figure 29. Number of textile projects per host country and sector in Europe. Source: Ernst and Young*

| Host country | Clothing | Textiles | Total |
|---|---|---|---|
| Germany | 0 | 5 | 5 |
| Austria | 1 | 2 | 3 |
| Belgium | 0 | 3 | 3 |
| Bulgaria | 4 | 6 | 10 |
| Spain | 3 | 3 | 6 |
| Estonia | 1 | 5 | 6 |
| France | 1 | 16 | 17 |
| Hungary | 5 | 3 | 8 |
| Ireland | 2 | 1 | 3 |
| Italy | 2 | 2 | 4 |
| Latvia | 2 | 0 | 2 |
| Lithuania | 2 | 2 | 4 |
| Netherlands | 0 | 4 | 4 |
| Poland | 3 | 2 | 5 |
| Czech Rep. | 1 | 11 | 12 |
| Romania | 5 | 1 | 6 |
| U.K. | 1 | 14 | 15 |
| Slovakia | 4 | 1 | 5 |
| Sweden | 0 | 1 | 1 |
| Total | 37 | 82 | 119 |

# Assets and handicaps of each territory

## Is the growth of Eastern European countries to the detriment of the MEDA region?

Historically, it was rather in the direction of Asia and the MEDA countries (Tunisia, Morocco and especially Turkey) that the initial relocation flows were oriented, in the form of direct installations, or, more frequently subcontracting with local outworkers. Conversely, relocation towards the countries of Eastern Europe is a more recent phenomenon (end of the 1990s), given the recent opening (excluding the special case of Yugoslavia) of these countries to trade flows.

Today, the MEDA countries already have fierce competition from East European countries such as Romania to supply the European market and for the location of manufacturing investment projects (cf. above).

In this respect, the situation today for the MEDA countries in the clothing industry is almost the opposite of that observed in other activities (such as the automobile industry) where these countries have so far trailed behind Eastern Europe in their integration into the European industrial networks. In the case of the clothing industry, it is rather an existing integration, relatively low key but incontestable, which would seem to be threatened by the arrival of new competitors from Eastern Europe.

This risk may be illustrated by the comparative importance of the relocation movements in the clothing industry in Eastern Europe and the Maghreb during recent years:

- It is in the « Eastern Europe» zone that the majority of clothing projects relocated in Europe has been located in the past 5 years (Figure 28). This movement has largely been the result of producers of European origin or those located for a long time in Europe (Figure 27).

- The comparison between MEDA/Eastern Europe is possible, only for the number of projects and for the year 2003 from the Europe and MIPO observatories of the AFII and ANIMA. These numbers show that the countries of the Mediterranean basin remain an important reception area for projects. They have, however very stiff competition from the East European countries (Figure 30). There also exist examples of relocation from the Maghreb or Turkey towards other areas: second generation East European countries, China…

*Figure 30. Location compared of clothing/textiles projects in the East, West and South of Europe for the year 2003 (first 11months, in projects)*

| Country | Total number | % | Of which: production | % |
|---|---|---|---|---|
| France (1) | 11 | 18.3 | 2 | 5.0 |
| Others from Western Europe | 14 | 23.3 | 4 | 10.0 |
| Maghreb, Machrek, Turkey(2) | 12 | 20.0 | 11 | 27.5 |
| Other MEDA (2) | 2 | 3.3 | 2 | 5.0 |
| Poland, Czech Rep., Hungary | 4 | 6.7 | 4 | 10.0 |
| Other CEEC | 17 | 28.3 | 17 | 42.5 |
| Total | 60 | 100.0 | 40 | 100.0 |

(1) Amounts not comparable with those of other areas due to the heterogeneity of recording methods leading to an over-estimation of France. For the MEDA countries, raw data spontaneously recorded in the MIPO base, not corrected with supplementary information communicated by the MEDA countries. Taking account of this information would lead to a larger amount of projects for the whole of the year 2003 (see Annex 5), but would falsify the comparison with the other areas by giving too much weight to the MEDA region.

# Assets and handicaps of the various territories of the Euro-Mediterranean region compared

## General considerations

The following groups of countries will be selected for this exercise: Western Europe (with a special focus on France), first generation CEEC countries (Yugoslavia, Poland, Hungary, Czech Republic), the remaining CEEC countries, first generation MEDA countries (Malta, Tunisia, Morocco, Turkey), finally, the remaining MEDA countries (with the exception of Israel, whose characteristics are rather similar to those of Western Europe):

- In terms of wage costs and productivity, the first generation MEDA countries remain better placed than the first generation East European countries, but are less competitive than the other East European countries, the Machrek countries and Asia (see also Figure 20). For this reason, they themselves face the risk of the relocation of production activities towards these countries.
- In terms of regulations, there still exists a dissymmetry of treatment

between three categories of country: the MEDA countries concerned by the agreements of association with the European Union, which already offer substantial advantages for access to the European market, but which themselves are integrated into a regional Mediterranean free trade area; the East European countries likely to become members in the short term of the European Union, and which, as a result, will very quickly benefit from the advantages of a large integrated market without any obstacle to trade; finally, all the other countries (especially Asia), still subjected to the MFA quotas but which will see these quotas lifted between now and the year 2005. However, in the mid term, the general trend is that of the opening up of the European market to imports of all origins, which may well mean a certain erosion of the relative advantage which the MEDA countries have enjoyed, in this domain, within the context of the Euro-Med agreements. It should, however, be noted that the free trade agreements signed or about to be signed with the United States (Jordan, Egypt, Morocco, Israel,..) give an extra advantage to the countries concerned.

• In terms of market proximity, transport and logistics, the existing networks, after several years of operation, have proved their reliability. The European principals can be supplied from Tunisian and Turkish sites in good conditions of cost and respect for lead times by their suppliers, especially in the case of Turkey.

• In terms of industrial environment and know-how, the essential of the research, innovation and product design capacities are still today concentrated in the West European countries. In certain first generation MEDA countries (Tunisia, Turkey), the existence of an already established clothing activity has enabled the emergence of embryonic « clusters » in certain regions. For example, the activities of design are developing considerably in Tunisia, as evidenced by the project of the Cité de la mode envisaged at Carthage, with a cluster featuring a school, styling, design, and production. The upstream parts of the sector seem to be developing gradually as is evidenced by the significant flow of investments, especially of foreign origin, in the textile activity (cf. MIPO report for 2003-2004, Annex 5). However, integration into the textile sector remains unequal from one country to another, especially those which are not blessed, as is the case for Egypt, with natural fibre resources (cotton).

