

TEXTILE AND APPAREL: AN HISTORICAL AND “GLO-CAL” PERSPECTIVE. THE ITALIAN CASE FROM AN ECONOMIC AGENT’S POINT OF VIEW.

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1) Introduction: the point of view of an economic agent driven by special interest.

The main subject of this paper¹ is the Italian Textile and Apparel Industry with reference to all possible strategies for holding on to competitive advantage². The issues I am referring to are presented in the chapters which follow and they are, essentially, the structural and strategic aspects at the basis of international competition and the case for traceability and reciprocity.

I would like to stress a simple fact: I am a textile entrepreneur; I'm not an economist, even though I make use of terms usually used by economists³.

Here I do not seek to analyse what are the main differences between social scientists and economic agents, like me. But, please, keep this in your mind when reading this paper. It is not that being driven by special interests is wrong, or that it couldn't be consistent with general interests. To make it simple, it is a question of different perspectives.

I am well aware that some arguments will be treated in a short way or without strong continuity between them. This is not a definitive essay, but it is a way to call for debate and reach a better view of a changing industry, starting from a different perspective from the usual one which regards the Textile and Clothing industry as a *sunset* one for western Europe. This helps me to better define the subject of this paper, seen in an historical and *glo-cal* perspective. It means we'll see issues considering their historical roots and trying to notice any cyclical pattern. *Glo-cal* is a new term which reminds us that our heads should always think what is happening elsewhere, but that our feet are always located somewhere. Moreover, what is considered as a consequence of globalisation, could result in a local conflict of interests, so that many adjustments should be made *at home*, more than elsewhere.

I start by stressing some key figures to set out dimension of the Italian Textile and Apparel industry, then I make reference to historical patterns and consequent bias that can come from a deterministic approach. I recall macroeconomic scenario in recent years, then I move to analyse evolution in international trade, with the surge of Chinese exports. Anti - dumping, tariffs and quotas are also considered as controversial issues in the search for a new global balance. To reach this, we shouldn't forget that both structural and strategic aspects are always in action when international competition is concerned. All in all, transparency is very important and could be supported by product traceability. This issue is connected with the difference of standards and the difficulty to make them become a purchasing and innovation *driver*. In fact, the Textile industry shows that environmental and social constraints which are typical in most developed countries, like Italy, do not automatically stimulate technological innovation. As far as reciprocity is concerned I will point out that it should be better exposed, starting from domestic market.

2) Textile and Apparel : recent key figures.

To grasp the performance of an industry with respect to the rest of the world we can start by looking at the percentage share in world exports, as shown in Figure 1. We discover that Europe (EU-15) in 2002

has been the world leader, with a share of 34% for Textile and of 25% for Apparel. Second world player has been China, with a share of 14% for Textile and of 21% for Apparel.

If we consider the evolution of these figures in the last decade, let's say from 1990 to 2002, we discover that Europe has decreased by 15 points in Textile and 13 points in Apparel, meanwhile China increased 7 points in Textiles and 12 points in Apparel. Secondly, if we don't consider Europe as an aggregate unit, but single European countries, we see that China is the real world leader with Italy in third place as Textile exporters, after the United States, and second place with respect to Apparel, followed by Turkey.

We must also consider imports; we discover that Europe (EU-15) still remains the leader, followed by the United States, with China in third place for Textiles, but without any strong relevance with respect to Apparel. It means that, for clothing, China is a net exporter.

Textile	2002	2002/1990	Clothing	2002	2002/1990
Exporters	Percentage Share	Percentage point changes in world share	Exporters	Percentage Share	Percentage point changes in world share
EU 15	34,2%	-14,5	EU 15	25,1%	-12,6
China	13,5%	6,6	China	20,6%	11,6
United States	7,0%	2,2	Turkey	4,0%	0,9
Importers	Percentage Share	Percentage point changes in world share	Importers	Percentage Share	Percentage point changes in world share
EU 15	30,4%	-16,3	EU 15	42,3%	-10,3
United States	10,6%	4,4	United States	31,7%	7,7
China	8,1%	3,2	Japan	8,4%	0,6

Source:OECD – WTO, International Trade Statistics 2003.

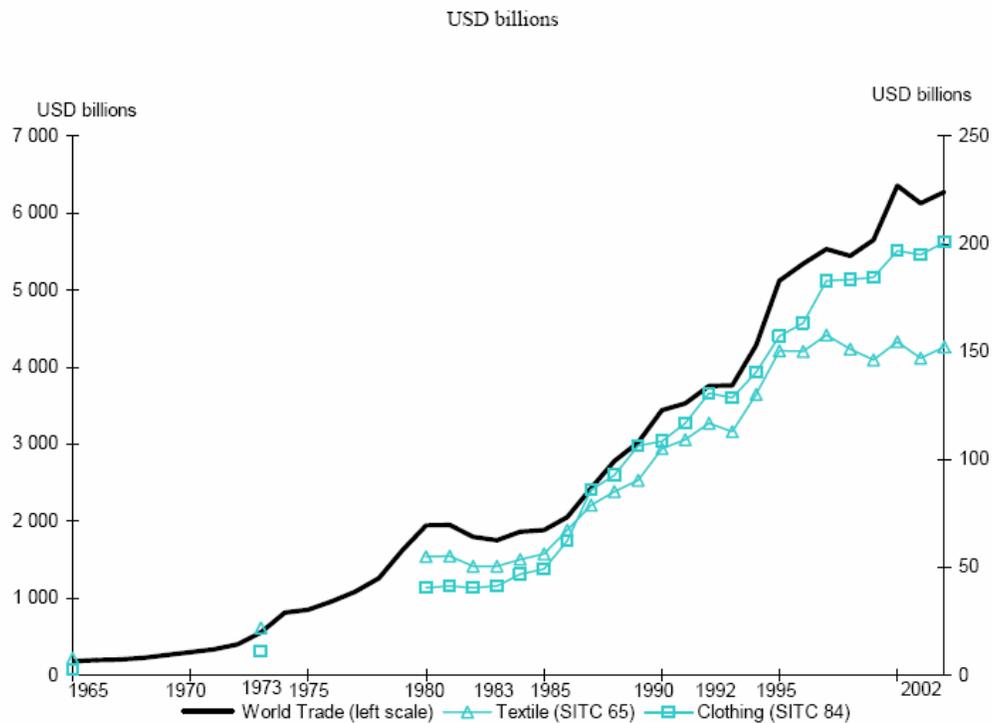
Figure 1

The fact that for many countries exports are as important as imports is due to the particular production process which can be split – broken into parts - worldwide, generating a lot of international trade, as shown in Figure 2.

As stated by UNCTAD (UNCTAD, 2004), during the last two decades Textiles and Apparel were the second most dynamic product in world trade, with an annual export growth rate of 13%, surpassed only by electronic and electrical goods, whose exports increased by 16%, annually.

As we will soon see, this happened thanks to the contribution of developing countries and new industrial countries due to a different competitive advantage based on low labour costs, but also because of artificial distortions based on duties and quotas in trade between countries. Moreover, we should not forget that many developed countries, like Europe, lack raw materials, such as natural fibres, and they must import them. So, to take a simple example, fine Indian cotton might be turned into fabric in Italy, cut in America, sewn in Honduras and sold back to America.

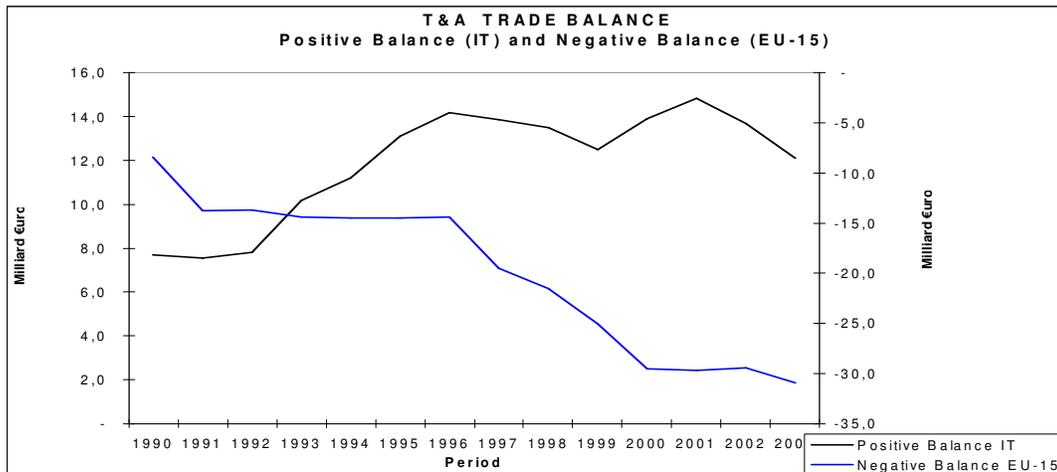
This does not mean that a large part of production could still not take in place in a single country, for example because of a major attention to quality and time to market. To better understand all the possible locations of production steps, the following features should be stressed. First of all, a production chain can be very long and articulated in small phases, in spite of the substantial simplicity of the output. Secondly, some phases are capital intensive, like spinning, weaving and finishing, whereas clothing is essentially labour intensive. Moreover, some processes need workers without special skills, whereas human capital might be very important in some other phases, like in finishing. Nonetheless, finishing, which includes bleaching, dyeing and printing, must comply with strict environmental standards in some developed countries, and this can push production to search for *pollution havens*. All these elements have played a role in defining different national competitive advantage, filtered by the effect of artificial obstacles to trade and by different national standards.



Source : OECD, 2004.

