FOOT PLACE FOR DC COUNTRY T&C PRODUCERS IN EU MARKET

A.M. GRIGORYAN

Textiles and clothing have a long history of migration in production. East Asia (including China and India) was the major global producer of textiles in the 17^{th} and until mid 18^{th} century. This is followed by the Great Britain from the mid to late 18^{th} century, and North America from the beginning to the mid 19^{th} century. Since the late 1990s, East Asia is resuming its historic role as the world's leading textile manufacturers, and according to some estimates this will intensify in the decades to come.

The World Trade Organization (WTO) has taken important steps for development of this sector. In 1995, WTO had adopted Agreement on Textiles and Clothing (ATC), which provided for removal of quotas on textile and clothing among WTO member countries. This agreement was enforced on 1-1-2005 and all the quotas were abolished.

The world clothing and textile industry - encompassing clothing, textiles, footwear and luxury goods - reached almost $2,560 trillion in 2010. The apparel, luxury goods and accessories portion of the market, which accounts for over 55% of the overall market, is expected to generate $3,180 billion in 2015, with a yearly growth rate in excess of 4%.According to **IDTechEx**, the apparel market will call for 20 billion FTID tags a year from 2021, at a cost of $1 billion.

World T&C exports grew by 14.6%, from USD 525 billion in 2009 to USD 602 billion in 2010. The European Union remained the **leading world importer of clothing**. It made up for 44.7 per cent of the clothing and 27.5per cent of textile of world total imports in 2010. The European Union was followed by the United States of America(graph 1) (5.7).

Graph 1.The EU-27 textiles and clothing industry

Characteristics of the textile and clothing sector

The textile and clothing (T&C) industry comprises:

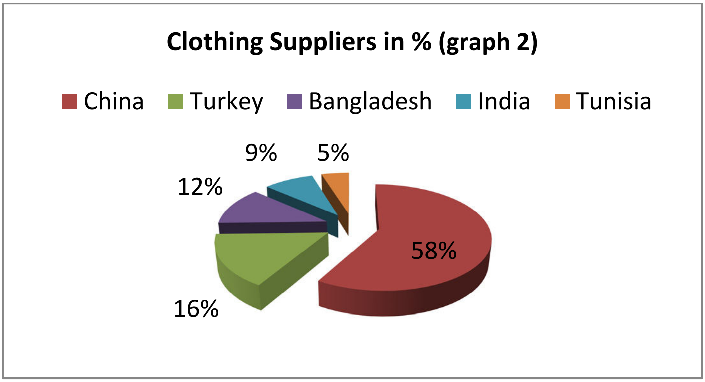
- the treatment of raw materials
- "Natural" fibres include cotton, wool, silk, flax, jute, etc.
- "Man-made" fibres include fibres coming from transformation of natural polymers, synthetic fibres, and fibres from inorganic materials.
- the production of knitted and woven fabrics finishing activities
- the transformation of those fabrics into products such as:
- garments, knitted or woven (= the so-called "clothing" industry);
- carpets and other textile floor covering;
- home textiles technical or 'industrial' textiles(4.9).

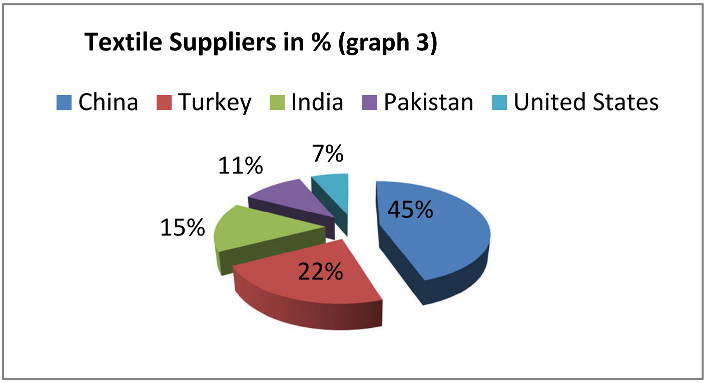
EU T&C market

According to the data from The European Apparel and Textile Confederation, in 2010, the overall size of the textile and clothing industry in the EU-27 represents a turnover of **172** billion Euros with investments of around **5** billion Euros. Despite the strong effect of the global economic recession, the 127,000 textiles and clothing companies still employ over 1.9 million workers. EU external trade was more dynamic with 34 billion Euros of textile and clothing products exported and 84 billion Euros imported from Third markets in 2010 (see graph 2,(2.53)).

