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REPORT ON ADJUSTMENT ASSISTANCE MEASURES

Addendum

HUNGARY

HISTORICAL REVIEW

Before World War II, and also later, during the two postwar decades, the textile industry had been in the Hungarian economy one of the most significant industrial branches which manufactured export products. In the other branches of the industry there had not been adequate development. In all other industrial branches - and this applies also to the field of textiles - the quantitative growth of the production was of primary importance, and not a co-ordinated production of up-to-date articles which would have satisfied both the internal and external markets even in the long run.

During the postwar decades the total light industry had only a small-scale share of the industrial investments. The following figures were recorded:

1955	5 per cent
1960	8 per cent
1965	9 per cent
1970	10 per cent

Of the total investments in the light industry, only 4 per cent was for the textile and clothing industry. Of the net national products manufactured by the industry, in 1970 14 per cent fell on the clothing industry, and only 8 per cent was the share of this branch in the industrial fixed assets. The high rate of outdated machinery, and the low rate of sorting out the old machines was so to say characteristic of those times. Consequently, the productivity fell much behind an average industrial output.

In spite of the low technical level, there was an ever increasing labour demand in the textile and clothing industry but this problem could be temporarily solved through the reorganization and the mechanization of the agriculture and by setting to work always more and more unskilled female hands.

The necessity and realization of the reconstruction in the textile industry

The determined extent of a rise in living standards, as well as the ever increasing demand for Hungarian textile products on behalf of Hungary's foreign economic partners made imperative the modernization also of the textile and clothing industry.

It has come to the reconstruction of the textile industry during the Fourth Five-Year Plan of 1971-1975, and it will continue within the frame of the Fifth Five-Year Plan, in the period of 1976-1980. The value of the investments foreseen for the modernization of this industrial branch, and for the realization of the programme, comes to some Ft 30 milliard, and out of this, developments in the value of some Ft 14-15 milliard have so far been realized in the period of 1971-1975.

As a result of the reconstruction, the light industry had in 1973 a share of 13.2 per cent (Ft 5.1 milliard) in the total of the industrial investments, and within this ratio, Ft 3.0 milliard fell on the investments in the textile and clothing industry. In 1974 the share of the light industry, in the total of the industrial investments was 15.1 per cent (Ft 6.3 milliard) and within this ratio, investments in the value of Ft 3.5 milliard were realized in the clothing industry. It is expected that by the end of 1975 the value of the investments will come to Ft 3.2 milliard. As a result of the investments a growth was recorded in respect of the fixed assets which were in operation in the light industry, and in 1973 13.2 per cent of the total of the industrial fixed assets - with the exception of those of the food industry - fell on the light industry. On the national economy level there has been an ever-growing volume of investments, from which in 1974 13.4 per cent was for the stock of fixed assets operating in the light industry, and by the end of 1975 the rate of 13.3 per cent will be expected.

In the early seventies, it was not possible any more to redirect labour from the agriculture to the industry. Also the female labour reserves got exhausted, and since 1973 a gradually increasing labour shortage has been recorded in all the sectors of the textile industry. In accordance with the Government's social political programme young mothers get infant-care allowance during three years. This, and also other important benefits granted to female labour has affected in particular the manpower employed in the light industry, and has led to a decrease in female labour in the field of the production. Only with new, up-to-date machinery and through the increase of the productivity could the reconstruction and also the development of the production be realized.

Resources for the reconstruction

Under the Fourth Five-Year Plan three resources serve to realize the development of the textile industry, as per following rates: 30 per cent from the profits accumulated with the plants (some Ft 5.4 milliard), 50 per cent from bank credits, (some Ft 6 milliard), and 20 per cent (some Ft 1.6 milliard) from budgetary assistance which is practically concentrated on the erection of new plants. The reconstruction is based fundamentally on the own resources of the producing enterprises, with the aim to promote the manufacture of up-to-date products within the frame of the market-oriented, and independent decision-making system of the companies.

Some practical aspects of the development of the Hungarian textile and textile clothing industry

The Hungarian producing companies and co-operatives are present on the world market in co-operation with the foreign trading companies, a co-operation based on profit-sharing contracts. The foreign trade informs the industry about the impulses of the markets, bears influence on the trends of industrial development, and from time to time even contributes financially to the modernization of the production from the profit accumulated with the foreign trading companies.

In our reply given to the all-round inquiries of the Textile Agreement we do not mean the "assistance" given to the foreign trading companies, but that given to the producing companies. In Hungary, on basis of the State and co-operative ownership, not only the development resources of the textile industry, but also those of the other industrial branches are the same, namely the profit accumulated with the plants, the bank credit and the budgetary assistance. As in the last analysis the development of other industrial branches takes place from these same three resources. - when speaking of the total industrial economic structure, we cannot say that in the course of the development preference is given to the textile industry. The mere fact that the development figures in the government programme, shows that certain bank credits are earmarked for the realization of the development scheme. In other words, when categorizing the credits, preference is given to those credit applications which are submitted for the realization of a certain special development figuring in the government programme.