Figure 2

In some respects, we can say there are three main patterns in action and in competition with each other. There is the worldwide fragmented chain, which is usually headed by big retailer in developed countries, like Wal-Mart in America; there is the country fragmented chain, which is usually headed by an Apparel producer with a brand policy, as happened in Italy, with Marzotto and Benetton. The third main pattern is the one which could become more and more important after the end of the quota system; it is the regional fragmented chain, based on preferential rules of origin. We can think, for example, of NAFTA and the role of Mexico for the United States. This third model is headed by the same actors as the previous two. It represents a good balance between cost effectiveness and time to market.



Source : Euratex, SMI and ATI on Eurostat and ISTAT data

Figure 3

Coming to the Italian success story, we have to stress that Italy has been the leading producer in Europe, starting from the end of the seventies. If we compare the Italian sectoral trade balance with that of total Europe, as shown in Figure 3, we see Italy with positive results, in the last decade, meanwhile Europe had an increasing deficit.

This is not encouraging enough because if we analyse the data better, from 1990 to 2003, as shown in Figure 4, we discover that: 1) production valued in real terms has decreased by nearly 26%; 2) the import penetration index, valued on apparent consumption, has more than doubled in nearly ten years, passing from 19% to 46%; 3) labour force has decreased by almost 27%.

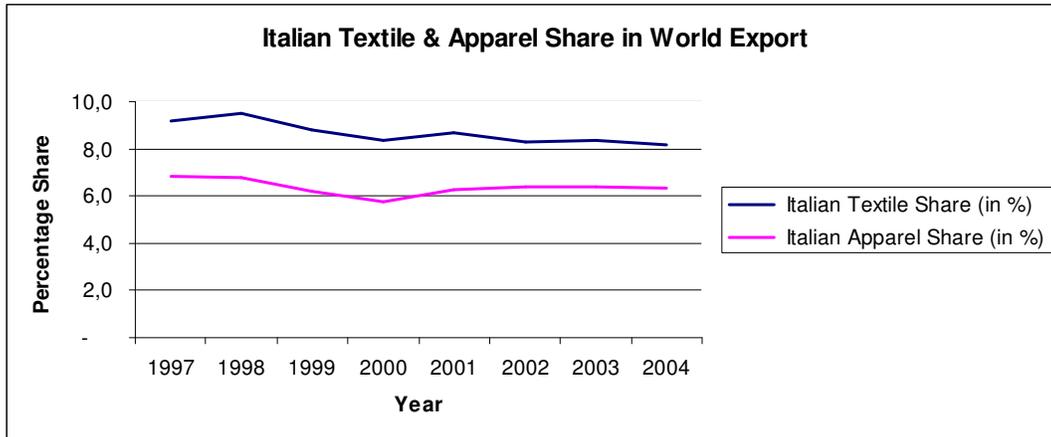
**ITALIAN T&A INDUSTRY - 1990-2003
(million €uro or units)**

YEAR	TURNOVER a)	IMPORT b)	EXPORT c)	NATIONAL AVAILABILITY (a+b-c) =d)	IMPORT PENETRATION INDEX (b/d)%	TRADE BALANCE (c-b) =e)	EMPLOYMENT (.000)	REVALUED TURNOVER in 2004 €
1990	37.701	5.544	13.256	29.989	18,5	7.712	780,0	59.444
1991	38.218	5.916	13.461	30.673	19,3	7.545	770,0	56.631
1992	38.476	6.378	14.177	30.677	20,8	7.800	750,0	54.086
1993	38.218	6.488	16.669	28.037	23,1	10.181	724,0	51.560
1994	40.594	8.111	19.310	29.395	27,6	11.198	722,0	52.690
1995	43.227	9.419	22.515	30.131	31,3	13.096	717,0	53.256
1996	43.641	8.899	23.088	29.451	30,2	14.190	702,0	51.749
1997	45.190	10.379	24.247	31.322	33,1	13.868	699,0	52.673
1998	45.965	11.174	24.683	32.456	34,4	13.508	696,0	52.630
1999	44.570	11.063	23.556	32.077	34,5	12.493	689,0	50.240
2000	47.101	13.173	27.047	33.227	39,6	13.874	686,0	51.764
2001	47.789	14.150	28.952	32.987	42,9	14.802	610,0	51.153
2002	45.889	14.315	27.989	32.215	44,4	13.674	592,0	47.954
2003	43.150	14.244	26.335	31.059	45,9	12.091	570,0	44.009

Source : Associazione Tessile Italiana, Sistema Moda Italia, Federtessile; ISTAT.

Figure 4

Another ambivalent indicator is given by the share in world exports, as shown in Figure 5, because one might say that it is continuously reducing, even though smoothly and without eliminating the important role played by the Italian industry in global competition.



Source : ICE, Eurostat and ISTAT

Figure 5

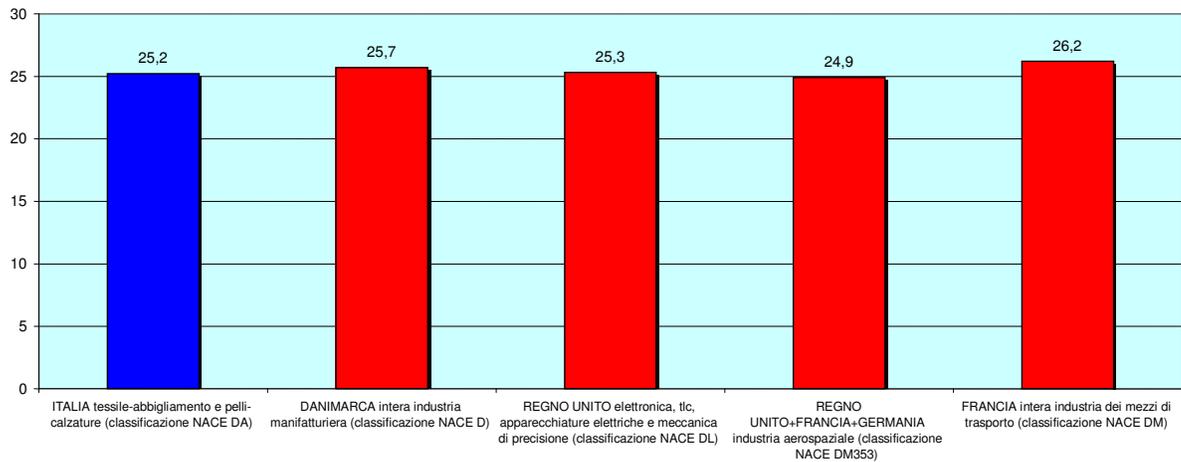
Hence, the Textile and Apparel industry is still very important for Italian economy. For example, it represents nearly 1/3 of the manufacturing trade balance and nearly 13% of employment in the national industry. As shown in Figure 6, with respect to 2001 data, the added value produced by Textile and Apparel plus Leather, in Italy, was nearly equal to the total added value produced by Danish industry, or the French transport industry, from cars to airplanes (M. Fortis, 2005).

In any case, we must observe that in the last few years, the Italian Textile and Apparel industry is underperforming as is all Italian industry. A discouraging mix of overvalued Euro against the Dollar, lack of demand and increasing costs, from energy to unit labour costs, also to cope with the negative effects of the changeover, are creating a vicious circle where slow growth is the main result. In this context, where all kinds of industries are focused on restructuring - with the exceptions of the heirs of the old national monopolies - the traditional sectors, like Textile and Apparel, are suffering from import substitution. Especially from China, which is running along a path of economic specialisation similar to the Italian one, focused on traditional export-led industries.

The recent accession of China to WTO, at the end of 2001, has added a new and serious dimension to the quota phase-out, defined during the Uruguay Round in 1994, when the MFA was replaced by the ATC⁴. Chinese exports to the EU have grown greatly during the last three years. And as some liberalized product areas have grown by three or more times, its prices have plummeted by up to 75%⁵.

Rilievo dell'industria italiana del tessile-abbigliamento e delle pelli-calzature rispetto ad alcune industrie europee: valore aggiunto 2001 (miliardi di euro)

(Fonte: elaborazione Fondazione Edison su dati Eurostat)



Italian T&A + Leather Value Added compared with other European Industries

Figure 6

Quoting the last OECD study, what the post-ATC period may offer to countries competing with China may be illustrated by what happened to the import composition of Japan, a country that did not apply MFA restrictions. Between 1990 and 2002, the share of Japanese clothing imports originating from China soared from 31% to 79% (OECD, 2004). Consequently, if this will be the case, European producers and especially Italian ones will be pushed out of the market. As stated by a study commissioned by the European Commission, a reduction of nearly 30% of jobs is expected in a short time. But what we can see, at this very moment, is a sort of over-reaction by Italian producers, which could lead to an even worse knock down. In fact, entrepreneurs along the pipeline are reacting to import substitution, drastically reducing their own orders to domestic suppliers regardless of the instances, in terms of inventories and capital investment, let alone lay-offs. The trade shock tends to be amplified passing from one step to the other along the fragmented production chain, which is an Italian characteristic. I stress the point: reductions are *generalized* and have a snow-ball effect. In the process there is no room for discrimination between more efficient firms and less efficient ones, relatively speaking. This depends on market signals in absolute terms – i.e. import quantity and prices are astonishing. But this means that adjustment does not occur through the exit of less efficient firms, leaving space to the more efficient ones. Scale reduction is overwhelming and pervasive. Consequently, the Italian Textile Industry as a whole tends to become less and less profitable and competitive.

3) The battle against a self-fulfilling prophecy.

Why is the Italian Textile and Apparel industry declining? Why is it over-reacting, as said above? There are four kinds of answers. The first one is typically structural and involves aspects like maturity of the sector, globalisation as well as the comparative advantages of new industrial countries in terms of low

labour costs. This is the kind of answer which is well analysed by economic essays and that we can take for granted. The second answer is partially linked to the first one, it considers the trade shock originated by the colossal role of Chinese exports and the consequent current *market disruption*, in Europe. The third answer concerns national and European politics. For example, policy makers in Italy are leaving the industry to face open competition, on product markets, maintaining protection for many production factors, as in the case of energy, or without supporting industry with appropriate public investment in infrastructure. Both the second and the third kind of answers will be considered in the following chapters.