*Figure 31. A case study: the relocation of the production of polo shirts of a well-known French brand*

The study compares the location of a production site of polo shirts of a well-known French brand in Tunisia, France and Romania (300,000 units per annum). These polos are manufactured from imported fabric paid in euros. They are subsequently exported to be sold on the world market (in fact essentially on the European market) in dollars or in euros. Since the capital investment was relatively low, the foreign exchange risk linked to this operation is limited.

The comparisons between the three countries show that Romania and Tunisia take greater advantage of labour costs than France which would largely justify a relocation operation. Between Tunisia and Romania, the differences in profitability are relatively low. Even if Romania gains in terms of labour costs, Tunisia, on the other hand, offers slightly more favourable conditions in terms of logistics and productivity, which enables it to make up part of this handicap.

The small difference in profitability, based solely on an examination of current economic conditions, makes it necessary to take into account uncertainties concerning the future evolution of the different parameters which influence the profitability of a project in the different countries: salary and productivity dynamics, political and social stability, time taken by the process of integration into the European market.

This analysis throws light on the desirable priorities in terms of public action in each of the two countries: 1) effort in the training of labour to compensate the negative effects on profitability of the project studied, of a gradual increase (desirable of course) of wage costs; 2) acceleration of the process of regional integration to allow the countries concerned to take advantage of the positive effects of being attached to a large area of economic prosperity, whether direct (access of the products to the European market) or indirect (climate of economic and social stability) ; 3) efforts to improve the business environment (service providers, subcontractors, transport infrastructure) ; 4) efforts to improve the regulatory and administrative framework as well as those to reduce the extra costs and the risk factors linked to the lack of transparency and the time taken for a public decision to be processed, the complexity and instability of the legal context, the lack of protection for the foreign investor (intellectual property, dispute settling procedures …).

## Local stakes linked to the new Euro-Mediterranean economic geography

The formation of a large Euro-Mediterranean economic region means, in the textile and clothing sector, as in the remainder of the activities, a recomposition of industrial geography. This movement is linked to the creation, by the firms concerned, of transnational networks of production and trade, the aim of which is to use, in the best possible way, the specific advantages of each area by specialising in those activities for which it would seem to be best fitted. For the different reception areas, the stakes therefore consist in developing, in the particular segments of the sector, « centres of excellence » which give it an advantage which differentiate it as an attraction for activities which belong to this segment.

However, the rapid evolution of the markets, technologies and especially the continual arrival of new areas and / or countries on the map of potential reception territories have the consequence of permanently transforming the terms of this problem set, which may only be understood within a dynamic perspective (Figure 32).

• It is in this way that the first generation CEEC and MEDA countries (as moreover did certain countries of Southern Europe, such as Portugal or Malta, a little earlier) initially based their attractiveness on the weakness of their wage costs. They now find themselves faced with competition from countries with low costs (Romania, China, Bulgaria), towards which the new labour projects are locating. They are therefore forced to attempt to « move up market » by offering more luxurious fabrics or better quality or more innovatory garments. They may also seek to consolidate the upstream of the sector and constitute integrated « clusters » which enable them to better resist the competition from countries with very low costs. Malta, which itself suffered the consequences of this movement as early as the 1980s, to the profit of the Maghreb countries and Turkey, sought for example to compensate the inevitable decline of its labour intensive industries by positioning itself as the reception centre for a logistics hub, a centre of shared services and design for the whole of the Mediterranean area, by practically abandoning production activities. But this reconversion, which led these countries to turn to activities where they were to find themselves increasingly in competition with Western Europe, forced them to make an increased effort in training the labour, bringing the local companies up to standard, converting condemned activities, improving the general business environment (free trade agreements with neighbouring countries, modernisation and updating of infrastructures, etc.).

*Figure 32. Assets, handicaps of each group of countries*

| Country | Assets | Handicaps | Threats | Opportunities |
|---|---|---|---|---|
| France, Western Europe | -Market,<br>- Industrial base,<br>Know-how | - Wage costs | - Risk of relocation of whole sector | - Development of markets for high added value products and high innovation content, personalised products.<br>-Growing technicity of the processes |
| CEEC 1st generation | - Start of the constitution of a local centre of competence | - Logistics | -Rise in wage costs<br>- Competition from low cost countries | - Improvement in range of products made<br>- Entry in the EU |
| CEEC 2nd generation | -Wage costs | - Logistics problems | - Competition from low cost countries in Asia | - Rise in wage costs in the 1st generation countries |
| Maghreb, Turkey | -Start of the constitution of a local centre of competence<br>- Agreements of association with the EU | -No membership of the EU,<br>-Fragmentation.<br>- Limited local market<br>-Low investment effort, fragility advantages from costs, narrowness of local industrial structure | -Rise in wage costs<br>-Competition from new low cost countries (knitted fabric especially)<br>-Loss of activities from existing relocations | -Improvement in range of products made<br>- Appearance of a few own brands (especially in Turkey) |
| Machrek | -Wage costs<br>-Agreements of association with the EU | -Problems of image<br>- Logistics problems<br>- Industrial Environment | - Competition from Asiatic countries | -Rise in wage costs in the first generation countries<br>-Search for new sites for relocation |

The Turkish industry is a good example of this problematic: it at first played the role of subcontractor for the principals in Europe by assembling bottom-of-the-range products from imported European textiles. A certain number of companies subsequently turned towards co-contracting for mid-range products, whereas the country was hosting an increasing number of European investments in clothing and the upstream of the sector (textile) was developing. Finally, there appeared Turkish principal companies with their own brands and design capacities. For some time, these firms have themselves been investing abroad, especially in Western Europe, by purchasing local clothing firms in difficulty, with the aim particularly of acquiring their distribution networks. For example, the company Retro Tekstil San, created in 1996, firstly acted as a subcontractor for foreign companies, with 50 employees. After rapid expansion, it created a joint-venture with the British company Desmonds & Son. Today it employs 1,200 people and has developed a complete line of jeans, trousers in cotton and synthetic and artificial fibres intended for consumers throughout the world.

