

TEXTILE & GARMENTS INDUSTRY PROFILE

A. Definition of Industry

1. Description

The history of the Albanian textile and garment industry lies in an almost 40 year's period of state owned enterprises, which operated under the centralized socialist economy. The previous industry production was derived through a large domestic valued-added chain that used to produce from fiber until final product. Industry mainly supplied the domestic market, while exports were managed by a single government agency.

After 1990, most of the enterprises went through a privatization process. A significant part of these enterprises didn't change their destination, they kept producing textiles and garments but their activity was now concentrated on production under outward processing regime of clothes which comprise the majority of the Albania's exports.

The industry inputs are mainly supplied by imports, using the cheap labor advantage. The garment firms have no special technological processes, no marketing strategies and poor vertical integration, consequently leaving abroad most of the value added in this sector.

This industry plays an important role in the country's economy as shown in Table 1.

Table 1: Key Indicators for Textile/Garment Industry

| General data | 1999 | Share in manufact. industry | 2000 | Share in manufact. Industry | 2001 | Share in manufact. Industry | 2002 | Share in manufact. industry |
|-------------------------------|-------|-----------------------------|-------|-----------------------------|-------|-----------------------------|-------|-----------------------------|
| Production (in mln Leke) | 3,235 | 8% | 4,245 | 10% | 4,935 | 9% | 6673 | 11% |
| No. of employees | 8,626 | 24% | 9,129 | 25% | 8,865 | 27% | 12129 | 30% |
| No. of firms | 327 | 9% | 347 | 10% | 298 | 8% | 407 | 11% |
| Investment rate (in mln Leke) | 690 | 19% | 616 | 7.6% | 477 | 4% | 558 | 7% |

Source: INSTAT, 1999-2002

Garment industry production has been increased progressively, as a result of attractiveness of cheap labor found by foreign investors for their Outward Processing Productions. This is reflected also in the increasing number of employees (almost all

women), number of firms (often joint-ventures) and an investment level confirming once again the labor-intensive nature of this sector.

Foreign trade of the sector also reflects the structure of domestic production under OPT (Outward Processing Trade) regime. Exports and imports are interconnected as a result of re-exportation. Imports mainly consist of semi-final products, which are re-exported after a few assembling operations. Garment export and import levels have been characterized by an increasing trend. Export growth rate for 2003 was 25% towards 2002 and with an absolute value of US\$ thousand 155,219. While imports reached US\$ thousand 203,043 in 2003. Main trade partners are Italy, Greece and Germany.

2. Standard Industrial Classification (SIC code)

- 182 Manufacture of other wearing apparel and accessories
 - 1821 Manufacture of work wear
 - 1822 Manufacture of other outerwear
 - 1823 Manufacture of underwear
 - 1824 Manufacture of other wearing apparel and accessories n.e.c

B. Main Products Existing

The industry range of products output is very well mirrored in the exports, due to re-exporting production as explained above. The main products of this industry are suits, trousers, jackets, shirts and t-shirts, cotton intimate clothes, which are only assembled in Albania. Annex 1 shows figures on main exports (production) in this sector.

C. Current Industry Structure

According to INSTAT data, the number of firms in 2002 in the garment sector reached about 407. They represent outward processing companies, Albanian or joint-ventures with Italian, Greek or other western countries companies. The industry is highly competitive with many companies operating in labor-based assembling processes of clothing.

1. Raw materials used in textile/garment industry

Albania produces 3,000 tons annually of natural wool fiber and no cotton. Processing of these fibers almost does not place (a few of wool washing and spinning in Tirana factory), therefore this natural resource remains unexploited. On the other hand, it is partly used for traditional productions such as carpets and rugs especially in Korca and Kruja areas. Import level of wool fiber indicates a gap between domestic demand and domestic supply, and a good opportunity for import substitution.

Whereas raw materials used by the garments producers (which actually are semi-fabrics) are imported for re-exporting purposes. The network, quality and their costs are totally under the foreign investors' control.

2. Processors

Huge number of garment producers is found in almost all main cities of Albania, employing critical mass of women coming from rural and suburb areas (see Table 1). 100% Albanian owned or joint-ventures, they are all competing for specific processes/orders coming from foreign companies to take place in Albania. Though many years of operation, the companies have not developed other skills, besides time and resource productivity for the specific processes that they apply. Other skills would be design, innovation and marketing for niche markets for which they feel risk-averse. Packaging takes place as part of assembling processes, based on specifications and conditions set out by western partners. No Albanian origin is acknowledged.