The fourth answer is a more subtle one because it involves social belief and bias. As I said before, the personal beliefs of economic agents are important to explain market behaviour. For sociologists as well as for psychologists it couldn't be the other way round. A classical issue in both disciplines is that what is considered as real, produces real effects.

The point is that both cyclical and structural changes are not only the result of innovation or chance, but also the result of general beliefs. The beliefs that people hold determine the choices they make. These choices, in turn, structure the changes in the economic framework. So, the way we interpret reality influences our taking part in it and in its modification. On some occasions we can observe what is called a *self-fulfilling prophecy* in action. Let's say that once an expectation is set, even if it isn't accurate, we tend to act in a way that is consistent with that expectation. People with whom we interact tend to respond by adjusting their behaviour to match our expectations. The result is that the expectation comes true. This is the case for Textiles and Apparel in Italy, nowadays. It started with the *new economy* euphoria and was reinforced by real events during the 2001. The general understanding is that there's no room for this kind of industry in our future, "at home". Everyone seems to believe so; not only ordinary people but also policy makers and entrepreneurs along the pipeline. Some colleagues believe that we can keep our head at home, for design and product engineering, but that we must use muscles abroad, where labour cost is cheaper. If taken in an absolute way, this is the end of our formula, based on the integrity of the pipeline at home; based on industrial districts and positive externalities. Strange to say it looks as if every one has forgotten the dimension of our recent success and the impact of the sector on the Italian economic system as a whole. Without forgetting that if so many products are daily sold on the global market counterfeiting Italian origin, it is evidently because global consumers are still keen on buying what we can offer them.

So, at the very base of the actual over-reaction there is the general belief that domestic production no longer has a future. It is a belief also based on a deterministic view of economic development. As we'll see in the next chapter, the consequent behaviours are so pervasive and generalised as to amplify the shock which everyone is trying to avoid. It is a mixture of rational and irrational attitudes. On the one hand, there is the rationality of reducing costs and capacity, in the short run; on the other, there is the irrational attitude of stopping investment and avoiding shutting down factories.

But the origin of the escalation stems from China with its : *too much, too soon, too cheap*.

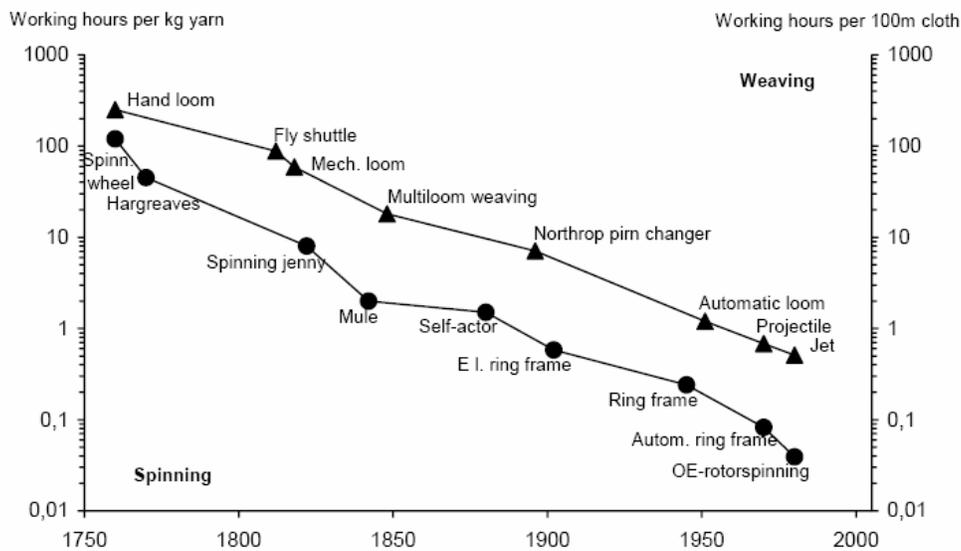
4) An historical perspective.

4.a) A classical pattern in economic development.

China is feared as the real winner who takes all; at least in world Textiles and Apparel. Someone pointed out that Asia was a net exporter of textiles to Britain and West Europe, until the Industrial Revolution, so perhaps we are merely witnessing the restoration of an earlier pattern of trade (Singleton, 1997). But also the idea that import substitution could lead to the end of domestic textile industry is not new. In Italy, the same fear was reported since the first big crisis occurred long ago, in 1600 (Cipolla, 1974). It happened as well, at the beginning of the Italian Industrial Revolution, in 1860 (Romani, 1992), and then every now and then, till now. So, we could say that there is nothing new under the sun and that history can teach us something.

The textile industry was the archetypal industry of the Industrial Revolution of the eighteenth and nineteenth centuries in Britain. In some ways the first industrial revolution was a textile revolution (Dicken, 2003). Especially cotton spinning and weaving were the object of technical innovation, in a sort of reciprocal reinforcement (Figure 7). For example, one of the first innovation was the “flying shuttle”, by John Kay, in 1733. The consequent improvement in productivity of looms created a demand pull for better productivity in spinning, as well⁶. So, a second important innovation took place in this field with the so called “spinning jenny”, by James Hargreaves, in 1764. The third step was to replace human energy with hydraulics systems, and so on with a sequence of mechanization and better usage of energy, where steam marked the real beginning of the new era. It marked, even though progressively, the passage from the earlier so called *domestic system* to the new *factory system*. The reason is “easy” to understand⁷, the cost of steam apparatus was very much the more expensive and forced the search for economies of scale through the physical concentration of looms in a single place. This path, based on mechanization, concentration in factories and mass production, was used for cotton, as well as for wool. Britain tried the same for silk, but France with its specialised district in Lyon became the real leader, both in the eighteenth and nineteenth centuries. The most important thing is that this leadership was obtained with a totally different approach to industrialisation⁸. Instead of the passage from the *domestic system* to the *factory system*, there was better regulation and organisation of the former in what someone called “collective manufacture” (Cottureau, 1997). Lyon, with silk, developed an industrial pattern which was more flexible and based on product differentiation. It rested on fragmentation of the pipeline headed by the merchant-entrepreneur. The same pattern is still at work, in some respects, in some Italian districts, like Prato. We could stress that textiles was not only at the origin of industrialization, but also of its main dialectic, with mass production on one side and flexible specialisation, on the other. Silk did not follow the cotton path, whereas just now cotton and all other fibres are following the old silk path in developed countries, with the help of design and fashion. I’d like to stress the point: Italian Textiles and Apparel has based its success on flexible specialisation as a way to cope with saturated markets, where needs are “socially” stimulated. Moreover, it should be noted that along the Italian pipeline many fibres are treated, like cotton, silk, linen, wool and man-made fibres. We could say that it is a case not only of flexible specialisation, but of a versatile and complete one, as well.

Coming back to England, historical reconstruction is interesting not only because the “textile revolution” started there, but also because England has been the first country where manufacturing decreased its relevance to the national economy, as happened over the period 1950 to 1980. Many observers say that England was the example to imitate for industrial take off and could be the same about landing. It could be a paradigmatic example, consistent with the so called *development cycle hypothesis*. As we’ll discuss later, most nations go through a cycle in which first agriculture and then manufacturing decline as the tertiary service sector expands. Usually, an important component of this path is the relevance of competition from imports. We could say that *first comers* decrease because of *new comers* development. But as there were reasons why industrial revolution took off in England and not elsewhere, there could have been reasons for the decline of industrial sectors that could not be present in other countries. For some scholars (Jones, 2002), there is a relatively close correlation between the list of factors held to have been responsible for the development in the UK manufacturing sector as a whole and those responsible for the decline of the Textile and Apparel sectors. For example, an over-concentration on low quality and undifferentiated goods. The dominance of the multiple retailers, especially Marks & Spencer, made it difficult for manufacturers to establish their own brands and tended to reinforce the industry’s attachment to long runs of relatively undifferentiated products (Jones, 2002). In the same period, European consumers were looking for more and more differentiated, colourful and stylish fabrics. This called for flexibility as well as for synergy in the pipeline to become a real *supply chain* and reach quick response to changing fashions. That is exactly what became the base for success in the Italian case. Due to this comparison, Richard Jones (Jones, 2002) stresses the failure of the UK Textile and Apparel manufacturing sectors to achieve meaningful inter-connectedness and co-operation. So to speak, it is possible to track similarities in development cycles as well as diversities. And when diversity arises, in terms of different strategies, *first comer* behaviour should not necessarily forecast the future of others.



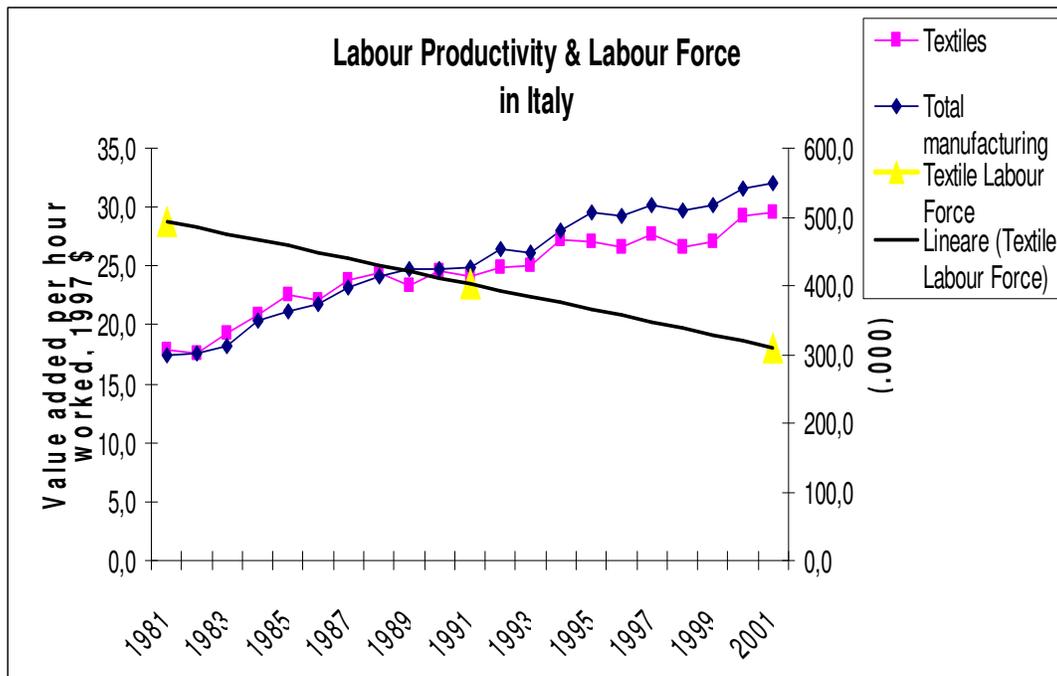
Source : OECD, 2004

Figure 7

4.b) A different “flying geese” route.