• As for the second generation MEDA and CEEC countries, they obviously gain the essential part of their competitiveness from their low labour costs, which places them in a good position to accept clothing projects which require unskilled labour. In certain particular cases, such as Egypt, they benefit from important natural resources (cotton) which represents a potential factor of attractiveness for the upstream part of the sector (textile spinning). So as to position themselves on this segment, they must nevertheless offer potential investors or principals a minimum of guarantees in terms of legal context, logistic networks, political and social stability, and benefit from the opening of the Western European markets to their products.

• Market opportunities: the increasing demand for personalisation, the accelerated renewal of the ranges, the necessary reactivity to the effects of fashion, constitute as many factors which encourage the location of production close to the European market: the creators need to be able to sense the mood of the moment and supplies to the points of sale need to quick. Thus, producers, the likes of Zara or Kickers, who have based their competitiveness on these principles, manufacturing in Europe (respectively Spain and Belgium) a large part of their products. Chantelle has succeeded in maintaining its level of employment in France by specialising on its French sites in activities with a stronger content in innovation and in added value, while relocating its mass production.

• Technological assets: the image of a textile industry employing unskilled labour with low intensity research is already a thing of the past. The development of the fabrics of the future (anti-stain or anti-perspiration, water repellent, thermal regulators, photoprotective, biological sensors,….) assume an evolved technological environment that only the developed countries offer for the moment. In the clothing field, introduction of better performance machines (evolved sewing machines, computer-aided production), without enabling the complete automation of the make-up phase, which is the heaviest in labour terms, will provide for a reduction in the production cost differentials.

The results are already there to be seen: the American producer GSE, for example, has just invested 2 million euros in its site at Rechlin in Germany to increase its production of geosynthetic textiles. France, 2nd European country for geosynthetic textiles, capital of fashion and innovation in textiles with its Parisian trade shows like Texworld, Expofil, Première vision, Mod'amont, Made in France, has immense assets to exploit.

The European clothing industry could then find a new equilibrium, based upon the production of short runs, for high added value products (textile and design) and implementing modern production tools. It would offer employment opportunities, without doubt fewer in number, but also more highly skilled than in the past and more oriented towards the functions of conception, management and logistics. It could be assisted in this endeavour by its natural partner, the Mediterranean clothing industry.

*Figure 33. European textile and clothing sector between crisis and hope*

On 14th January 2004, the French Tergal manufacturer Bel Air announced its decision to relocate its production to South Africa. At the end of January, the French textile manufacturer VEV was put under a winding up order. On 4th February, the Italian underwear manufacturer Calzedonia opened a new factory at Gabrovo, in Central Bulgaria. This depressing and customary litany of site closures and loss of jobs, illustrates the general movement which pushes the West European clothing industry and to a lesser extent, that of textiles, to move or subcontract to countries with low labour costs, especially in Eastern Europe. With hourly labour cost differentials of 1 to 15 (as in Bulgaria), even as much as 1 to 30, as in Romania, why the surprise? The whole of the European Union textile and clothing sector thus lost nearly one million jobs between 1990 and 2003, dropping from 3 to 2 million employees. And the Union today imports more than 50% of its internal consumption of garments.

With the phasing out of the Multi Fibre Agreement in 2005, the last barriers to imports coming from Asia will disappear. The effects of this « big bang » are likely to be frightful, finally submerging what remains of the sector: for, after make-up, what is to stop the cutting phase relocating as well, then the rest of the textile sector, and even all the competence in fabric design and the models? The probable great beneficiary: China, which today already supplies 20% of European clothing imports.

This worrying perspective need not, however, be fatal. In fact, market opportunities exist as do technological assets, which provide scope for a revival scenario.

# 3. Recommendations for the MEDA countries

The foregoing analyses lead to the recommendation of a certain number of guidelines for actions likely to reinforce the competitiveness and attractiveness of the textile and clothing sector in the MEDA region.

## Intensify regional solidarity

A certain cooperation already exists between the MEDA countries, but at an unsatisfactory level:

- Precisely as concerns textiles, the Agadir process is interesting, but it is obvious that it only affects countries which do not have a common land border (Morocco, Tunisia, Egypt, Jordan); this cooperation must absolutely be extended to the whole of the Maghreb and Machrek so as to create a meaningful internal market ;
- The Barcelona process would seem rather to be suffered than to be controlled by the various countries of the MEDA region. It can only be seen to exist, with a few exceptions, through the European initiative.

These observations are political, and involve difficult negotiations between regimes which have not managed to overcome their differences or disputes, at the risk of fragilising certain sectors of their economy. The lines of action proposed in this domain derive above all from trade agreements:

- The reciprocal opening of the markets of the MEDA countries so as to guarantee more important local outlets for the manufacturers in the area; for sure, the MEDA domestic market only represents one eighth of the European market (the main outlet), but it should grow much more quickly.
- Constitution of an integrated Euro-Mediterranean area to provide mutual outlets between European textiles and MEDA clothing.

## Escape this logic of dependence

All the foregoing analyses show clearly that despite the often calamitous situation of its textile industry, it is still Europe which has the touch for organising the sector, attempting to conserve high added value productions, choosing where to relocate that which has to be relocated. Europe (or more generally the OECD sphere) is in the position of principal, thanks to its leadership in fashion, its brands or its distribution networks, while MEDA is in a subcontracting situation.

This domination may be analysed as largely cultural – among other things, it uses the media channels, publicity, movements of opinion, and the behaviour of the leaders. It also relies upon a better « societal » organisation (free flow of information, reactivity of the companies, construction of the economy around profitability). The result is, in textiles as in the majority of sectors, that it deprives the physical producer of the greater part of the value, to the benefit of the researcher, the conceptor-designer, the publicist, the logistics expert, the distributor etc. MEDA then has, on the one hand to aspire towards more dignified physical productions, and on the other hand needs to be able to "wrap up" this physical production in a range of more rewarding services.

The lines of action proposed are a matter of industrial policy:

- Upgrading the industrial companies of the MEDA countries (transformation of subcontractors into co-contractors or brands).
- Improving the range of productions: following the Asian example, reorienting the sector towards the production of more competitive local fabrics.
- Targeting investment strategy: for example, the cotton producing countries (Syria, Egypt) may have an interest in developing weaving; it is frequent for cotton shirts made for the well-known European brands to use cotton fabric of Italian origin.
- Acquiring brands or distribution networks in Europe or the creation of brands intended for the regional market (cf. example of Turkey), or those which play on the image of the Mediterranean.