Still, when categorizing the applications for credit, decisive factors are: the creditability of the companies, the aims of the production, the volume and structure of products scheduled for production, the production value and also the marketing programme.

In case of investment credits received in forint, the interest rates are generally the following: long-term credit up to ten years 8 per cent per annum, medium-term credit up to five years 9 per cent per annum. Apart from these there is also the system of credits for special purposes. These credits are granted by the bank in foreign currency for certain investments, at the current rate of interest of the foreign currency concerned. Credit of this kind shall be repaid by the company in foreign currency.

Budgetary assistance plays only a complementary rôle in investments for the reconstruction of the textile industry

Such assistances are given either in the form of direct grants, i.e. the company pays only a certain percentage as investment contribution or on a repayment basis in which case the company gets partial or total remission on its profit tax. In both cases the company undertakes contractual obligations towards the Bank to fulfil certain definite targets (production volume, sales volume). 60 per cent of company funds accumulated from redemption may be used for development and 40 per cent has to be paid to the treasury.

Accumulated profits of the manufacturing companies have been used up to a large extent for reconstruction purposes. On the other hand, changes in world market prices have had an adverse effect on profits (increases in the price of raw materials are reflected only later and only at a smaller rate in the price of finished products).

In the next five-year period the reconstruction of the textile industry shall be financed mainly through loans.

The extent and direction in which the reconstruction of the textile industry shall be geared in the next period depends on future government decisions, respectively on budgetary considerations.

Effects of the reconstruction on home production and the structure of imports

In order to reach the targets set by the reconstruction programme, the following conditions have to be met:

1. The obsolete machine park of the entire textile industry (spinning, weaving, knitting, finishing, converting machines) have to be scrapped and new equipment put into consideration.

2. The necessary raw material shall be made available from import.
3. More highly skilled manpower is required to operate the more sophisticated machinery.

So far these conditions have been met only partially and further serious efforts are necessary in order to complete the reconstruction programme.

In certain sectors of the industry, such as knitwear, etc. we expect to import substantial quantities of finished products.

- The plan for 1971-75 envisaged the installation of new spinning machinery with a production capacity equalling 158,000 spindles and also 4,500 automatic weaving machines. Most of this new machinery is already operating. Some major textile mills have shifted to up-to-date knitting technology. The linen and hemp industry has introduced polypropylen fibre production.
- Raw materials for the textile industry are imported mainly from traditional sources, thus cotton from the Soviet Union, synthetic fibre from Poland and the German Democratic Republic but there are also other countries among our important suppliers. Raw materials and other commodities (e.g. cotton and cotton yarn) from developing countries are imported under a preferential system, customs duty on these is 0 to 5 per cent of the usual tariff (e.g. cotton yarn from developed countries is subject to 50 per cent customs duty). Certain ground materials, semi-finished products are purchased against tariff quotas established on basis of the most-favoured-nation clause. Companies importing from developing countries are entitled to financial facilities such as, for instance, lower bank charges on opening L/C, etc. We grant ever increasing chances for more labour intensive products coming from the developing countries.
- It is our aim to shift production in the textile industry - as everywhere else - from extensive to intensive methods. Production of the most labour intensive basic and semi-finished products shows a definite downward tendency owing to labour shortage. Thus, for instance the production of yarn has declined not only in proportion to requirements but also in absolute terms.

This tendency is reflected in growing yarn imports:

5,036	metric tons	in 1971
3,856	"	" " 1972
6,957	"	" " 1973
8,370	"	" " 1974
8,700	"	" " 1975

Long-term plans will have to take into consideration a further decline in the labour force.

- After meeting the requirements of the home market, the textile industry exports about 25-30 per cent of its production, the major part of which goes to socialist countries but sales to markets with convertible currencies are also growing. However, in relation to the total textile imports of the purchasing countries, our exports are not significant.

The data contained in the enclosed tables illustrate changes in home production and turnover.

DEVELOPMENT OF EXPORTS IN RESPECT TO SOME TEXTILE PRODUCTS

		1971				1972				1973				1974			
		Non-member countries of GATT		Member countries of GATT		Non-member countries of GATT		Member countries of GATT		Non-member countries of GATT		Member countries of GATT		Non-member countries of GATT		Member countries of GATT	
		Q	V	Q	V	Q	V	Q	V	Q	V	Q	V	Q	V	Q	V
Ready cotton and cotton-type fabrics (in sq. metres)		-	818.9	-	1,227.9	-	847.4	-	1,349.8	42.7	877.2	72.8	1,542.7	40.4	799.9	74.5	2,075.3
Ready woollen and wool-type fabrics (in sq. metres)		-	206.6	-	191.6	-	384.2	-	265.7	3.7	351.7	3.5	464.6	3.5	312.7	2.5	385.9
Ready rayon and rayon-type fabrics (in sq. metres)		-	214.9	-	182.2	-	239.5	-	164.9	6.0	179.1	6.0	167.0	6.4	205.4	7.1	214.7
Under and outerwear articles		-	2,567.5	-	1,708.9	-	2,995.5	-	2,365.7	-	3,467.3	-	2,785.7	-	3,490.0	-	3,503.3
made of woven fabrics		-	1,913.8	-	959.2	-	2,076.3	-	1,448.5	-	2,293.7	-	1,775.0	-	2,304.1	-	2,353.6
made of knitted fabrics		-	585.6	-	439.4	-	749.1	-	528.2	-	806.2	-	558.6	-	783.1	-	613.7