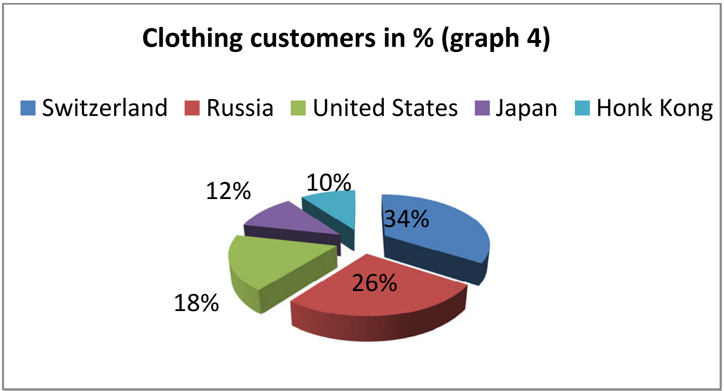
Recent trends in the textile and clothing sector: the effects of the economic crisis and developments in import and export trading partners

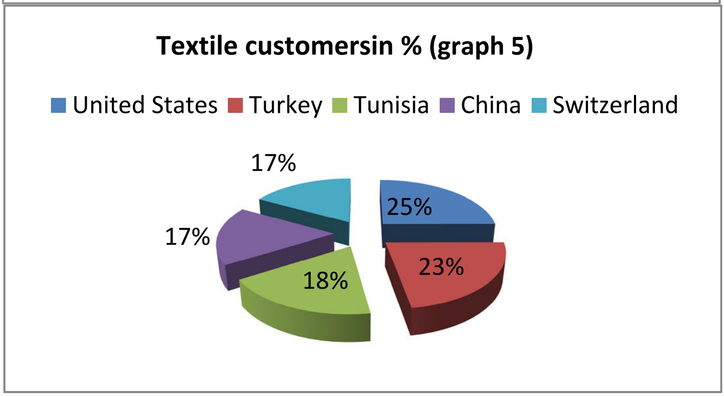
Main supplier of clothing is China (58%), followed by Turkey (16%), Bangladesh (12%),India (9%) and Tunisia (5%).China is textile first supplier (45%), followed by Turkey (22%), India(15%), Pakistan(11%) and USA(7%) (Graph 2;3).





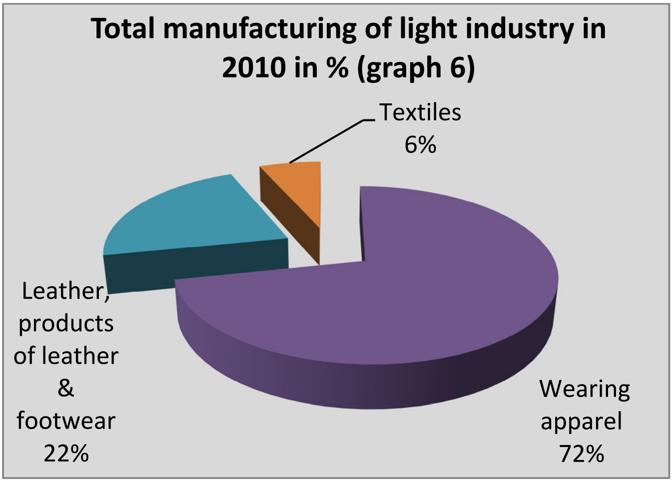
After China, the EU is the world's second largest exporter of textile products with 31% including intra-EU trade. Excluding intra-EU trade, in 2010 the EU exported €33.8 billion worth of textiles and clothing products and continues to dominate global markets for up-market and high quality textiles and clothing (see graph 4;5).





Switzerland is the first export market for clothing (34%), Russia has become the second export market of EU clothing (T/C) products with 26% of total exports, followed by USA (18%), Japan (12%) and Honk Kong (10%). As regards the textiles and clothing external trade performance, about 20% of EU-27 production in value is sold on the external market despite limited access to many third country markets (4.5).

Short overview of Armenian textile and clothing sector



The light industry is one of the oldest branches of Armenia. The Armenian light industry consists of three major sectors: wearing apparel-clothing (72%), leather, products of leather, footwear (22%) and textile processing (6%) (See graph 6). The number of registered enterprises in the industry was 154 in 2000. Number of organizations in 2005 was 177.It dropped down to 96 in 2009, and 69 in 2010.

Armenia imports raw materials; yarn, cotton, textile, wool, as well as some readymade apparel. Total sum of textile articles, apparel, raw materials imported was 122 559 thousand USD, as to export it equals to the amount 6 751 thousand USD in 2010. About 1 194 tons of textile articles, apparel and raw materials were exported and 15 856 tons imported in 2010.