## Launch a reflection and initiatives for the development of the sector

Beyond the previous actions, which above all concern the industrial companies, what role can the MEDA investment promotion agencies (IPA) make their own?

The first actions which come to mind are a matter of knowledge and reflection:

- Inventory of the strong points of the sector in the MEDA countries. From research, to textile materials, not forgetting know-how (lockstitch, embroidery, as well as software etc.) or the production-distribution circuits, identifying the specific assets of each of the countries to then be able to make choices (targeting) and harness them.
- Research new production-distribution niches through a marketing approach. For example, play on the links between tourism and clothing by using image and fashion (« ethnic » garments for holiday wear, or sectors such as sailing or water sports).
- Research activities with a high labour content, such as finishing or embroidery, for example.

Elsewhere, promotion actions may be envisaged to attract or incite new companies or initiatives:

- Cooperation with the European regions on relocation. Regions like the North of France or Italy no doubt prefer to see their textile industry part into the MEDA region rather than China. The aim is to assist in partial relocations, by attempting to conserve the subcontracting and distribution networks, while taking advantage of proximity. Certain European operators would be sensitive to an offer of assistance which counterbalances the lesser attractiveness of MEDA in terms of costs. A professional syndicate such as the Union of Textile Industries in France (cf. interview of its Chairman in Annex 6) is open to a reflection on a Euro-Mediterranean strategy for the textile sector.
- Constitution of centres of competence, profession by profession (for example, knitting, craft weaving, technical fabrics, design and fashion, etc.) by attempting to bring together training (schools, professional centres), research, studies and market knowledge, logistics and distribution in a given place (« cluster » or « valley »). This is what Tunisia is attempting to do with the Cité de la Mode at Carthage.

• Organisation of promotional events (open days, fairs, fashion shows etc.). It may be an idea to organise open days or workshops devoted to MEDA in certain trade fairs in Paris or Milan rather than creating a specific forum dealing with Euro-Mediterranean textiles.

The MEDA countries could in this way reinforce their natural complementarities with the West European countries with high labour costs:

• For the European countries, the challenge is rather for them to reinforce their attractiveness for the niches which require highly skilled labour, in a high performance business or technological environment, or even activities linked to market access (e.g.: rapid production of short runs to satisfy the day to day evolutions in demand).

• For the MEDA countries, it is a question of taking advantage of the opportunity that the rapid rise in costs in the CEEC countries represents and the necessary relocation outside Europe of labour intensive activities. A MEDA offer should be conceived, explained, promoted. It would have that much more weight if the MEDA countries could unite to propose a common vision and an integrated market.

# Annexes

# Annex 1.
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# Annex 2. Current consumer trends in the developed countries

According to the analyses of Sophie Reunier and Pierre Volle[5], current consumer trends in Western Europe can be grouped around four large themes: the identity of the individual and his relationship with others; the relationship with time; the search for positive sensations; emerging trends. Those trends have potentially important consequences on the modes of distribution.

## The identity of the individual and his relationship with others

### The thirst for accomplishment

The act of consuming corresponds increasingly with the search for personal accomplishment. This behaviour contributes to the success of the specialist labels which promote personal development in its different forms: physical, manual, or intellectual (e.g.: the concept of «physical condition» in the Décathlon stores). Leclerc have created cultural spaces in the shopping malls. Electronic business also provides an answer to this thirst for accomplishment through the creation of sites entirely devoted to leisure.

### The concern for personalisation

The customer claims his own identity, which makes him sensitive to the personalisation of products and services he buys. Few store chains respond to this trend at the moment due to the cost factor and the difficulty of practising too fine a segmentation of their customers in the mass distribution circuits. Certain interesting initiatives can be mentioned concerning, for example shirts (Devianne), shoes (La boutique sentimentale or Cherry), women's undergarments (Alice Cadolle) or belts (Losco) which may be purchased made-to-measure at reasonable prices. Electronic busi-

5. See « *Tendances de consommation et concepts innovants dans la distribution* », by Sophie Rieunier and Pierre Volle, CREGEG/Université Paris-Dauphine, 2002.

ness also offers interesting responses through «profiling», for example, which helps orient a customer towards products likely to be of interest to him or her, on the basis of his/her past behaviour or purchases, or his/her socio-demographic characteristics. For example, Kickers Belgium proposes to its consumers that they create their shoes themselves on Internet.

### The need for a social bond

Customers also seek contact and integration, and thus products which link individuals one to another by identifying them to a group of consumers who share the same interests and emotions. Certain very specialist distributors seek to satisfy this need. Hence the store The Shop (selling sports equipment and clothes for young people) has become a meeting place for lovers of skateboards, rollers, street wear, rave, etc. Apart from a very wide selection of clothes, customers will find a bar, DJs mixing live, a space for tattoos or piercing and a large table on which are piled adverts for evenings out, for records and free sheets. However, the distributors have a problem exploiting this trend, since the acquisition of legitimacy vis-à-vis the groups concerned is difficult, especially for the mass banners. This creation of a social bond does, however, seem so much easier on Internet, since the network enables individuals to connect according to their centres of interest. Finally, children take an increasingly important place in the consumption process, both as prescribers and as consumers. Hence the development of banners which take this reality into account, as Du pareil au même.

### The demand for virtue

This trend can be seen through the value given to products and services which promote respect for the environment and Man. Distributors seek to respond to this expectation. Carrefour has, for example, introduced a code of social conduct to encourage suppliers to respect human rights in the workplace. Leclerc promotes a militant «consumerist» dimension

## The relationship with time

This dimension may either concern the past (with increased appreciation for all the products which promise authenticity and arouse nostalgia) or the present (feeling of urgency).

### The search for authenticity and nostalgia

The consumer is turning more and more towards his roots and his past, whether his personal history or that of Humanity. Several specialist banners answer this need by creating, in their points of sale, decors which suggest a special atmosphere or period (e.g.: Chevignon).

