
ROMANIAN CLOTHING INDUSTRY: EXTERNAL MARKET VS. INTERNAL MARKET

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Abstract

In this paper we emphasize the particularities of the clothing industry market, which requested certain processing of data from the Statistics National Institute, the Economy and Commerce Ministry and the Commerce International Organization.

To this end, it was noticed that the products of the clothing industry are mainly for export. Approximately 85% of the clothing products of our country are exported Romania's clothing export being directed mainly to the European community's countries. The data presented in the paper note the decrease of total exports of the clothing industry in our country, as well as those in the European Union during this last period, which indicates a similar evolution of the Romanian specialized sector on its traditional consumption market. The export performances of the companies in the Romanian clothing industry registered a descending course during the last years, in disagreement, in our opinion, to their productive and commercial potential.

In regards to the products intended by the local clothing companies for the internal market, it was noticed that they are characterized by a low sophistication degree, being extremely different in terms of price, quality and distribution circuit as compared to the products sold on international markets. The poor competitive nature of the internal market clothing companies is due both to the ineffective sales and marketing activities, as well as to the decreased financial force of the population. The remarkable and insufficiently exploited potential of the internal market was observed, while the clothing industry producers in Romania should consider its capitalization at the highest level on top of their interest. Though, this remains an extremely difficult process, considering the modest financial force of the population, combined with the aggressive penetration of the foreign products on the internal market.

Keywords: clothing, fast fashion, clothing exports, internal market

JEL Classification: L11, L16

1. "The tailor of Europe"

The clothing industry is a representative sector, especially for less developed economies, for which the use of active trade policies, oriented to intensive stimulation of exports as "locomotive" of economic growth represents a coordinate of economic development. This is the case of Romania, where the clothing sector plays an important role in the manufacturing sector and accounts for the major share of country's exports

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Clothing industry is one of the few industrial sectors (with leather and footwear, furniture and raw timber) where our country's export specialization index is greater than 1 (Voinea, 2005, p.5). As statistics show, if until 1989 Romanian garments were made mainly for domestic consumption, nowadays these products are exported (Table 1).

Table 1 – *The destination of Romanian clothing industry's products*

Specification	M.U.	1989	2004	2005	2006	2007	2008
Achieved output	mil. euro	-	4762	3913	4374	3434	3316
Achieved output	mil. U.S. dollars	1643	6308	4615	5755	5061	4278
Exported output	mil. U.S. dollars	649	4661	4569	4350	4237	4010
Output for domestic consumption	mil. U.S. dollars	994	1647	46	1405	824	268
Share of exported output into achieved output	%	39	73,89	99,01	75,59	83,72	93,74
Share of output for domestic consumption into achieved output	%	61	26,11	0,99	24,41	16,28	6,26

(Source: author's calculations based on data from National Institute of Statistics, the Ministry of Economy and Trade and World Trade Organization)

Note: conversion from euro into U.S. dollars was made using at the official rate InforEuro

As the international trade in garments is concerned, our country has concentrated its efforts to maintain, strengthen and develop economic relations with over 150 countries and in particular with the European Union countries which are major trading partners and, at the same time, traditional ones. Romania's exports of clothing heavily target the EU countries (over 97% of exports in the period 2004-2008), the tight commercial relations between Romania and the European Union being favored by: the significant dimension of the community market, the reputation of the Romanian products on this market, the relatively low transport costs, as well as the complementary nature of our products compared to the similar industries within the European Union under the price/quality ratio, according to their destination (Popescu, 2004, p.67).

On the EU market, the competitive pressure is acting from two directions:

- the group of developed countries, that abandoned the industry of consumer goods on the production of luxury goods in short series, dominating the international fashion and holding high-tech and performance machinery;
- the group of developing countries, the main owners of raw materials, with skilled low cost labor and favorable industrial policies that promote exports and conquest of new markets - the case of some countries in Central and South Asia - East.

All member countries of the European Union are producing ready-made clothes, sector being better represented in Italy, Germany, France and England. Garment industries of developed countries are addressed, through their specific

products (pants and men's shirts, skirts, pants and women's blouses, knitted jerseys and knits) to a saturated market, highly competitive, characterized by a low coefficient of elasticity of the demand for income. Another peculiarity of this market refers to the fact that demand is unstable and it changes rapidly, under the influence of fashion or alterations of seasons. It is also noted that the share of clothing expenditure in household budgets is declining.