Outward-processing trade (OPT), subcontracting

European and Japanese variations in apparel sourcing networks Outward-processing trade (OPT) in the European clothing sector is the practice where companies export fabrics, or parts of garments, to be further processed in a **third country** and then re-import them as finished garments in an EU country. OPT, which has been regulated within the EU since 1982, is recognized as accelerating the process of delocalization, or the shift of apparel production to low-wage countries.

The main attraction of OPT is **reduced labor costs**, which account for up to 60 per cent of clothing production costs. Now is the time for DC garment producers to get their act together and to find new buyers.

OTP, Subcontracting in Armenia

The Armenian clothing sector has a great potential for rapid development. Currently companies operating in this field export up to 100% of their production. Most of the companies operating in this sector export their production to Canada, USA, Europe, and CIS.

The companies work mainly on subcontracting basis with companies like: Canadian “Yves Marin”, American “Happy Kids”, Italian “Moncler”, “Saris”, Dutch “Liza Text”, German “LEBEK”.

Armenia is competitive in clothing market with its low energy and labor costs (Table 1).

Table 1.Salary and energy costs:

	Armenia	Turkey	Italy
Sector average salary in Euro	133	300	1200
Electricity price in Euro (per kwt/h)	0,04	0,08	0,12

In addition, one of the very important factors is the custom fee for exported production. Armenia doesn’t apply any custom fee for exported production. As to Italy or Turkey there is 20% custom fee on exported product. Accordingly Armenia has competitive advantages to attract new cooperation opportunities and develop the sector.

Opportunities and threats on the EU market

The impact of the economic crisis

Despite the economic crisis, the European market still offers opportunities to garment exporters from **developing countries (DCs).** One of the most important developments is the opening up of the market.

There are possibilities for DCs to take advantage of the opportunities which have arisen on the European market. Product development, marketing strategy, should be worked out for entering EU market. Local T&C producers should join together, create a cluster and operate under one umbrella (3.3).

Developing a product strategy for clothing

The essential factor to appreciate in developing product strategy is the dynamic nature of the market and its interrelationship with other markets.

The total value of garments consists of material (fabrics, trim etc.) + design + production (sewing, finishing etc.) + logistics + marketing. Profits can be obtained wherever value is added to the chain. So the position of the added value in that chain has to be singled out. In the clothing value chain barriers to entry are low, capital requirements are not onerous, and production is labor-intensive (6.9).

There are four key elements to developing a product strategy:

1. Features/benefits analysis 2. Unique selling proposition

3. Product development 4. Product packaging

How to get a foothold on the European market

EU market has evolved into a buyers-market; this also means that there are too many producers and not that many buyers. This has made it very difficult for DC garment producers to get a foothold on the European market. The best way to find buyers is to have a sales agent in Europe or even establish a European sales office. Without a sale agent who regularly visits European companies and shows samples and promotes the company, it is almost impossible to get a foothold on the European market nowadays. Instead of focusing on European countries, it is also a good option to target European retail chains which operate Europe-wide. To lower the costs and risks involved with establishing sales offices in Europe, working together with other local or international garment producers is a smart and proven solution.

Working together with local garment producers-Creating clusters

Establishing a sales office in Europe involves making a huge investment and it is not very realistic for DC garment producers to be able to carry this investment and risk by themselves. However, if one company can work together with other local (garment) producers, it will have a much better chance of succeeding. A good example of such cooperation is Alliance Hangers (http://www.alliancehangers.com). A comparable **cluster** of garment producers would help DCs to profile themselves on the European market (7.39).

The economic crisis has opened up the market in the garment industry offering new opportunities for DC garment producers to find new buyers. At the national level, diversifying the T&C sector and developing productive and export capacities of other complementary industrial sectors, call for addressing structural issues, improving the business environment conditions, reducing transaction costs and strengthening the capacity of government. Various programmes can be devised to deal with these areas, as follows:

Addressing structural factors:

- Programmes to enhance productivity at factory level; to support entrepreneurship and skills upgrading, especially in material sourcing and design; to stimulate leveraging of new skills, knowledge, technology and markets through linking with foreign partners in global and regional value chains (8.9).

Reducing transaction costs

- Programmes to address trade facilitation issues such as harmonization of custom procedures and clearances and associated laws and regulations; to build adequate quality infrastructure physical infrastructure and utilities.

Stimulating private sector development and small, medium and micro enterprises (SMMEs)

- Programmes to support **cluster** development and regional **innovation** systems though stimulating interactive learning and innovation processes in collaboration with research institutes in national and regional innovation systems.
- Programmes to survey SMME sector in terms of its structure, geographical and sectoral concentration, gender balance, and obstacles faced in terms of access to skills, finance, technology and markets.