On the other side, a few cases are identified on small fashion houses designing unique garments.

3. Buyers

Buyers are suppliers of raw materials, that is garment factories in Italy, Greece, Germany, etc (see Annex 1). While, final purchasers are European consumers, who are very sophisticated and following reputable brands.

4. Other supply firms

Business association: Many companies of this industry have adhered at the Association of Albanian re-exporters.

Packaging materials: No packaging production for clothing takes place in Albania. Package materials coming from foreign companies together with imports of garment's part to be assembled in Albania.

Advertising: No advertising; all terms (prices, terms of quality, product assortment, design, etc) are assigned by European purchasers who know and have contacts with European garment marketing networks.

Equipment suppliers: Industrial assets in the garment industry consist mainly of investments on new machinery (Western technology) suitable for goods produced under outward processing regime marketed in European markets. They cover a variety of processes such as: cutting, sewing, and pressing. Packaging is usually performed manually.

Transport firms: The transport is provided by Albanian and/or foreign transportation companies.

Universities: A textile engineering faculty existing in Tirana, generating about 30 students each year.

D. Key Competitors

Domestic: high number of companies operating in the OPT production, drives competition between them for orders and processes of foreign companies to take place in Albania. Productivity is based on cheap unit labor and production organization efficiency only. Developments in the international market influence trends in Albanian clothing production.

Import: Developing countries are direct competitors of Albanian exports in this industry. Albania faces competition by countries shown in Table 3, which produce with OPT regime.

Table 3: Outward Processing Trade (OPT) by trade partners, 2000

| Countries | OPT in 2000 (in millions of USD) | Main trade partners |
|-------------------|---|---|
| EU (15 countries) | 3,367 | Romania (18%), Poland (13%), Bulgaria (8%), Morocco (7%) |
| Germany | 1,548 | Romania (21%), Poland (14%), Ukraine (7%), Croatia (6%) |
| Great Britain | 504 | Romania (19%), Morocco (17%), Sri Lanka (16%), Indonesia (6%) |
| Italy | 306 | Romania (44%), Hungary (12%), Bulgaria (7%), China (7%) |
| France | 226 | Morocco (31%), Tunisia (19%), Romania (12%), Poland (12%) |
| Netherlands | 169 | Poland (17%), Belarus (11%), Croatia (8%), Morocco (8%) |

Source: Eurostat, European Center for Import Promotion

Germany is the largest importer of outer garments in the EU with roughly 17 billion Euros, of which 48% are purchased from developing countries through re-import or direct import. Imports of tricots/pullovers, etc for women along with woven trousers for men and women have increased significantly. Turkey is the main supplier of the German market of outer garments occupying 14% of Germany's total imports, followed by Italy, China, Poland (mainly re-imports), Romania (mainly re-imports), Netherlands, Greece, Bangladesh, etc.

Great Britain is the second largest European importer. British producers use OPT to cover 78% of imported knitted garments and 73% of imported woven garments. British imports have recorded growth vis-à-vis several products: tricots, pullovers for men and women, t-shirts, woven garments such as trousers, skirts, sport suits, and shawls. On the other hand, woven suit and gloves imports have dropped. China, Turkey and Hong Kong are the main exporters of garments in the British market. France is also a large importer in the EU. Developing countries supply 46% of its imports. Italy, Morocco, Tunisia, etc. are the main exporters in the French market.

Italy has also imported large amounts of outer garments in 2000. They accounted for 5.2 Euros, of which 74% were re-imported from non-EU countries. 48% of Italian imports came from developing countries. The import growth rate has been positive recently. Imports of t-shirts, tricots, pullovers, skirts, and woven blouses for women, stand over the average rate, while trousers for women and skirts have been the dominant woven garments. Imports of men's shirts have dropped. China is the leading exporter in the Italian market, followed by Tunisia, Romania, France, Belgium, Bangladesh, Croatia and Turkey.

E. Potential Substitutes

Demand for clothes and footwear has been supplied mainly by imports, consisting of second-hand clothes that fit consumption needs with affordable prices for the average consumer portfolio. Also, of less importance are also leather-based or other artificial fibers clothing produced in the international market.