### The feeling of urgency

The feeling of being short of time drives the consumer to seek a rapid and immediate buying and consuming act. Hence the success of the banners which offer time saving or limited waiting: home delivery, late opening hours, absence of queues, possibility to undertake several activities at the same time. Carrefour proposes that loyal customers use a fast check-out, for example. Intermarché offers hurried customers the most indispensable products close to the check-outs.

## The search for positive sensations

Faced with difficulties of all sorts (unemployment, sickness, divorce, solitude…), the consumer turns to those products which bring him a feeling of security. Hence a need for advice and information as well as the growing role of guarantees (labels, certifications etc.).

### The demand for simplicity and practicality

In front of a consumer anxious to avoid unnecessarily technical products or combinations of purchases that are too complex, the distributors reply with an offer of simplified products or complete ranges of services. For example, Le Printemps proposes to take in charge the whole of a couple's future marriage, from the invitations to the honeymoon. Celio or La City offer simple, basic products with a reduced assortment. Finally, Internet constitutes a particularly simple and practical distribution channel where access to information is made easier by search engines and sites for comparison.

### The search for emotions

Faced with a consumer in search of pleasure, the specialist stores seek to create a pleasant environment centred on specific products (Zara, etc.). Certain brands create ephemeral stores which only remain open for a month or two. For example, in January-February 2000, Lanvin opened an ephemeral store in an apartment, centred around the theme of the five senses. It is an important competitive advantage for specialist distributors, insofar as the generalist distribution and the electronic merchants experience more difficulties in responding to this search for pleasure.

## Some emerging trends

### The abandoning of property as an investment

For a long time, consumption was confused with the accumulation of an estate and the most important quality for a product was that it would last. Today, the immediate usefulness takes precedence and products are becoming ephemeral, even disposable or interchangeable. Hence a multiplication of stores which operate on the notion of barter or exchange, or trade-in services for second hand goods, loan or rental outlets: Trocathlon (Décathlon). This trend still remains marginal today at least in France.

### The gradual disappearance of frontiers

With the disappearance of strict norms, the increase in crossbreeding and fuzzy logic, the traditional frontiers between products are tending to disappear. Hence, the perfume chain Baiser Sauvage sells beauty products and lingerie. The chain of clothes stores Antoine et Lili enriches its offer with a florist, a delicatessen and tea-room. The store Colette sells both clothes, CDs, objects of decoration, cosmetics, books and houses a restaurant.

# Annex 3. The main technological innovations underway in terms of process and product

## Process innovations

They take very different forms in the textile domain and that of clothing, which will be reviewed here. In fact, the clothing manufacturers invest in a less capital intensive and a more diversified way than textile manufacturers. To remain competitive, while keeping reactive, the manufacturers must modify their strategies in such a way as to make savings in raw materials, reduce labour costs, increase labour productivity, improve quality control and generalise the short production circuit.

• Creation has experienced considerable progress in recent years with computer-aided design (CAD). The stylist draws with an electronic pen, digitizes the range of fabrics selected and scans several possible colourways, all very rapidly. This technique enables a design to be created straight on the screen, stored, modified; motifs, colours, fabrics may be retrieved at will, the data bases may be consulted without limit... Other than a saving in time, this three-dimensional simulation enables several models to be displayed and tested with the end result very close to reality (taking account of the fall of the fabric, its transparency…). Basic image enhancement also allows the retrieval of models from earlier collections for them to be brought up to date. The grading software enables the production of the different sizes automatically.

• The phases of design, pattern-making, cutting and assembly of the prototypes took place well before line production existed. But with computer-aided design, all the operations can be carried out almost simultaneously. The organisation of the work retains its sequential aspect, but the duration of each sequence reduces. The CAD software assists the manufacturer, from the design of a garment on the screen to the preparation of the pre-industrial assembly operations, reducing the control times and the risk of errors and enabling the pieces to be laid out more quickly, and with savings in fabric.

• Computer-aided manufacturing (CAM) has provided more efficient technology from the spreading operation (which consists of superimposing several layers of fabric which will be cut at the same time) to the cutting of these layers. The new generation of spreader is run by a microprocessor which controls its movements allowing time savings in handling and providing a quality control of the fabric. This is made possible by automatic spreaders which work with much greater precision and high speed. The «lay-out» operation which keeps offcuts to the minimum, by optimising cutting, is nowadays computer-aided. Thanks to "interactive" lay-out, the most often used, the cutter arranges the different pieces to be cut, displaying them on the computer screen , and the computer gives the effective use rate of the whole surface of the fabric. In the case of automatic lay-out, the cutter merely has to enter the data and the software does the work. Finally, cutting is carried out in relation to the pre-recorded layout: the cutting head with its vertical blade is guided by the computer. It also requires a vacuum cutting table which stops the layers of fabric from moving as it is cut.

• In terms of assembly, as with handling, the progress has been considerable. Modern sewing machines are equipped with numerous improvements and the robots can carry out simple operations, such as the sewing of buttons, buttonholes, pockets... The pieces are transported from one work station to another along a network of rails and points which reduces the intermediate stocks and hence manufacturing time. When the garment is finished, it merely requires pressing in the automatic tunnel press before being subjected to quality control and packaged.

• The garment make-up operations represent the least automated phase and still require an abundance of labour. Advances in technology have, of course, enabled the sewing-up time to be reduced, and both the number of stitches performed and the threads handled simultaneously to be increased, but not all sewing machines are automatic. It is therefore still the seamstress who carries out the sewing-up operations and who controls her own work directly.

Electronic data interchange (EDI), the remote transmission of commercial, logistic and financial data, using standard formats, enables manufacturers, outworkers and principals all to work in real time. EDI is a common tool which is used to define and standardise the schedule of specifications of a process underway. These organisational modifications, based mainly on the interchange of computerised data on sales, orders, raw materials used … contribute to a modification in the relationships between manufacturers and suppliers of raw materials and between manufacturers and distributors and reduce the product design and manufacturing cycles and thus minimise stock levels.

## Product innovations

The European textile industry, in fierce competition with the weavers of the Third World, is doing everything to rid itself of the image of an obsolete activity. For a number of years, micro-massage tights, anti-UV-A fabrics or antibacterial socks have been available on the market. In this industrial sector, so symbolic of the former economy, innovation is both creative and dynamic.