I refer here to certain historical patterns which if taken in an oversimplified and deterministic way, could create dangerous bias. For example, there is a logical overlap between development stages and basic sector definitions; primary, for agriculture; secondary for manufacturing and tertiary for services. This can be interpreted in a simplistic way as a linear and deterministic approach to development. It is true that this sequence corresponds to the stages in human history, taken as a whole. It is also true that, for example, in newly industrialised countries agriculture has become less and less important, whereas manufacturing becomes the main sector for employment. This doesn't mean that primary and secondary sectors should disappear in most developed countries. Employment tends to decrease due to a progressive change in social structure, social welfare and social needs. Consumption patterns change and this drives production as well as import and export flows. But the reduction of employment is often offset by growth in productivity. This happened in Textiles, in Italy, as shown in Figure 8. This is consistent with technological innovation and the partial trade off from labour to capital factor intensity.

Coming back to historical patterns of development and to the deterministic approach they can involve, I would like to refer to the one proposed by Akamatsu (Singleton, 1997). He advanced a *flying geese* pattern of industrial development, in which industries take off and fly, one after another, in a long line. Textiles are normally the first industry to become airborne because it requires only modest amounts of skill and capital. Heavier and more sophisticated industries follow in series. During the course of the flight, latecomers assume the leadership of the flock of geese, so that the Textile industry falls further and further back in the group.



Source : ISTAT, ATI

Figure 8

This pattern was seen in action in many developed countries, like in Japan. It is often respected by new industrial countries, like the four *Asian tigers* and especially South Korea. But in the case of Italy the pattern was not completely respected, because Textiles and Apparel still remain in a leading position, determining overall economic performance. This *persistence* is seen as a problem, but we can start from that to better understand Italian Textile and Apparel, due to its special fragmented structure which is complete and flexible, at the same time. Fragmentation is recomposed within the industrial districts with their social sense of belonging, contextual knowledge, specialisation and informal integration (Becattini, 2000; Quadrio Curzio and Fortis, 2001). It's what we refer to as external economies of scale which are one of the main keys to really understand differences in economic performance between countries. In Italy, we don't have only the persistence of Textile, but there are other *traditional* industries which are linked in mutual reinforcement to characterise and differentiate our national economy. I refer to shoes, furniture and food that taken as a whole are consistent with the so called *Italian way of life*. I stress the point, because what we really export are products which are valued much more for intangible reasons – like aesthetics and emotional transfer, promoted by advertisement and reputation – than for material consistency

Coming back to the *flying geese* pattern, the *persistence* of something which should no longer be present can be seen as an exception to a scientific paradigm; it can be seen as a door open to a better comprehension of reality. As long as this persistence produces good results it is greatly celebrated, both inland and abroad. But as soon as performances tend to decrease, like nowadays, the old paradigm regains at home its strength, covering every disturbance signal⁹. : it was the reality to be wrong, not the theory. “The Italian Textile and Apparel industry should have died long before”. This is a common opinion, because the industry is suffering from international competition. Many observers, as well as many policy makers, believe that this is totally normal, without considering the many causes which are interfering with the normal activity of the *supply chain*. So, the risk we are running, now, is that the misunderstanding about the persistence of the Textile and Apparel industry, in Italy, could lead to the wrong strategy (or to no strategy at all).

4.c) A slow decline chronicle.

Those ones who are used to think with a deterministic approach to development could ask how we can survive the import substitution which is more and more in action, especially from China, not only in our country but also in our target export countries, like Germany and the USA.

I'd like to summarize recent events which brought us to the present situation, even though this implies the risk of oversimplifying.

Before the end of the quota system, the Italian Textile and Apparel industry was affected by a self-fulfilling prophecy, recalled in the third chapter. It started with the *new economy* euphoria and was reinforced by real events during the 2001. In the USA this was the year when the financial bubble burst; orders to the Italian Textiles and Apparel industry immediately decreased. The reduction of trade between Italy and the USA was even stronger after the 9/11, with the Twin Tower shock. 2001, in mid December,

was also the year when China joined (or re-joined) the WTO. As I said earlier, the consequence of this new entry became evident in the next year; the same one which characterized the Italian economy with the *changeover*, from national currencies to the Euro. We should not forget the efforts made to comply with the *Maastricht Treaty*, during the nineties. They reduced the rate of national growth, but after that, the *changeover* produced some sort of a *poverty effect*, because of the real rate of exchange in pricing consumer products. Not only in Italy, but also in other European countries, where different national causes were also under way. An example is Germany, with the side effects of reunification. The general consequence was – and still it is – a very low rate of growth for the European economy. Italian Textile and Apparel was doubly affected, firstly by the lack of demand from American markets, then from the lack of internal demand, mainly from Germany.

In 2003 the Dollar began to depreciate markedly against the Euro. This made exports more and more difficult, on the other hand, imports from China became more and more easy. Recent history for Europe, in economic terms is a slow down; for China it is exactly the opposite. With big differences in absolute size, especially if we consider specific competition in traditional sectors, between China and Italy.

As a consequence of what has just been said, we have, on the one hand, low demand, on the other, large supply from Chinese producers. Lower prices will achieve equilibrium, giving a signal to the European economic system to produce fewer traditional products and more of other things. But what if the market signals are artificially sustained? What about time and social costs for adjustment? What about innovation as a way to find new ways to compete? Last but not least, why didn't Italian industry react earlier to the Chinese on rush?

Starting from the last question, we cannot say that the Italian Textile and Apparel industry did not face increasing global competition through investment and restructuring. As shown in the last paragraph the industry has been characterized by a continuous growth in productivity which has entailed a reduction of employment. The signals which came from the markets, in terms of export share and profitability, were encouraging enough all through the nineties. The alarming indicators about future development mentioned earlier weren't strong enough to spur a larger and socially expensive downsizing. So, when someone points out that we had ten years to prepare ourselves, after the real end of the MFA, it sounds as a weak argument. As I just said: firstly, because we have never stopped facing global competition and in so doing we obtained good performances. Secondly, because those performances didn't justify more downsizing. Finally, as to the Chinese giant, we didn't have ten years but only three, because China re-joined the WTO at the very end of 2001. This is the reason why in the protocol signed on that occasion the possibility for safeguard measures against market disruption, caused by Chinese exports was included.

Innovation has been a key element to keep competitive advantage. This was done especially at the fashion product level as well as at the pipeline organisation level, to ensure quick response and total coverage of the product range. It was not the same for technological and process innovation, where long term involvement is requested, starting by supplier sectors, like the chemical and mechanical industry. This fact will be better analysed later, discussing transparency and traceability. But here it is important to stress that markets – especially industrial ones, where new technology is implicitly traded – may come to the conclusion that the domestic textile and apparel industry has no future. In this very case no one will

spend resources anymore – i.e. R&D – to try to guarantee differential competitive advantage through technical innovation. If the actual market signals are so strong – as in the case of market disruption – that innovation is no longer regarded as an opportunity, the only possible reaction will be a *destructive* one. We will not have, simply, a capacity reduction to a certain percentage, but a widespread withdrawal.

As just said, the reaction to strong price pressure, in the near future, can be only a passive one by domestic firms, like dramatic downsizing. But if the slow growth characteristic become pervasive for the economy as a whole, it will mean that the labour force exiting the Textiles and Apparel industry will not find a new jobs in other sectors, swelling the ranks of long-term unemployment. If downsizing is likely to happen for other manufacturing sectors, the economy can enter a period of recession. Chinese products will become even cheaper, but families won't have enough purchasing power and the economy will enter a vicious circle.

So, what if all this happens because of market signals sustained artificially? This can force us to enforce trade regulations, even though many can see it as a form of protectionism against typical gains from free trade¹⁰.

5) Global and local against each other: quota system, tariffs and anti-dumping cases.

5.a) The end of the quota system : China as *the winner who takes all*.

China represents a problem for the Italian Textile and Apparel mainly because of the overall effect of structural differences (but not only). The problem is not only an Italian one. With the completion of the phase out of quotas, which happened at the end of last year (2004), China is becoming *the winner who takes all*, because also other international competitors in new

Textile and clothing machinery imports, value share.

	World USD Millions	China %	Turkey %	Mexico %
2002	17.671	15%	8%	2%
2001	17.948	11%	3%	3%
2000	19.242	8%	5%	4%
1999	17.399	6%	3%	4%
1998	20.163	4%	6%	4%
1997	22.888	7%	8%	3%
1996	23.335	9%	10%	2%
1995	24.240	9%	6%	1%
1994	21.514	9%	3%	2%

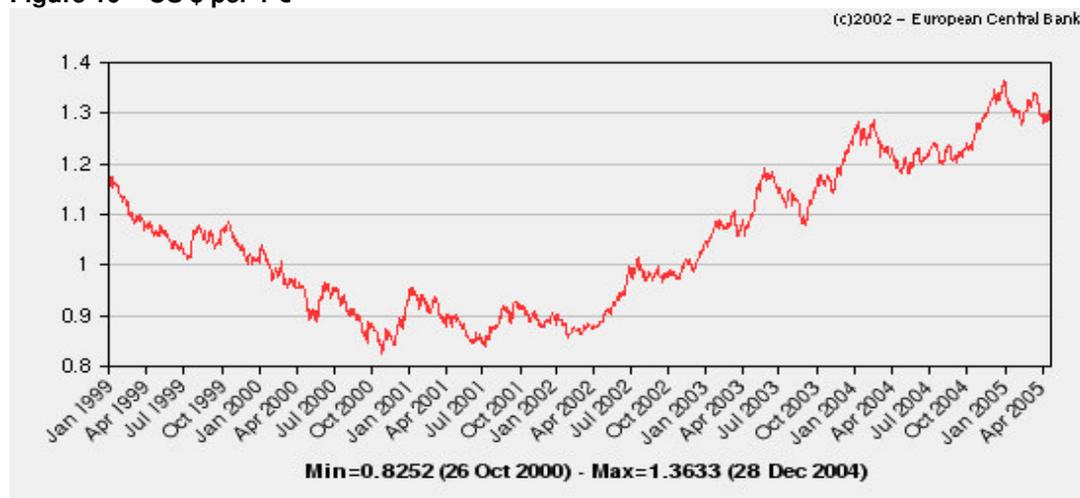
Source : OECD, 2004

Figure 9

industrial countries or developing ones, are being flattened. In fact, if the quota system was a limit to the most aggressive countries, like China, it acted as a sure export market for weaker competitors, like Bangladesh, Cambodia, Sri Lanka or Mauritius. China had a dramatic rate of growth in recent years based on traditional export-led sectors, with Textiles and especially Clothing in a leading position. This kind of growth was also supported by foreign direct investment, which improved with WTO accession. The phase out of the quota system acted as an incentive for investment in the sector, as shown in Figure 9, expanding Chinese capacity. This expansion was also driven by the expectation that demand for textile and clothing goods was about to increase worldwide, and especially in the USA and in Europe¹¹. That belief is turning out to be ill-founded with respect to Europe because demand is not increasing as expected, due to low economic growth. Hence, there is excess capacity exported from China with strong pressure on prices in European markets, which tends to push out domestic producers. If we consider all this alone, we could not understand the picture. Because, at the same time, undervaluation of the Dollar and the Renminbi, as well as others structural and strategic aspects, are in action. Competition is impossible because imports prices from China, in €, are 50% to 75% cheaper than domestic goods, mainly because of currency reasons. It is interesting to remember that when China rejoined the WTO, at the end of 2001, the rate of exchange was nearly 0,89 US Dollar for a €, whereas at the beginning of 2005 the rate of exchange was up 50%, being 1,31! As is known, the Chinese currency, the Renminbi, is pegged to the Dollar and undervalued against it by nearly 15 to 30 per cent, as reported by *The Economist* (October 2004). It means that the undervaluation of the Dollar against the € was automatically transferred to the Renminbi.

Here we have also to pay attention to a "suspicion" about unfair practices made by Chinese authorities, for example, in terms of hidden subsidies to exporters. It was reported too that there existed a double exchange rate system; the official one for foreigners, and one for the exporters, with a premium spread of nearly 20% in favour of the latter. Considering this kind of mechanism, or a similar one concerning public subsidies, we could say that Chinese exporters don't sell products; they buy dollars, at any rate, to re-sell them conveniently to the Public Authority.

Figure 10 – US \$ per 1 €



The overall effect, I was referring to earlier, which makes competition nearly impossible against Chinese exports, due to unbearable low prices, could be divided between *structural aspects* and *strategic* ones, as depicted in Figure 11.

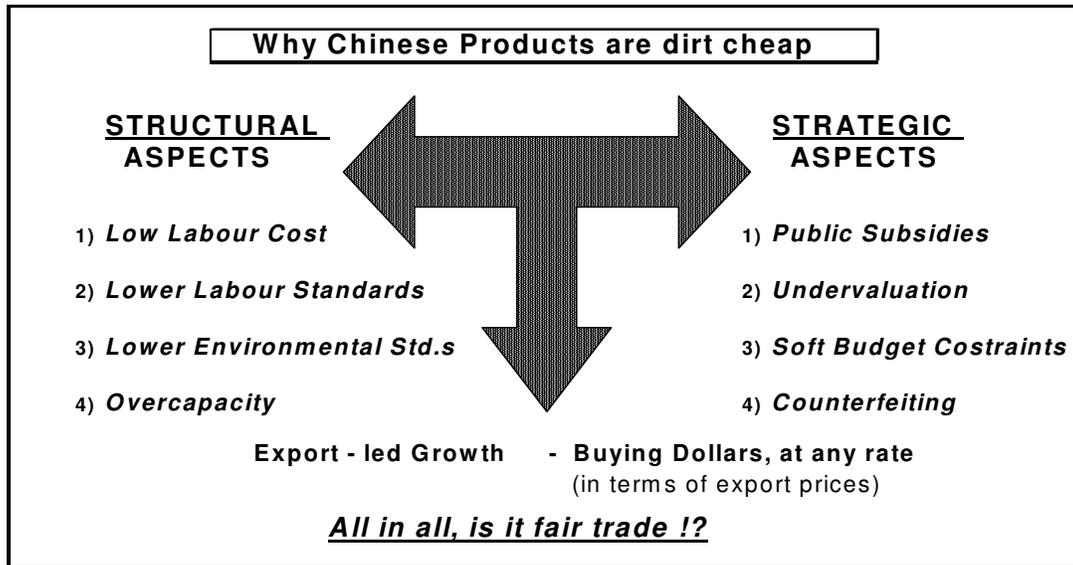


Figure 11

As a result, overall Chinese textile and clothing exports to the EU grew by 46,5% in value between January 2004 and January 2005 according to China's own export figures. In some categories of product, increases in volume of 625% were registered into the EU-15 with price falls of 36%. This happened, for example, for jerseys and pullovers. We can say that January's evidence showed blockbuster gains for Chinese textile and apparel makers, but it means exactly the contrary for all other manufacturing countries and especially for Italy.

Economists are used to saying that there are also big gains for consumers, which could make up for trade shocks. But if we look at some statistical data about import pricing and consumer pricing, for garments, as shown in the Figure 12, we discover that the former decreased strongly, but the latter tended to increase, at least in Italy, as well as in many other European countries. The only exception is the UK. As stated by *The Economist*: "Britain and America have enjoyed a sharp decline in the price of clothes in recent years. But in the Euro area clothes prices have not fallen; like for like, they are now one-third higher than in Britain" (October 2004).

The question remains the same: where is the consumer benefit and who is actually benefiting from lower import prices? Certainly, more transparency along the pipeline down to the consumer could be the solution.

Country	CONSUMER PRICES	IMPORT PRICES	
	Clothing and Footwear	Textile	Clothing
Italy	7,0%	-4,4%	-19,0%
Germany	-0,7%	-8,4%	-20,8%
United Kingdom	-22,9%	-29,7%	-12,5%
E.U. - 15	-1,1%	-24,2%	-39,2%
E.U. - 25	-1,2%	-12,9%	-22,9%

Analysis of prices 2004 relative to 2000.

Source : Euratex, on Eurostat data.

Figure 12

5.b) The grey cotton fabric antidumping case

When we face ever lower prices we are used to consider the existence of dumping as an intentional foreign firm's strategy. In the previous paragraph about China, dumping was not listed as a *strategic* aspect because in this very case the underlying *structural* aspects can be much more relevant. But a better analysis of what is considered as *dumping* can help us to assume a different perspective about trade matters. They are not only quarrels between different countries, but they involve, first of all, different interests "at home".

My personal convictions about dumping took shape in the field, taking sides against a specific antidumping dossier¹². I'm referring to the antidumping case against the grey cotton fabric coming from six new industrial countries – that is China, India, Pakistan, Indonesia, Egypt and Turkey - proposed twice during the nineties before the European Commission by the associations of European weavers. In that same period I was in charge of both the national and the European association for textile finishers and my personal concern was that the protection asked by some could become a greater damage for others, that is, for finishers as well as for apparel makers. For this reason I reacted against the weavers with some counter arguments. I also claimed that I was in favour of the antidumping duties on the condition that these were extended to all products, like an umbrella protecting the entire industrial pipeline. Mine was a sort of ambivalence which is typical of this kind of matter. We shouldn't forget that we are mainly transformers. We have to import raw materials and commodities, to be able to produce specialities and export them. But eventually, the added value incorporated in imports can be ambivalent: on one side, importers of that product can be favoured; but not so all the other operators along the pipeline. For this reason the anti-dumping cases are mainly an internal dispute between different actors of the same domestic market. For this purpose, it is interesting to quote Jacob Viner of Chicago University, who wrote in the 1923 one of the leading studies about dumping. He said that : "*as early as the beginning of the 19th century, English manufacturers of cotton cloth attempted to induce Parliament to stop English*

*spinners from dumping yarns abroad at "miserable prices", because "the foreign manufacturers of cotton fabrics were thereby afforded an unfair monopoly"*¹³.

For many economists the phenomenon of dumping is something which doesn't exist and if it does it cannot really harm. With the exception of some rare cases of predatory pricing (Hindley, 1991). Theoretically speaking the notion that low prices charged by one seller may be predatory, and against the interests of both other sellers and buyers, has a simple foundation. It is the idea that a producer may find it worthwhile to sell a product so cheaply that his competitors are forced out of business. The low price firm then will have a monopoly, and can raise the price of the product, thereby increasing profits and covering any losses that derived from the initial cheap sales. Buyers will gain in the low-price phase, but will be worse off thereafter. Predatory pricing does not require an international setting but mostly referred to it. In this view, antidumping action is against production coming from some specific foreign country, and it is in the interests of domestic buyers as well, of course, as in the interests of domestic producers of the dumped good. Antidumping duties are fixed consistently to what is calculated as a dumping margin; in so doing the price of the product coming from abroad becomes as expensive as the one produced locally. Even though the explanation is as simple as that, many economists believe that predatory dumping is more a theoretical option than a real one.

My personal point of view is that predatory pricing may occur but it is unlikely to happen if considered at factory level, as it should be, technically speaking. This may occur only if someone can count on big financial resources to implement¹⁴ it. It could be different if we consider the industrial strategy of a country, as a whole, because in this case predatory pricing could be supported by some kind of subsidies or by the so called *soft budget constraints* in state-owned factories. In any case, what I believe in is that dumping-effect can be something more structural and less dependent on foreign firms' strategy. We can have, for example, a situation of excess capacity in which most of the firms in an industry fail to cover their average costs of production. Then there are things which involve big differences between countries, with respect to social and environmental standards or currencies. An overall effect of all of these can be observed against the European textile and apparel industry with respect to the competition from China. In fact we see, currently, that products coming from there are imported at ever lower prices which, in many cases, hardly exceed the cost of the raw material they are made up with.

It could be interesting to recall the conclusion of the grey cotton fabric antidumping case. Admitting the claim by the cotton weavers, at the beginning of the 1997, the European Commission imposed so called "provisional antidumping duties" on imports of grey cotton fabrics from China and the other five mentioned countries. As a consequence, there was a contraction in imports of grey cotton fabrics with a more than compensative increment in imports of bleached cotton fabrics. As a matter of fact, the import volume of grey cotton decreased by 45%, meanwhile the import volume of bleached cotton fabrics increased by 160%! As foreseen, limiting the imports of basic products resulted in a stimulus to import semi-processed and finished goods, thereby doubling the alleged damage for domestic industry. Importing a finished product means taking work away both from weaving and from dyeing plants. This became more and more evident, giving a better indication of what really was the *Community interest*,

aimed at protecting employment along the pipeline. So the EU Ministers Council finally decided against the antidumping duties in the October 1998. We can say, anyhow, that a big mistake was made. The artificial boundaries to import at a basic level stimulated new industrial countries to invest resources for producing more added value goods. It is another element to be stressed: textile and apparel imports into Europe have been much more a demand pull event than an offer push.

5.c) From classical dumping to “social and environmental dumping”.

We can refer to other forms of dumping like social and environmental ones, as something different from predatory pricing. Most economists disagree about the real existence of this kind of dumping, or about its real negative effect. For example, in a WTO dictionary of trade policy terms (WTO, 2003) is said that “environmental dumping” does not impact because the cost of compliance to environmental regulation in developed countries does not exceed 2% of a good’s value. This could be true as an overall average. But if we take European Textile and Apparel industry we discover that the incidence of environmental costs is higher, due to specific *command-and-control* regulations. The incidence is particularly relevant if we value it, not through the normal accounting system, but through so called “environmental accounting”. The latter takes into account also all the hidden costs connected with every aspect of production, in compliance with environmental regulations. For example, the differential costs using very refined chemicals which are not only more expensive but also less available.

Social dumping is much more controversial, because economists refer to it only in the case of hard labour by convicted people. Industrialists and Unions, on the contrary, claim its existence in new industrial countries because of different labour standards, with reference to working conditions, freedom of association etc. But leaving the controversy to its nominal aspect, the problem could be seen as this. We have improved our social protection system as well as the working environment, the toxicological protection for consumers and the environmental protection in a gradual way, even with some social contrast. To comply with all these aspects means to cover higher costs, which we internalise while others can externalise them. So, the cost of production is structurally different. We could discuss the real entity of dumping as a complex phenomenon, but the problem remains a general one, even if it is more sensitive for some sectors. Can we say that others are more competitive only because they can do things we are not allowed to? Can we say that we are less competitive, now, because we cannot externalise costs anymore?

6) Reaching equilibrium between global and local: the case for traceability and reciprocity.

6.a) Traffic lights for international trade.

Even though some reasons for the decline, in Italian Textile and Apparel, are of domestic origin, the shock coming from international trade is now the main emergency. It is not something completely new, as I said, and a *second best* approach should be considered as an acceptable one. Economists say that the *first best* policy, generally, would be a purely domestic policy targeted directly at market imperfections or

distortions. Trade policy is almost always a *second best*, but it could be more time effective, leaving the possibility for gradual internal solutions. The Chinese figures we referred to earlier, demonstrate that *a clear and present danger* to Italian Textile and Apparel manufacturers is under way. This calls for immediate safeguard action by the EU. We could say that *second best*, in this case, is like reintroducing a *traffic light* to regulate excessive trade and its consequent market disruption. It stands for a signal given both internally and externally. Internally, it could help the manufacturer to resume confidence. Externally, it could be interpreted as the ability to react to the effect of structural and strategic aspects, like overcapacity and undervaluation, dumping or subsidies, as well as counterfeiting, from China.

The “special textile safeguard clause” is regulated under Article 242 of the protocol of accession of China to WTO. It allows a WTO member to take safeguard action to limit the growth of Chinese exports in cases where *market disruption* threatens to prevent the orderly development of trade. It means, practically, the provisional restoration of some quotas to be applied to some customs categories of textile and apparel products.

On the 9th March 2005 Euratex sent to the European Commission services requests for safeguard action for 12 categories of products, from Jerseys and pullovers, to trousers. This was also meant to underline an omission. The new Commissioner for Trade had not yet undersigned the European guidelines for the implementation of the special safeguard clause, even though the former Commission had promised its issue before the end of the quota system. The guidelines were decided only on 6th of April 2005 (2005/C 101/02 - OJEU 27.04.2005) and just three weeks later the Trade Commissioner officially opened the investigation into 9 categories of products (2005/C 104/07 – OJEU 29.04.2005). This because the data of the first quarter of the 2005, compared with the same period the year before showed a growth in volume up to +543% in certain Chinese product exports to the European Union at prices which have fallen by up to -47%.

Referring to the special textile safeguard clause a strong conflict of interest is under way in Europe and involves trade policy as a whole. Some countries, like Italy, France, Spain and Portugal are urging the implementation of safeguard measures. Others, like Great Britain and the Nordic countries, strongly oppose them. The formers still have a domestic Textiles and Apparel industry, on the contrary to the others, who fear retaliation in other kinds of business with China, or simply because they make big profits trading very cheap Chinese products.

It is certainly true that China is a big and improving market, which represents an important opportunity for all kinds of European industries. It is also clear that one cannot export without importing, and vice versa. But the question involves economic structural differences. Not only between Italy and China, but also inside the European Union. For instance, can the EU with its single currency cope with a strong industrial decline as well as a mounting trade deficit in a single member country, as might be the case for Italy? The problems with the Italian Textile and Apparel industry cannot be treated solely as national ones. We dare say that some traffic lights should be placed to regulate not only trade, but also national interests in Europe.

It is also evident that we cannot face structural problems only through safeguards, which are intended as temporary. The kind of intervention to reinforce industrial competitiveness, without affecting European

consumers, but reinforcing their rights, require a better transparency of markets and more substantial reciprocity.

6.b) If transparency and innovation call for product traceability¹⁵.

The case for traceability arises from the need for transparency and innovation. Generally speaking, we have to face the fact that in Europe, and especially in Italy, there is insufficient capacity to turn new knowledge into value-creating new or improved products, services and industrial processes. This was clearly stated in the Communication dated December 2002 on “Industrial Policy in an Enlarged Europe” by the European Commission.

The situation in the textile industry, in this context, is extremely significant. There is a low level of basic innovation propensity in general. This is true, in view of R&D investments made by supplier industries, such as the chemical industry and the textile-machinery industry, and also if one considers the acquisition of new technologies by textile companies. In other words, if the *technology push* is low on the one hand, on the other there is no *demand pull*. The question here is: “Why doesn’t the market succeed in stimulating innovation”?

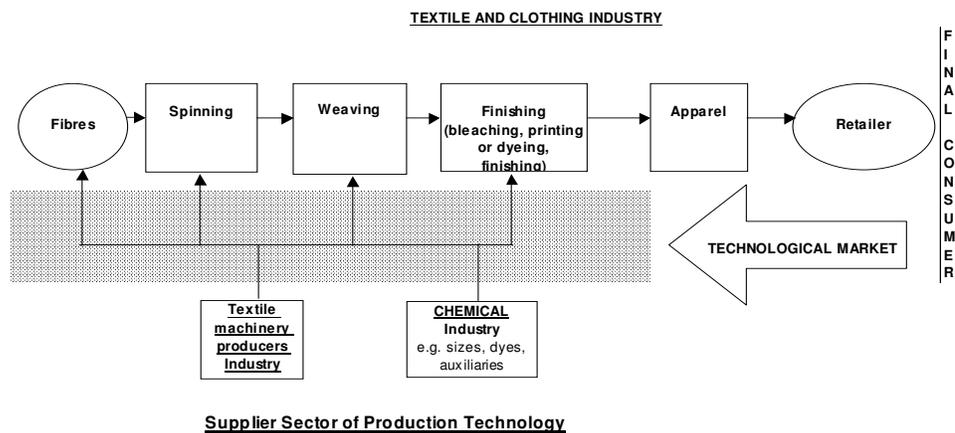


Figure 13

This low innovation propensity derives from a number of market dynamics mentioned above. On the one hand, the strong expansion of the Asian textile industry, also as a result of the gradual elimination of the quota system. On the other hand, production requirements in newly-industrialised countries differ from those in Europe which adopt stricter measures in the area of environment, worker safety and consumer protection.

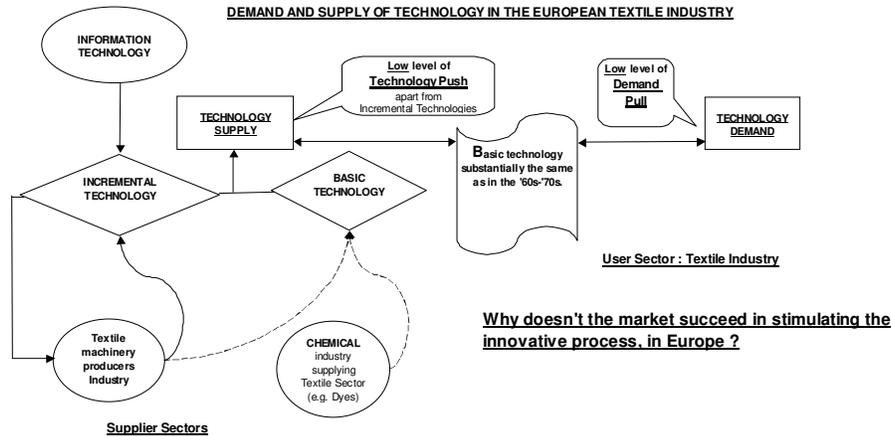


Figure 14

These different production requirements, which are summed up in Figure 15, also steer the demand for technology in another direction. In newly-industrialised countries, this demand is aimed at achieving economies of scale that can be obtained using traditional methods. In Italy instead, as well as in all European countries, the needs of producer companies are focused on eco-toxicological issues and on safety in the workplace, on *quick response* and on the need to obtain high *economies of scope*. In these cases, traditional technology is no longer an efficient solution.

As a result, supplier industries, such as the European textile machinery industry and especially the chemical industry, are concentrating their efforts solely on the exploitation of consolidated technologies, since their goal is to sell in emerging countries. It is a *cash cow* strategy since it generates significant liquidity. This strategy is also justified because the general *feeling* is that the textile industry is bound to decline in the old Europe and therefore will not be a sufficiently interesting market in the future.

The European chemical industry is acting in a very rational way. Why should it look for new ways of satisfying a more and more demanding, but falling need, when it can easily satisfy vast markets with its consolidated technology? With our rising costs and the pressure of imported products, even the textile industry has a short-term view, and does not want to face new technological challenges.

All this is also happening because we still have not found effective ways of transforming our constraints into new competitive assets. As a matter of fact, we are not doing enough to highlight the efforts that our industry is making each day to respect the environment, the health of consumers and the dignity of workers. The achievement of the *life-cycle thinking* philosophy that lies at the basis of many regulations, is not visible to consumers nor is it a purchase *driver*. Furthermore, the growing number of these regulations – which is currently the case in Europe – could generate only higher production costs, to the advantage of imported products. This fact must be held in due consideration.

The Textile Industry

	<u>Europe</u> (e.g. Italy)	<u>NIC's</u> (e.g. China)
<u>Structural aspects</u>	Fragmented and Specialised	Vertical integration
<u>Structural advantages</u>	External economies of scale; Clusters	Raw Materials; Low Current Costs
<u>Average company size</u>	Small and Medium	→ Large
<u>Product orientation</u>	→ Specialities & Service	→ Commodities
<u>Strategic orientation</u>	Quick - response	Cost leadership
<u>Type of market</u>	→ Niche	→ Mass
<u>Type of production</u>	Small batches (lots)	Large batches (lots)
<u>Economies sought</u>	Economies of scope	Economies of scale
<u>Social-environmental limits</u>	High	Low
<u>Negative externalities</u>	Low	High

Figure 15

Global competition can be compared to a hurdle race. When the others keep theirs low, we continue to raise ours. Then, we let the ones with the lowest costs be the market winners. Without forgetting that often low import prices do not mean low consumer prices, as we saw earlier. Therefore, the losses for domestic producers are not offset by benefits for consumers.

The real problem remains: we do not have effective systems that reward people who compete by upgrading. This, in turn, is not stimulating anybody to innovate basic technologies, that is, to look for new ways of upgrading and of moving faster. How can we trigger a virtuous circle, starting from greater market transparency and reaching the point of re-launching the technological challenge in Europe to obtain more eco-compatible and *socially – fair* processes and products?

In the field of textiles and clothing, where the production chain is long and can even be broken down geographically, the simplest idea is to make the history of a product visible through traceability. I am referring to a simplified traceability, as shown in Figure 16. This could be based on a self-certification system that can be controlled under existing regulations, such as European Council Regulation 2913/92. Traceability would highlight the cultural and regulatory contexts where the main phases of production took place. This would allow consumers to make an overall assessment of the product, as a result of the reputation of the country of origin.

The hoped-for introduction, by the European Community of the compulsory *Made in ...* label, similar to what already exists in the USA, is just the first step towards traceability. Yet it could have the immediate effect of increasing consumer confidence towards a more selective and discerning

consumption. Furthermore, it would be a stimulus to updating our customs offices, which, instead of simply being collectors of duties, would become controllers of standards, and fight fraud and counterfeiting.

TRACEABILITY: BASIC SCHEME
for Textiles and Apparel
A REFERENCE EXAMPLE:
Item description

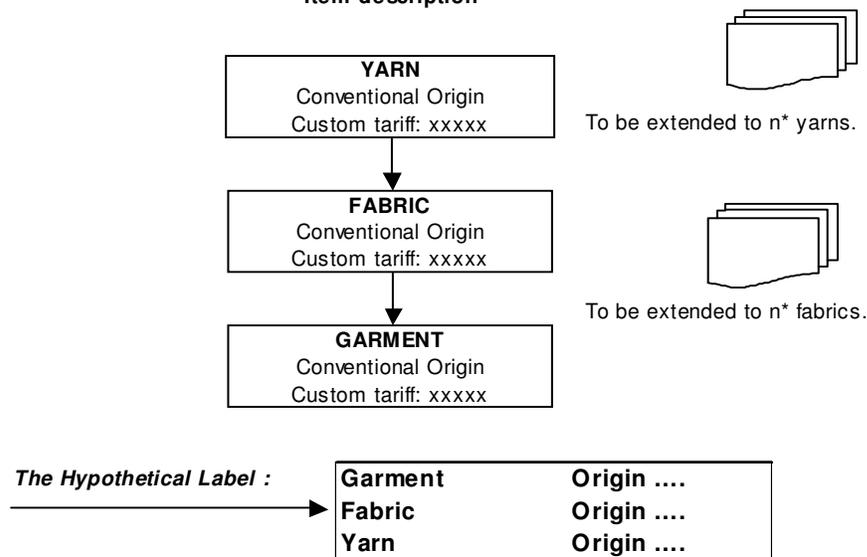


Figure 16

The Textile industry shows that environmental and social constraints which are typical in most developed countries, like Italy, do not automatically stimulate technological innovation. Present-day market incentives are not sufficient enough. I would like to point out that the lack of incentives for innovation and for compliance with social and environmental standards, can have the opposite effect, by forcing production to relocate to *pollution havens*.

In order to rectify this sort of *market failure* based on missing incentives for innovation, more visibility must be given to the origin of products, through traceability. This would promote market transparency, support consumers and the correct behaviour of those producing without negative externalities.

6.c) A case for reciprocity, starting from domestic market.

Reciprocity is something embedded in the GATT and in the present-day WTO. Technically speaking, it implies that during rounds of negotiations for reduction of tariffs each country will make equivalent tariff concessions. It is consistent with the multilateral approach to trade matters. In recent years, the appeal for reciprocity has spilled over into a demand for “levelling the playing field”. This occurs because

international trade has become a confrontation between different social and environmental standards as well. Obviously, market competition involves goods and services, but different standards mean different costs of production, regarding the country where production took place. This leads to two different kinds of race: to the bottom, at home, and to the top, abroad. In the former case we try to lower our standards, in the latter we try to convince others to raise theirs. The first kind of race is much more theoretical, than real, for European industries. This does not mean we have to go on without looking for better efficiency at home. On the contrary, this kind of search should be the first step for real reciprocity in trade. Otherwise we will have, at the same time, slow economic growth with European consumers paying more and more expensive prices. Unfortunately, today market disruption coming from trade, and especially from Chinese exports, is so strong that we are forgetting all the domestic elements which have reduced our competitiveness.

Azienda di filatura materia: energia elettrica tipologia di consumo annuale: 32,2 MWh			Azienda di tessitura materia: energia elettrica tipologia di consumo annuale: 11,6 MWh			Azienda di nobilitazione materia: gas metano tipologia di consumo annuale: 4.200.000 m ³		
	€/kWh	differenziale rispetto al costo in Italia		€/kWh	differenziale rispetto al costo in Italia		€/m ³	differenziale rispetto al costo in Italia
Italia	0,098		Italia	0,080		Italia	0,228	
Danimarca	0,076	-22,0%	Danimarca	0,062	-22,0%	Spagna	0,196	-14,0%
Spagna	0,064	-34,3%	Spagna	0,053	-34,3%	Irlanda	0,212	-7,0%
Francia	0,065	-34,0%	Francia	0,053	-34,0%	Regno Unito	0,192	-16,0%
Irlanda	0,069	-29,3%	Irlanda	0,057	-29,3%			
Finlandia	0,078	-20,0%	Finlandia	0,064	-20,0%	nota: si considera la media di prezzo dell'anno 2004 alla quale si applicano i differenziali riscontrati nell'anno 2002. Prezzi al lordo delle imposte		
Svezia	0,053	-46,0%	Svezia	0,043	-46,0%			
Regno Unito	0,048	-51,0%	Regno Unito	0,039	-51,0%			
nota: si considera la media di prezzo dell'anno 2004 alla quale si applicano i differenziali riscontrati nell'anno 2002. Prezzi al lordo delle imposte			nota: si considera la media di prezzo dell'anno 2004 alla quale si applicano i differenziali riscontrati nell'anno 2002. Prezzi al lordo delle imposte					

Utilities Costs in European Textile factories – Source : ATI

Figure 17

An additional element that reduces the competitiveness of Italian firms is the lack of some economic policies aimed at reinforcing internal efficiency. A meaningful example of Italian inefficiency is the expensiveness of energy utilities, due to a wrong energy policy, a still protected market and a disruptive fiscal withdrawal. In the Textile industry the cost of energy utilities represents more than 10% of the product value on average. It is made up of electricity, mostly, for spinners and weavers, whereas for finishers it is mixed up with thermic energy produced, by the combustion of gas (or oil). Italian Textiles enterprises pay energy utilities nearly 30 to 35 per cent more than in other European countries, as shown in Figure 17.