F. Other Issues

- The energy crisis has been one of the key reasons that brought several enterprises to bankruptcy and some others to raise the production cost because they use the generators.
- The poor quality of rural infrastructure makes it difficult to reach interior areas, resulting in making unattractive the use of domestic raw materials (such as natural wool fiber).
- Investments are still required in the four Albanian seaports in order to improve efficiency of operations.
- Communication lines are sufficiently present in urban areas (yet, mobile communication costs are still high), while the quality of telecommunication is still poor in rural areas. The Internet can be accessed from almost any major Albanian city.
- China accession to WTO creates a bigger global consumer market as well as raises opportunities for diversion of trade from some European companies towards Albania.
- Entry in the sector does not represent specific barriers and is equally treated as other production sectors; OPT production is exempted from import duties.

G. Industry Trends

Consumption and imports of European countries on garments show increasing figures, especially in specific products such as knitted clothing, casual-style clothing for women and sport clothing. Cheap labor countries are competing in OPT production through quick delivery and management efficiency of assembling processes. However, two options are for the future of these cheap-labor sectors in Far East, East Europe and North

Africa: either to raise productivity of the processes, or to embark in efforts for developing new designs and their value-added chain. The second option can lead to sustainability and economics upgrade for these countries, especially with the entry of China in WTO.

H. Five-force Analysis

Industry competitors

The competitive level between the garments firms doesn't seem to be an important factor in firm's behavior and decision. For the nature of the production (OPT), these firms compete among them for linkages with foreign investors through cheap labor force and effective organization. In this sense, competition between existing 407 firms domestically is high. While, internationally Albanian companies are competed by east European, far East and North Africa countries, who also provide cheap labor and investors' incentives in this sector.

It is interesting to note a small segment of fashion garments producers in Albania, who are trying to build some branded products. The efforts are modest and locally concentrated.

Potential entrants

Though affected by the energy crisis, the sector has been ultimately attracting newcomers in the outward processing activities. Albania continues to represent the nearest country of Italian garments' producers providing cheap labor. More western OPT orders for Albanian companies after China accession to WTO and Romania/Bulgaria preparation for EU accession are identified.

Buyers and suppliers

Due to the characteristics of this sector, the buyers and suppliers are the same. Their power is high since they are the ones to decide about the production, design, and all specifications.

Threat of substitute products

Used clothes sold domestically have some competitive power to the products of garments industry in Albania. Internationally, other artificial fiber-based clothing and leather clothing represent other substitute products.

I. Conclusions/Prospects for Cluster Formation

Though the positive growth rates through the years, the industry does not represent the clustering potentials, since the actors work independently and not willing to develop processes and designs. Lack of supply basis, skills in various business aspects such as

marketing, design, human management, technical skills on textiles, make difficult the upgrade of industry in the short-run. Actors of this industry seem to be reluctant to cooperate and upgrade, since the OPT production is profitable and non-risky for them, given the umbrella company in the foreign countries covering all the marketing, distribution, financial and design aspects of the production.

The existing situation shows little optimistic perspective in this industry. There is no clear strategy on both the private and government side, for determining future path of industry development. The vision remains “just surviving”.

As stated by economists in developed countries, new products based on local tradition, would give a new face to the textile and garment industry in Albania. For the moment, no business actors were identified that would be willing to embark in the design and production of unique products, develop marketing strategies and invest in human resources development in design and management.

Annex 1: List of main garment products exported, 2003

| HS code | Description | Value in thousands US\$ | Share to total textile exports |
|----------------|--|--------------------------------|---------------------------------------|
| 6203 | Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear): | 40,675 | 26.2% |
| 6205 | Men's or boys' shirts: | 20,709 | 13.3% |
| 6206 | Women's or girls' blouses, shirts and shirt- blouses: | 16,407 | 10.6% |
| 6109 | T-shirts: | 13,166 | 8.5% |
| 6108 | Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, négligés, bathrobes, dressing gowns and similar articles, knitted or crocheted: | 13,131 | 8.5% |
| 6106 | Women's or girls' blouses and shirts, knitted or crocheted | 8,502 | 5.5% |
| 6107 | Men's or boys' underpants, briefs, nightshirts, pajamas, bathrobes, dressing gowns and similar articles, knitted or crocheted | 7,105 | 4.6% |
| 6211 | Track suits, ski-suits and swimwear; other garments | 4,599 | 3.0% |

Source: ACIT, General Customs Directorate