• The development of informatics and the considerable progress made in micro-electronics are in the process of discreetly revolutionising the industry, even if many products are still at the prototype stage. Intelligent clothing fitted with electric wires and chips in the body of the fabric, will enable the integration of an MP3 player, a mobile telephone, speakers… and despite all this equipment, they can be machine-washed.

• In the medical field, these technologies have a wealth of applications. Garments that measure blood pressure, the pulse and body temperature and warn the doctor in case of a problem are currently under experimentation. There is even a «Pace protector» T-shirt which protects carriers of a Pacemaker from the electromagnetic waves emitted by portable phones.

• In the military and security domain, the new fibres (Kevlar, Twaron, Kermel) are treated to make them ultra-resistant, antistatic, fireproof as well as water-repellent and they can be equipped with electronics so that, for example, they may warn a firefighter of the presence of poisonous gases.

• In the logistics field, within a few years, intelligent labels should be able to simplify stock control for textile manufacturers while providing more efficacious protection against counterfeiting. On Internet and even within the fashion boutiques, virtual fitting should be a popular feature.

• The fabrics of the future are already present, thanks to the use of a technology, fairly widespread in the food industry, micro-encapsulation. Micro-encapsulation technology has caused an enormous shake up in the sector. Invented in the 60s and used mainly in the agro-food business, cosmetology and pharmacology, it consists of encapsulating an active substance (perfume, medicine, pigments) in a spheroidal membrane. These micro-capsules are then applied to the fabric using a coating or vapour deposition technique. This process can be used, for example, to create fibres which change colour. It is possible to find on the market blinds which change colour depending on atmospheric pressure, temperature and humidity. In the same way, the micro-capsules are used as a medium for the slow diffusion of antibacterial, acaricidal or fungicidal treatments on textiles. This technique is used for fabrics or linings which are required to create a "micro-climate" around the body. People will be warm outdoors and still comfortable when they get on the subway or go into a restaurant. This is a possibility when the capsule embodies a technological paraffin called «Confortem», which is a phase transition thermal regulator.

• Another channel of research for inventors of textiles, the technique of «grafting» which consists in grafting onto a molecule new chemical functions, by depositing another polymer in thin layers. This is how a fabric can be made water-repellent, sweet-smelling or stain-resistant. The IFTH (French Textiles and Clothing Institute) has developed a prototype technology of radio-grafting by very high speed electron bombardment. Their priority is to study the photo-protective molecules for both the cosmetic and the textile industries. What are lacking are substances capable of protecting against both UV-Bs (which give a suntan) and UV-As (responsible for skin cancers). The aim is therefore to create molecules which copy natural substances capable of combining the two forms of protection. This could be used to manufacture clothing for children to wear on the beach, for example.

# Annex 4. History of the international agreements concerning the textile and clothing sector from 1960 to date

## Agreements concerning cotton, cotton-based products (1961-1973)

In the years that followed the Second World War, a large part of international trade was governed by complex national trading systems. Certain developed countries used balance of payment difficulties to justify high customs duties, complicated customs practices, complex import licence procedures and large numbers of quantitative restrictions. However, during the 50s, trade restrictions were reduced as a result of the general liberalisation efforts deployed by the GATT and the IMF.

The gradual elimination of quantitative restrictions consecutive to the attenuation of balance of payments difficulties of the developed countries coincided with the Japan's return in force to the world textile trade and the emergence of several textile exporting and, to a lesser extent at this time, clothing exporting developing countries. It was particularly the developing countries, which had access to raw materials and benefited from relatively low production costs, especially for the wage content, which started rapidly to increase the volume of their exports of textiles and clothing to the developed countries. In the developed countries, investment and employment suffered from the strong drive of imports of low value cotton textiles and production units in the sector began to close down, provoking serious social problems. To remedy these problems, several developed countries negotiated agreements with certain countries to limit the quantity of exports of cotton textiles, and which were subsequently called "voluntary export restraint" agreements.

In 1959, it was proposed that the GATT proceed with a study to find a multilateral solution to the problem of the high increases in imports, over a short period and for a narrow range products, which could have serious economic, political and social repercussions in the importing countries. In 1960, the contracting parties recognised the existence of a phenomenon referred to as "market disorganisation", which presented the following elements in association:

1) Imports of certain products from determined sources were growing or could grow suddenly and in substantial proportions;

2) These products were offered at prices well below those practiced on the market of the importing country for similar products of comparable quality;

3) There was a serious prejudice or the threat of a serious prejudice for national producers;

4) The price differences mentioned in paragraph 2) above were not the result of government intervention in the fixing or the forming of the prices, nor the practice of dumping.

This decision, and here was the most remarkable feature, put the accent on determined sources of supply and on the substantial competitive advantage that they presented in terms of price without there being any government intervention or dumping. The possibility of being able to take selective safeguard measures, inferred by the notion of "market disorganisation", represented a fundamental infringement to the provisions of article XIX of the GATT.

## The Multi Fibre Arrangement (1974-1994)

The Multi Fibre Arrangement (MFA), whose formal title is the Arrangement Regarding International Trade of Textiles, came into force in 1974. It extended the restrictions to which textiles and cotton clothing garments were already subjected, to products in wool and artificial fibres (and, from 1986, to certain vegetable fibres). Its declared objective was to "carry out, as far as textile products are concerned, an expansion in trade, a lifting of obstacles to this trade and the gradual liberalisation of world trade, while ensuring the ordered and equitable development of trade in these products and by avoiding the effects of the disorganisation of the markets and of types of production as much from importing countries as from exporting countries". It also had as an objective "to encourage the economic and social development of developing countries and to provide substantial growth in their income from the export of textile products, and to arrange for them to have the possibility of a larger share of the world trade in these products".

Concretely, the MFA (just as the agreements concerning cotton) provided a regulatory framework for contingents to be imposed, by means of bilateral agreements or unilateral measures when a boost in imports disorganised or threatened to disorganise the market in importing countries. At the moment of imposing contingents, the importing countries were to respect the provisions in terms of consultations, as well as specific rules and criteria to determine whether there was market disorganisation and to impose and maintain restrictions against the exporting countries. Generally, they were to provide for an annual 6% growth coefficient in the contingents. A regulatory organisation, the Textiles Monitoring Body (TMB), monitored the implementation of the MFA and presented reports on the subject, and was at the same time responsible for the settlement of disputes. The MFA expired on 31st December 1994 just before the WTO started its activity, and the Agreement on Textiles and Clothing (ATC) came into force, on 1st January 1995.