The fiscal drag on Italian enterprises is also disruptive. The so called IRAP is strictly proportional to labour costs and paradoxically it works as a sort of incentive to delocalisation. Merger and acquisitions between small and medium size enterprises meet in fiscal norms a strong economic set back. For this kind of enterprise, which are typical in Italy, bottlenecks in infrastructures and overregulation are becoming economically unsustainable. When we focus our attention on a single sector we may well miss the

picture. The cause of economic matters, in Italy, are to be found in the system as a whole rather than in the single business.

7) Concluding remarks and summary.

What might happen to the Italian Textile and Apparel industry? Does it deserve to survive, even if in a reduced dimension, or is it going to disappear, simply being a piece of our past without a passport to our future?

Economists will say that this kind of question should be left to the markets. But markets are embedded in society and every society is animated by special interests and beliefs. So, some economy decisions might be based on social bias and lack of transparency, favouring some interests against others, but not producing any *invisible hand* result. It is not as simple as that. Here, I pointed out these aspects because they are not always taken into account. Let's say that in some circumstances *market failure* can erupt, taking bias as a starting point, without forgetting the importance of the many structural aspects mentioned in the paper and hereafter recalled.

In any case, the Italian economy cannot count on a better future if not through the actual contribution of *traditional* industries. Certainly, we have to modernize our specialisation pattern; but we cannot make it through a *tabula rasa* of our main assets and of our history. So, it is important to face global competition by continuing restructuring, but without disappearing. It is exactly what we have done till yesterday, trading-off labour with capital intensity, through the magic of industrial districts and innovation.

I dare say it is too early for the Italian Textile and Apparel industry to be doomed. In fact, it did well all through the nineties, when the sectoral trade balance was always positive, whereas Europe (EU-15) had an increasing deficit. Still in 2002, the share of Italy in world exports has been in second place with respect to Apparel and in third place for Textile. But it is undeniable that in the last few years the Italian Textile and Apparel has been underperforming, as well as all Italian major industries.

This is due to internal reasons – at national and European level – as well as to external ones. China, with its impressive exports dimension and rate of growth is mainly responsible as far as the external reasons is concerned. In fact, China is running along a path of economic specialisation focused on *traditional* industries export-led, so that Italy's main fault seems to be the fact of being still largely characterised by the same kind of industries. The debate about this fact appears strongly influenced by a deterministic approach to economic development. Without forgetting that the failure of many of the so called *innovative* industries, in Italy, was not caused by the traditional ones (but the other way round).

In order to make a better approach to these aspects I proposed an historical perspective – which deserves to be improved. I referred to some patterns like the one by Akamatsu, the so called : *flying geese*. With reference to this pattern, the Italian Textile and Apparel industry could be seen as a problem because of its *persistence*. Misunderstanding the economic and social reasons at the root of this persistence could lead to the wrong strategy for the future (or to no strategy at all).

With the end of the quota system the Italian industry is facing *market disruption* produced by the flood of exports from China. *Too much, too soon, too cheap.* Italian entrepreneurs are over-reacting to this and innovation is no longer regarded as an opportunity to cultivate differential competitive advantage.

The risk we are facing in this complex contest is not, simply, a capacity reduction, but a rather widespread withdrawal. So, what if all this is happening (also) because of market signals artificially sustained? In fact, we see, currently, that products coming from China are imported at ever lower prices, which, in many cases, hardly exceed the cost of the raw materials they are made up with. What is making competition nearly impossible against China exports, due to unbearably low prices, could be split in to *structural* aspects and *strategic* ones. As a consequence of the first kind of aspects we suffer a sort of *dumping-effect*, due to excess capacity and big differences in social and environmental standards. With reference to the strategic aspects, we can quote: public subsidies; currency undervaluation; soft budget constraints and counterfeiting. To face this kind of escalating competition from China a few steps should be taken, both on a temporary and permanent basis.

Safeguards measures can be seen as *traffic lights* to regulate the excess of trade and its consequent *market disruption*. They help to face structural aspects at the base of the Chinese export flood. On the other hand, on a more permanent basis, we have to find effective ways of transforming our social and environmental constraints into new competitive assets. The achievement of the *life-cycle thinking* philosophy that lies at the basis of many European regulations, is not visible to consumers, nor is it a purchase *driver*. To correct all this, more transparency is needed and tools like *product traceability* and *mark of origin* could be very useful. The actual lack of transparency could also explain why we are not having the typical gains from trade, in terms of cheaper prices for many European consumers.

So, we come back to basic questions: what favours whom? In Latin : *Cui prodest?* For example : who wants cheap imports, but not transparency? Who is favoured by manufacturing and who is favoured by trading, in Italy, as well as in Europe?

All in all, this is why I proposed an historical and "glo-cal" perspective: to look at real problems considering real possibilities, without being diverted by stereotypes and bias. Besides, it is essential that every one faces the competitive challenge by doing his own job to the best of his ability.

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Notes

- ¹ This paper takes origin from a presentation held in March 2005 to a classroom of International Economics at the Bocconi University, in Milan. I thank Paolo Epifani and Fabrizio Onida for the occasion. I would particularly like to thank Rodolfo Helg for providing valuable comments. I am grateful to William Lakin and Francesco Marchi of Euratex for conversation over the last few month that led to the development of some ideas presented thereafter. None of these persons should be held responsible for the views expressed here.
- ² In so doing I have taken the opportunity to point out some issues which I intend to better analyse in the new and revisited edition of a previous work. I'm referring to : "Quale strategia per l'industria tessile. SEA, Como, 2003".
- ³ Only to give you an idea of my way of thinking, I would like to express some personal beliefs with respect to the economic system in general. First of all, I believe that markets are embedded in society. This means a lot of things; for example that history, institutions, norms, politics and belief do matter. Moreover, it means that individuals are influenced by the choices of others. Secondly, and in some respects, consequently, I believe that real persons pursue their interests with a bounded rationality, strongly influenced by general belief and norms, as well as by the lack of information.
- ⁴ MFA, stands for: Multi-Fiber Arrangement; ATC, stands for: Agreement on Textile and Clothing.
- ⁵ It is generally understood that prices tend to decrease when quotas are eliminated. In fact, import under quantitative restrictions tends to be only in the higher quality segment, instead of the complete range, from cheaper to the most expensive ones. As soon as quotas are eliminated, imports go to cover the whole range, reaching a lower average price. Nonetheless, this doesn't seem the case for textile and apparel products coming from China, because production remain focused on large scale products.
- ⁶ In that period, spinning was the bottleneck, as it took the output of upwards of five spinners to supply one hand loom.
- ⁷ The transition to the factory system represented a controversial issue for scholars about main causes. See, for example, R. Langlois, 1997 and J. Mokyr, 2002.
- ⁸ J. Mokyr stressed the possibility that this happened as a way to cope with the strong reactions of French highly specialised craftsmen, in defence of their status (Mokyr, 1995).
- ⁹ There is another anomaly which I'd like to stress. Textiles and Apparel, in Italy, is a local concentrated industry. The flying geese pattern could suggest that this industry should be located in the less developed areas of the country, whereas it is exactly the opposite. Lombardy which is one of the most developed regions, not only in Italy but in all Europe, has the higher presence of Textiles and Apparel firms. In fact, starting from last ISTAT census data (2001), nearly 20% of Italian units are placed in Lombardy, with 169.000 of people employed, which represent the 28% of the total employment in the sector. Nonetheless, there is a fact which is consistent with the higher development of the region. The kind of industries located in Lombardy tend to be the more capital intensive, operating in spinning, weaving and finishing, much more than in clothing. But this doesn't resolve the question about the persistence of a *traditional* industry among many *innovative* ones.
- ¹⁰ The argument against artificial distortion of market prices is usually used with reference to protectionist policies. All in all, we could assume that every kind of "artificial" intervention tends to produce a similar effect: they distort prices and therefore economic incentives. Even though, this leaves an open question. What do we have to consider as "artificial"?
- ¹¹ With an apparent consumption of at least 387,5 Billion Euro in 2003, the EU-25 is the largest world market for textile and clothing products.
- ¹² This is not in favour of my objectivity, because so much was due to my special interest. But I think that there isn't a better way to approach every question where dumping is supposed to occur, due to the different and conflicting interests at stake. The same question, considered from one side or the other, can be illegal and harmful, or legal and convenient. And this can occur without even leaving the domestic market.
- ¹³ J. Viner is quoted in G. Niels, 2000.
- ¹⁴ Other elements to be taken in due consideration are the structure of the industry in terms of numbers of rivals and barriers to entry. These are usually very low in the case of un-concentrated industry. And without barriers to entry, predatory pricing is unlikely to happen because even if a foreign firm drives rivals out of business, it cannot raise prices to finance the losses sustained in the price war if other firms can simply re-enter the market, once prices go up.
- ¹⁵ This paragraph is taken by a previous a work: "The environmental performance of EU Industry. The Textile case." Brussels, 25/11/2003.