2. The fast fashion phenomenon and other features of EU clothing market

As a recent study reveals (Masson, Iosif, MacKerron, Fernie, 2007, p. 238) a feature of the European apparel market refers to "democratization" of fashion and intensification of the phenomenon of fast fashion. The models presented on the catwalk at fashion festivals are available in stores, usually within a few weeks. The study cited mentions the tendency of dealers to facilitate consumer access to clothes with a high content of fashion, offered in various sizes. In early 2000, the Swedish company H & M hired dozens of young designers whose job was to produce as quickly and as cheap as possible "high fashion" clothes, the products of H&M at that time being called also "disposable fashion", "trendy" clothes that you can throw in the trash after the passing of the fashion. For H&M success did not come right away, but it was not a losing business. Instead, the first large luxury market drop after the attacks of September 11, 2001, demonstrated the full potential of the fast fashion concept, as the "disposable fashion" clothes were requested by consumers.

Years 2004-2005 have imposed fashionable "boho-chic" -bohemian/hippie/chic, promoted by celebrities like Lindsay Lohan, Sienna Miller, Jude Law or Olsen twins. Increasingly, many fashion houses have turned spontaneously to the young rich, creating a wave of demand. This was the moment in which the term of fast fashion was required and was strengthened: everyone wanted to dress like boho celebrities, but fashion was changing ever more quickly. There was even the expression "today fashion" or "what shall we wear today". Between 2004 and 2005 there was a major change of consumer habits, former weekend shoppers reaching out to carols shops day by day.

The first reaction came from Top Shop network in the UK, but the company Inditex, owner of the mark Zara, was the one who took over and perfected the H & M recipe, by employing a core of 200 young designers, creating no less than 40,000 models of clothes per year. Of these, only 10,000 arriving in stores, i.e. 30 new models per day, every day of the year. Parts of „scrap” are sold to mass producers, the rest being discarded. All 650 Zara branches in the world are interconnected by means of an electronic system, so that the success or failure of a model is found instantly. Once a model sale begins to fall, it is withdrawn. When sales grow, production is supplemented on the spot. Zara has gotten so to have a percentage of returns only 10% of production compared to the industry average of 17-20%. Time between presentation of a "designer" model on any catwalk of the world scene and the emergence of a homologous product on the market in fast fashion is of 12-15 days. Basically, the remote corners of the world get lower rank clothes first, then new

collections of major fashion houses, while Zara came to spend on advertising only 0.3% of revenue, compared with an average 3-4% of industry.

Statistical documents and thematic reports from the European Commission highlight several features of the clothing sector in the European Union, the most significant being in the list below:

- a) a long tradition, innovation and product diversity;
- b) concentrating on products with high added value, quality, design, innovation and technology, EU being the leader of the world market segment clothing with a high level of quality and fashion;
- c) high degree of regional concentration of production, which is located, especially in the Southern Area Community (Italy, Spain, Portugal);
- d) is dominated by SMEs, which are mostly the type of family associations and have an average of 20 employees;
- e) in order to cope with increased competition, has accelerated the process of structural adjustment of Community industry of textile and clothing products, by applying new information technologies and new products which has benefited from the overall Structural Funds of the EU, but also by improving the activity of subcontracting. The structural adjustment process, however, was accompanied by stagnation and even decline in production and loss of many jobs;
- f) EU textile and clothing industry widely uses CMT, the labor intensive activities being transferred to East Europe and North African countries.

Among developing countries possessing raw materials and cheap skilled labor detaches China, the world leader in production and export of textiles and clothing. In 2008 China's exports of apparel revenues were 119,790 billion dollars, 4.1% higher than those recorded in 2007. In recent years, the competitiveness of China's garment export industry has been affected by increased labor costs and rising raw material prices in the financial crisis that has caused the decline in demand on its main consumer markets (EU, USA and Japan), exerting enormous pressure on export prices. Recent studies estimate a 10% reduction in Chinese exports of clothing in 2009 compared with 2008. However, it is difficult to assume that China will lose its leading position in textile and clothing production and trade, especially in the context of systematic interventions by the Chinese government, resulting primarily in the adoption, in February 2009, of the Revitalization and Adjustment Plan for Textile Industry and oriented towards supporting exports, create jobs, increase farmers' income and promote urban development. The practical measures proposed in the plan, currently under implementation, aims to modernize production capacity and providing support for making acquisitions and mergers designed to accelerate the revitalization of the textile industry.