Q = quantity

V = value

DEVELOPMENT OF EXPORTS IN THE CLOTHING INDUSTRY AS COMPARED TO THAT
OF THE TOTAL HUNGARIAN EXPORT-TURNOVER

	1971				1972				1973				1974			
	Non-member countries of GATT		Member countries of GATT		Non-member countries of GATT		Member countries of GATT		Non-member countries of GATT		Member countries of GATT		Non-member countries of GATT		Member countries of GATT	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Exports in the clothing industry (Ft milliard); annual growth rate	1.73	100	0.97	100	1.74	100.8	1.44	147.7	2.06	118.1	1.75	121.9	2.03	98.7	2.39	136.4
Total Hungarian export (Ft milliard); annual growth rate	57.6	100	50.4	100	71.4	123.9	59.9	113.8	78.8	110.3	80.9	135.1	82.5	104.6	97.7	120.8
Structure of exports in the clothing industry (expressed in percentage)	64.0			36.0		54.8		45.2		54.0		46.0		45.9		54.1
Structure of total Hungarian export (expressed in percentage)	78.6			21.4		54.4		45.6		49.9		50.1		45.8		54.2
Total export in the clothing industry (Ft milliard); annual growth expressed in index percentage			2.7	100			5.2	117.7			3.8	119.3			4.4	116.0
Total Hungarian export (Ft milliard); annual growth expressed in index percentage			108.0	100			131.3	121.5			159.6	121.6			180.1	112.8

DEVELOPMENT OF IMPORTS IN RESPECT TO SOME IMPORTANT TEXTILE -
RAW MATERIALS AND TEXTILE PRODUCTS

(expressed in Ft million)

	1971				1972				1973				1974			
	Non-member countries of GATT		Member countries of GATT		Non-member countries of GATT		Member countries of GATT		Non-member countries of GATT		Member countries of GATT		Non-member countries of GATT		Member countries of GATT	
	Q	V	Q	V	Q	V	Q	V	Q	V	Q	V	Q	V	Q	V
Raw cotton (in thousand tons)	36.7	1,005.3	19.0	881.5	41.2	1,140.2	12.6	664.7	35.4	991.2	22.1	1,087.8	37.1	1,019.8	29.9	2,799.8
Cellulose fibre	9.9	156.1	5.6	155.4	11.1	176.3	4.9	157.5	10.3	163.4	3.1	109.2	8.8	146.6	2.8	149.6
Rayon	-	-	-	-	5.5	266.1	6.1	578.0	-	-	6.3	669.4	-	-	5.2	676.2
Washed wool	0.2	15.3	2.2	187.7	0.3	21.8	1.8	171.7	0.3	23.9	2.7	597.9	0.3	25.4	2.6	504.5
Wool tops	-	-	1.9	243.6	-	-	1.7	235.7	-	-	1.8	577.5	-	-	1.4	406.9
Man-made fibres	-	-	0.9	47.3	-	-	0.7	40.4	-	-	0.5	25.7	-	-	0.7	57.2
Synthetics	0.3	12.3	3.1	218.4	0.4	14.7	4.0	244.1	0.5	16.2	3.6	228.9	1.2	66.2	2.9	289.8
Cotton and cotton-type yarns	0.5	21.2	5.0	320.3	0.5	24.2	3.9	227.3	0.06	3.1	6.9	630.5	0.2	7.8	8.4	1,153.9
Ready cotton and cotton-type fabrics (in sq.m)	-	64.1	-	195.8	-	43.5	-	174.3	6.2	116.5	4.7	197.9	8.8	117.8	4.7	279.8
Ready woollen and wool-type fabrics	-	117.4	-	332.9	-	57.9	-	42.5	1.9	150.8	1.2	207.9	2.8	198.7	1.5	280.4
Ready rayon and rayon-type fabrics	-	20.8	-	26.3	-	46.3	-	12.6	0.8	18.7	1.5	41.0	2.8	40.2	1.1	46.2
Under- and outerwear articles	-	221.1	-	457.2	-	224.1	-	492.5	-	422.2	-	567.5	-	626.4	-	701.4
Made of woven fabrics	-	-	-	-	-	-	-	-	-	100.3	-	35.7	-	204.5	-	44.1
Made of knitted fabrics	-	-	-	-	-	-	-	-	-	210.3	-	464.1	-	357.8	-	587.5

Q = Quantity
V = Value