## Evolution in the context of the MFA regime

During its 21 years existence, from 1974 to 1994, the MFA had been subjected to several operational modifications and adaptations. Several extensions had been negotiated, on which occasions new provisions had been added and new products included. Furthermore, in practice, the 6% growth coefficient of the contingent established by the MFA had often been dramatically reduced in bilateral agreements. The bilateral contingents governed by the MFA, which formed a complex network, were moreover negotiated at close intervals, often nearly every year. During the final years of the existence of the MFA, six participants (Austria, Canada, EEC, United States, Finland, Norway) applied contingents under the MFA, which concerned different products and countries. However, apart from the restrictions concerning former State trade countries, adherents had recourse to the MFA almost exclusively to protect themselves against imports coming from developing countries. Switzerland and Japan, which were signatories to the MFA, did not sign limitation agreements. Sweden eliminated all the limitations that it applied and pulled out of the MFA in 1991 (the Swedish import contingents were however reintroduced once the country became a member of the European Community in 1995). In 1994, its last year of existence, the MFA had 44 participants; although this figure represented less than half the number signatories to the GATT, the majority of countries with an interest in textiles and clothing trade, were present, including China, which was not a contracting party to the GATT.

# Annex 5. Foreign investment project in textiles in MEDA countries between January 2003 and June 2004

*(Source: MIPO-Project ANIMA. Data not comparable with those in Figure 19 due to the wider field taken into account)*

| Host country | Origin | Company | Project | Jobs created | FDI (M€) |
|---|---|---|---|---|---|
| Algeria | France | Dagris | Creation of a mixed company to develop Algerian cotton | - | - |
| Egypt | Saoudi Arabia | Birla Group | A new Saoudi acrylic fibre factory in Egypt | 1000 | 73.4 |
| Jordan | India | Ambatur Clothing | Ambatur Clothing opens a factory in the Jordanian business park Ad-Dulayl | - | - |
| Lebanon | Italy | Fratelli Rossetti | Opening of a footwear store in Beirut | - | - |
| Lebanon | Sweden | Oriflame | Opening of an office as a start to marketing operations in Lebanon and neighbouring countries | - | - |
| Lebanon | Syria | Cedars | Opening of a plant for fibre production | 25 | 2.1 |
| Malta | Germany | Toly Products | Opening of a packaging factory for luxury products | - | 1.2 |
| Morocco | United Kingdom | Alexon | Creation of a production site | - | - |
| Morocco | United Kingdom | Dewhirst | Opening of a 4th textile factory | - | - |

Annex 5. Foreign investment project in textiles in MEDA countries

| | | | | | |
|---|---|---|---|---|---|
| Morocco | Italy | Bulgari | Opening of a jewellery outlet in Casablanca | 10 | - |
| Morocco | France | Clayeux | Opening of a franchise in Morocco | - | - |
| Morocco | Bulgaria | Staro | (Pre-project) unit to manufacture leather goods in Tunisia or Morocco | - | - |
| Morocco | Spain | Solano Atlantic | Manufacturing unit for climbing boots, sports and safety footwear | 311 | 28.6 |
| Morocco | Spain | Capdevila | Manufacture of various clothing articles in Tangiers | 100 | 9.2 |
| Morocco | Spain | Mohammedia Shoes | Manufacture of footwear in Mohammedia | 80 | 7.4 |
| Morocco | Spain | Aksal Group Zara | A Hispano-Canadian joint venture invests in lingerie production | 200 | 20.1 |
| Morocco | France | Casport | Production of articles of sport, work clothes, uniforms and advertising products | 23 | 2.1 |
| Morocco | France | Caulliez Maroc | Cotton spinning at Fez | 45 | 4.1 |
| Morocco | Hong-Kong | Blue Star Apparel | Hong Kong Investment in the production of articles of clothing in Casablanca | 284 | 26.1 |
| Morocco | France | Classical & Casual Clothing | Unit of production of garments in Tangiers | 40 | 3.7 |
| Morocco | United Kingdom | Thirteen AMP Morocco | Clothing production unit in Salé | 550 | 50.6 |
| Morocco | United Kingdom | Vayani | Lingerie production at Mohammedia | 70 | 6.4 |
| Morocco | Italy | Legler | Legler and Senoussi (Morocco) are constructing production unit for denim and a spinning plant near Rabat | 800 | 54.3 |

| Host country | Origin | Company | Project | Jobs created | FDI (M€) |
|---|---|---|---|---|---|
| Morocco | United States | Jordache | The company iscreating two clothing production units at Casablanca | 500 | 3.6 |
| Morocco | Switz erland. | Triumph | Extension of the lingerie production unit at Fez | 50 | 3.6 |
| Morocco | Holland | MomyConfort | Valorisation and recycling of textile products, spinning and weaving | 750 | 4.2 |
| Morocco | Spain | Inditex (Zara) | Opening of the first Zara franchise at Casablanca and signing of a franchise extension agreement | - | 20.0 |
| Tunisia | France | Rouleau-Guichard | The underwear manufacturer relocates his factories to Tunisia and Romania | 500 | - |
| Tunisia | Denmark | Elvstrom Sails | A newsite at Bizerte for production line sails | - | - |
| Tunisia | Italy | Benetton | Creation of a textile production factory at Monastir | - | 12.4 |
| Tunisia | Belgium | Van de Velde | A Belgian lingerie group invests 2.5 million'€ to double its production capacity in Tunisia | 400 | 2.5 |
| Turkey | United States | VF Corp | The American group starts garment production in Western Turkey | 400 | 15.0 |
| Turkey | Germany | Hugo Boss | The company is to build a second factory in Turkey | - | - |
| Turkey | United Kingdom | Adria | Constriuction of a new textile factory | - | - |
| Turkey | France | Hartmann | Transfer of manufacture of cotton products to a new factory at Mersin | 30 | - |
| Total MEDA | | | | 5 168 | 351 |

# Annex 6. Interview with one of the heads of the textiles sector in Europe

Guillaume Sarkozy: «The extension is an opportunity but it has been badly prepared » (Source Le Figaro, 3rd May 2004)

*Vice-president of the MEDEF, Chairman of the French Union of Textile Industries, Guillaume Sarkozy directs Tissage de Picardie, a company which is among the world leaders of upholstery fabrics. It employs 120 people and supplies creators and editors (like Frey), as well as the large distributors (like Laura Ashley). It exports 65% of its production. For Guillaume Sarkozy, the extension (of the European Union) is a good thing: it will reinforce Europe and provide a wider base to its companies. But he regrets that the event was badly prepared.*

*Q. To your mind, is the opening of the European Union to ten new countries an opportunity?*

Yes, it is an opportunity. On this point, I have no doubts. The extension of the Union will lead to an increase in size of the free trade area. It is a good thing for business. This gives the companies arms with which to fight in the globalisation battle. They can produce in areas where labour is more competitive and in this way better resist Asia. But the extension was very badly prepared.

*What do you mean? It is an event that everyone has talked about a lot in recent weeks.*

You only need to go onto the street and talk to the French. They are not aware of the importance of this event. Many heads of SMEs, who do not know how to react to globalisation, have not taken in the stakes that this new opening of the European Union represents. There has been no debate. Above all, I notice a contradiction between the extension and the environment imposed on companies in France.

*Which one?*

For several years, French companies have been faced with growing competition from emerging countries while their production costs and fiscality have not stopped increasing: whether as a result of the increases in the SMIC or the adoption of the 35 hour working week.

This winter, the President of the Republic decided that the employment tax should be abolished. We shall see when and how this move will be made. But, over a long period of time – for me all governments have been guilty – company charges have increased.

*What should have been done?*

The debate may yet take place. There is always something to be done. For example, in my sector of activity, textiles, I am lucky enough to participate in a working party within the European Commission. This group brings together four European Commissioners, the ministers from five member countries, high level experts and manufacturers. That makes around twenty people altogether. We met for the first time a few weeks ago. We are going to meet regularly to reflect on the future of our industry within the context of the shock which the arrival of ten new States, the entry of China in the World Trade Organisation (WTO) and the phasing out, on 1st January next, of all the textile import quotas, all means.

*If the extension was badly prepared, what should we be afraid of?*

We must be positive. Companies will profit from the extension to the East as they already have done from globalisation to sell in China. At the same time, some activities, such as electronics have suffered; DVD players and flat screens are made in China nowadays; similarly, this country produces 70% of the toys sold in world, 50% of the furnishings or even 20% of all textile articles. The companies for whom the extension presents a risk should determine how they can benefit in spite of everything. For these business leaders, the question is: should I invest in these new territories? But they should not forget the countries around the Mediterranean. The Germans, because of their geographical and cultural proximity, logically turn towards the countries of Eastern Europe. The French, however, can also look south, towards Morocco or Tunisia. We share a cultural heritage with these countries.

*Isn't the extension, like globalisation, above all an opportunity for the large groups?*

The large corporations can move their capital easily to make investments. The SMEs, on the other hand, have other roots in their territory as well as with the families of their employees. The solution for our SMEs is to be found, among other things, in the training of their managers in the new technologies, the new marketing and market analysis tools. We are obliged to adapt. There exists an offensive attitude which is to conquer new markets and a defensive attitude of self-protection. We have a social responsibility: we must train our staff so as to increase their added value. It is not merely a question of acquiring new knowledge but also a question of learning how to evolve. Our response to the change must become an asset and not a painful test. We must become experts in change.

*Your activity was one of the first affected by globalisation. How did you adapt to it?*

We adapted by continually searching for increased added value. Some 20 years ago, my company, Tissage de Picardie, only produced single colour furnishing fabrics. We had competition from emerging countries and we turned towards what is called dyed fabric and jacquard which today represents 97% of our production. Furthermore, three months ago, along with two executives from Tissage de Picardie, I started an eight month training course on the future vision of company competitiveness. It is training organised with ten other companies and we reflect upon our strategy with the help of consultants.

*Does the entry of the former communist countries into the Union have a special emphasis for you?*

Yes, of course. My father was Hungarian. For personal reasons, I travel regularly to Budapest. But these are certainly not sufficient reasons for me to want to create business relationships in Hungary or other countries from Eastern Europe. My roots are not those of the company that I run.

Interview given to Bruno Jacquot

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# ANIMA

Réseau Euroméditerranéen d'Agences de Promotion des Investissements
Euromediterranean Network of Investment Promotion Agencies

ANIMA is a European project which consists in assisting 12 Southern Mediterranean and Middle Eastern partners of the EU ("MEDA" countries: Algeria, Palestinian Authority, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey) to acquire strategies and tools to attract foreign investments. The Invest in France Agency (AFII), assisted by the ICE (Italy) and the Direction des Investissements (Morocco), is running this project, which is financed by the European Union.

# The textile and clothing sector in the Euro-Mediterranean region

## PAPERS & STUDIES N° 3
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The textiles and clothing sector plays a key role, both in the Mediterranean economies and in trade between the latter and the European Union. The leading industrial sector in Turkey or in Tunisia, it represents overall 50% of manufacturing exports from the MEDA region towards the EU. Conversely, the MEDA countries represent important outlets for the European textile industry, whose products are transformed South of the Mediterranean to be subsequently re-exported in the form of garments, towards the West European market. A strong complementarity has thus been created in this sector between the two shores of the Mediterranean.

However, this complementarity is currently threatened by two concomitant movements: on the one hand, the rise in power of the clothing industries in Eastern Europe, towards which investment flows and subcontracting contracts from Western Europe are increasingly directed; on the other hand, competition from Asian industry, especially the Chinese, which should continue to grow in the years to come as a result of the phasing out of the Multi Fibre Arrangement (MFA) in 2005 which took over from the Agreement on Textiles and Clothing (ATC), signed in 1995 in Marrakech. Between now and 2005, all quantitative restrictions on the trade of textile and clothing products should be lifted. Faced with the double-edged challenge of increased competition on the European market and on their domestic markets, the Mediterranean industries must modernise.

The present report proposes some guidelines for action in this direction, based on a detailed analysis of the structures of the sector and transformations of all types (technical innovations, regulatory evolutions, internationalisation of firms, relocations), which are currently changing its physiognomy.

*• Fabrice Hatem, Head of Studies of the ANIMA programme within the Invest in France Agency (AFII), coordinated this collective edition, which was made with contributions from the ANIMA and the MEDA IPAs.*