Key concepts: T/C Textile and clothing, DC Developing counties, Agreement on Textiles and Clothing (ATC),

SME Small and Medium Enterprises, Subcontracting, Investment, Global Economic Recession, cluster

REFERENCES:

1. Policy Research Working Paper: "The Global Apparel Value Chain,Trade and the Crisis Challenges and Opportunities for Developing Countries"- Gary Gereffi, Stacey Frederick (p.5)
2. Euratex, European Textile and Apparel Confederation- "Activities of the year 2010", Annual Report (p 53)
3. "Developing a product strategy for apparel survey"by Searce in cooperation with Dhyana van der Pols www.cbi.eu (15.03.2012)
4. "Statistics on textiles and clothing" www.Eurostat.com (25.03.2012)

5. http://www.wto.org/english/res_e/statis_e/its2010_e/its10_merch_trade_product_e.htm(03.04.2012)
6. http://www.wto.org/english/tratop_e/texti_e/texti_e.htm(04.04.2012)
7. “The Impact of World Recession on the Textile and Garment Industries of Asia” UNIDO,2009(p.39)
8. http://www.reportlinker.com/p0149595-summary/Apparel-RFID.html (22.03.2012)

МЕСТО НА РЫНКЕ ЕС ДЛЯ ПРОИЗВОДИТЕЛЕЙ ТЕКСТИЛЯ И ОДЕЖДЫ (ТО) РАЗВИВАЮЩИХСЯ СТРАН (РС)

А.М ГРИГОРЯН

Резюме

Текстиль и одежда имеют длинную историю развития в производстве. Всемирный экспорт текстиля и одежды вырос на 14,6%, от USD 525 млрд. в 2009 году до $ 602 млрд. в 2010 году. Европейский Союз остается ведущим в мире импортером одежды, который составлял 44,7 % одежды и 27.5 % текстиля в мирового общем объеме импорта в 2010 году. Внешняя торговля ЕС была более динамичной и составляла 34 млрд. евро по экспорту текстильной и швейной продукции и 84 млрд. евро по импорту из третьих рынков в 2010 году.

Европейский рынок открывает возможности для экспортеров одежды из развивающихся стран (РС). Создание кластера для производителей одежды поможет развивающимся найти место на европейском рынке (1.5).

Ключевые слова:

ТО -Текстиль и одежда, РС- Развивающиеся страны, МСМП- малые средние и микро предприятия

Субконтрактинг, кластер, инновация, глобальный экономический спад, Третий рынок

ԶԱՐԳԱՑՈՂ ԵՐԿՐՆԵՐԻ ՏԵՔՍՏԻԼ ԵՎ ՀԱԳՈՒՍՏ Տ/Հ ԱՐՏԱԴՐՈՂՆԵՐԻ ԴԻՐՔԸ ԵՄ ՇՈՒԿԱՅՈՒՄ

Ա.Մ. Գրիգորյան

Ամփոփում

Տեքստիլի և հագուստի արտադրության ոլորտն ունի զարգացման երկար պատմություն: Աշխարհի Տ/Հ արտահանումը աճել է 14.6%-ով՝ 2009թ. 525 մլդ. ԱՄՆ դոլարից հասնելով 602 մլդ. 2010 թվականին: ԵՄ-ն պահպանում է իր առաջատար դիրքը հագուստի արտահանման աշխարհում: ԵՄ-ում հագուստի արտահանումը 2010թ. կազմում էր 44.7% համաշխարհային արտահանման բաժնեմասում, իսկ մանածագործությունը՝ 27.5%: ԵՄ-ի արտաքին առևտրաշրջանառությունը 2010թ. առավել քան դինամիկ էր՝ Տ/Հ արտադրանքի արտահանումը կազմել էր 34մլդ. եվրո, իսկ երրորդ երկրների շուկաներից ներմուծումը կազմել էր 84մլդ. եվրո:

ԵՄ-ը հնարավորություններ է ընձեռում Զարգացող Երկրների (**ԶԵ**) կարի արտադրության արտահանողներին մուտք գործել շուկա: Տեքստիլի և Հագուստի կլաստերների ստեղծումը կնպաստի ԶԵ արտադրողներին իրենց դիրքը գրավել Եվրոպական շուկայում (1.5):

Առանցքային բառեր

Տ/Հ-Տեքստիլ և Հագուստ, ԶԵ - Զարգացող Երկրներ, ՏՀԱՀ - Տեքստիլի և Հագուստի Արտադրության Համաձայնագիր, ՓՄՄՁ – Փոքր, Միջին և Միկրո Ձեռնարկություններ, սուբկոնտրակտինգ (տոլինգ), նորարարարություն, Գլոբալ տնտեսական անկում, կլաստեր: