Box 5

TRADE LIBERALISATION AND ITS IMPACT ON THE EURO AREA TEXTILE AND CLOTHING SECTORS

In January 2005 all remaining quota restrictions on global trade in textiles and clothing were eliminated. This was supposed to mark the end of 50 years of quantity restrictions.[1] However, following a surge in textile imports from China at the beginning of 2005, the EU and China started negotiations to limit the growth of textile imports from China. An agreement was reached on 10 June. By the beginning of August, the new limit had already been reached for some items, and stocks began piling up in storage at various entry points into the EU. A new agreement was concluded on 5 September which allowed these stocks to be released whilst maintaining limits on the future rate of growth of textile imports from China. This box assesses the impact of trade liberalisation on the textile and clothing sectors, with regard to trade, output and pricing.

While the share of textiles in total euro area imports and exports has been following a downward trend since the mid-1990s, the euro area has registered an increasing trade deficit in this sector, which reached €26 billion in 2004. This was mainly the result of imports from low-cost countries which increased their share of the euro area market. Since January 2005, textile imports from China have surged largely at the expense of other textile exporting countries outside the euro area while the total value of textile imports into the euro area has not increased (see Chart A).

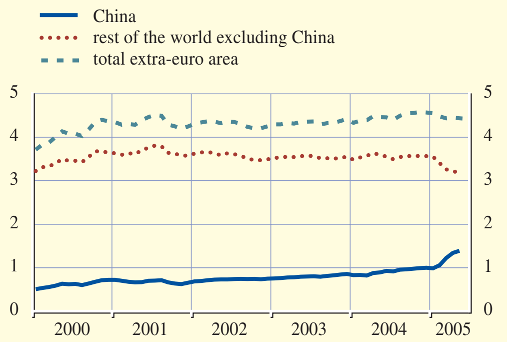
As regards output and employment within the euro area, recent patterns reveal a continuation of the downward trend observed in the textile sector for over a decade (see Chart B). The dots in the chart indicate stages in the progressive phasing-out of import quotas (January 1995, January 1998, January 2002 and January 2005). It appears that the impact of the implementation of each new stage of trade liberalisation has been gradual rather than sharp and short-lived. Thus, for a number of years, the textile sector in the euro area has been exposed to increasing external competition, reflecting the elimination of trade barriers. Not surprisingly, the decline in euro area textile production was accompanied by a decline in employment in this sector.

As regards consumer price developments, textile prices, or more specifically clothing and footwear prices, are an important component of the HICP. They account for over 7% of the overall index and almost 25% of the HICP non-energy industrial goods component.

1 For additional information see the box entitled “Possible impact of the removal of trade quotas for textiles and clothing” in the December 2004 issue of the Monthly Bulletin.

Chart A Value of euro area textile imports

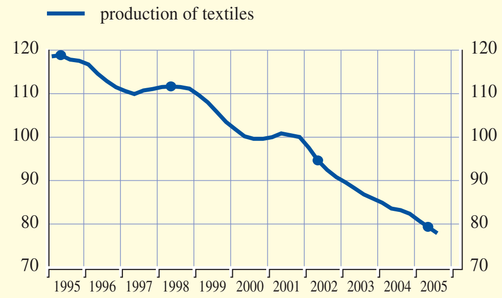
(EUR billions; three-month moving average; seasonally adjusted)



Source: ECB calculations based on Eurostat data.
Note: The latest figures refer to May 2005.

Chart B Euro area production of textile products

(index: Q4 2000 = 100; four quarter moving average; working-day adjusted)



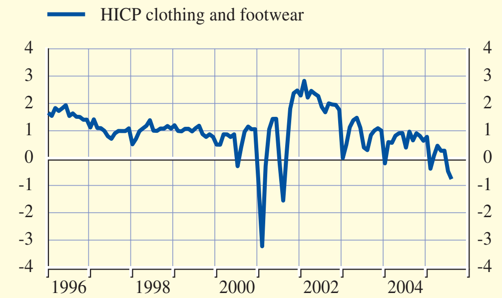
Source: Eurostat.
Note: The dots in the chart represent stages in the phasing-out of import quotas under the Agreement on Textiles and Clothing.

Unfortunately, interpreting recent developments in clothing and footwear consumer prices is difficult because of their highly volatile seasonal pattern. This is undoubtedly partly due to statistical factors (some countries have only included sales discount prices in the HICP since 2000 or 2001) and legal developments (e.g. the regulations governing discounting have been changed in some countries to provide more flexibility for retailers). However, economic factors, such as efforts to stimulate weak consumer demand by more aggressive discounting, may also be at work. In any case, leaving aside this seasonal volatility and the statistical effects, which explain the sharp drops in 2001, Chart C shows that the annual rate of growth in clothing and footwear prices has been declining since 2002 and is currently negative.

The liberalisation of the textile sector has therefore contributed to lowering overall HICP inflation this year, which has benefited consumers. At the same time, while the liberalisation thus far has only led to a change in the geographical composition of textile exporters to the euro area, it is to be assumed that, in the future, continued strong external competition will pose a challenge for the euro area textile sector, to which it will need to adjust.

Chart C Clothing and footwear prices

(annual percentage changes)



Source: Eurostat.
Note: The sharp declines in the annual rate of change in 2001 are due to the introduction of sales discount prices into the HICP in some countries in that year.