Returning to the situation in Romania, the data presented in Table 2 show a decline of 14% in total exports recorded in the clothing industry of our country and those oriented towards European Union in 2008 compared with 2004. It is also noted that during the period under review, commercial relations between Romania and its traditional partners - France and Germany - were greatly restricted, as exports decreased by 13% and, respectively, 36%, indicating a similar evolution of the Romanian garment sector position on its traditional consumer market.

Table 2 – Garment exports from Romania to the European Union in 2004-2008
- geographical distribution by country

Importer	Value (thousand U.S. dollars)					Evolution 2008/2004 (%)
	2004	2005	2006	2007	2008	
Italy	1554160	1557072	1526214	1527350	1605519	+ 3,30
France	1141693	1131660	1028208	1038014	995456	-12,81
Germany	850903	739368	729378	688016	539199	-36,63
England	332516	349784	354419	348899	340288	+ 2,34
Austria	178948	160342	125098	82277	94323	-47,29
Netherlands	71779	80245	72382	64696	63647	-11,33
Greece	50871	48462	49167	59731	50819	-0,10
Hungary	153712	166393	157274	157826	43839	-71,48
Belgium	95389	94126	84978	35569	40106	-57,96
Slovakia	18440	31018	33977	29152	36828	+ 99,72
Spain	44945	42740	45412	42730	31740	-29,38
Bulgaria	8223	7405	9719	16939	22083	+168,55
Ireland	11110	15789	14053	15222	16250	+ 46,26
Czech Republic	1456	3864	5636	6333	9249	+ 535,23
Estonia	7807	7822	7546	8629	8660	+ 10,93
Sweden	5289	3007	2904	3667	3785	-28,44
Portugal	1110	1431	725	1302	3580	+ 222,52
Poland	899	1322	934	2202	3183	+ 254,06
Denmark	4223	3837	1373	3379	2152	-49,04
Lithuania	2328	4663	3282	2779	1358	-41,67
Finland	1112	454	162	2113	1185	+ 6,56
Slovenia	819	2696	1143	2954	544	-33,58
Cyprus	71	88	111	117	341	+ 380,28
Malta	2871	2681	2430	1654	231	-91,95
Latvia	166	371	230	2071	124	-25,30
Luxembourg	273	86	136	141	46	-83,15
Total exports	4660752	4568605	4350162	4237980	4010773	-13,95
Exports towards UE countries	4541113	4456726	4256891	4143762	3914535	-13,80

(Source: author's calculations based on data from World Trade Organization)

Statistical data show a decline of Romania's ranking among EU clothing suppliers, our country being overtaken by Bangladesh and India (Table 3), but remaining the largest Central and Eastern Europe provider of clothing for European Union countries.

Table 3 – Main EU clothing suppliers

Rank	2003	2004	2005	2006	2007
1	China	China	China	China	China
2	Turkey	Turkey	Turkey	Turkey	Turkey
3	Italy	Italy	Italy	Italy	Italy
4	Germany	Germany	Germany	Bangladesh	Germany
5	ROMANIA	Bangladesh	Bangladesh	Germany	Bangladesh
6	Bangladesh	ROMANIA	ROMANIA	India	India
7	France	France	India	France	France
8	Tunis	India	France	ROMANIA	ROMANIA
9	Morocco	Tunis	Tunis	Hong Kong	Tunis
10	India	Morocco	Morocco	Tunis	Morocco
11	Hong Kong	Hong Kong	Belgium	Morocco	Spain
12	Portugal	Portugal	Hong Kong	Spain	Netherlands
13	Netherlands	Belgium	Portugal	Netherlands	Portugal
14	Belgium	Netherlands	Netherlands	Belgium	Hong Kong
15	Spain	Spain	Spain	Portugal	Belgium
16	England	England	England	England	England
17	Indonesia	Indonesia	Indonesia	Indonesia	Indonesia
18	Greece	Thailand	Thailand	Sri Lanka	Sri Lanka
19	Thailand	Greece	Sri Lanka	Thailand	Thailand
20	Sri Lanka	Sri Lanka	Greece	Greece	Greece

(Source: author's calculations based on data from World Trade Organization)

The export performances of the companies in the Romanian clothing industry registered a descending course during the last years, in disagreement, in our opinion, to their productive and commercial potential. For the near future and even on medium-and long-term changes expected in textiles and clothing industries will bring, it seems, several risks and challenges rather than opportunities, particularly for smaller exporters from developing countries. In this fierce competition will gain considerable success, will thrive and will develop steadily companies with:

- performance management;
- top technical potential;
- specific raw materials;
- highly skilled workforce prepared to work in the industry, as earnings are lower than in other industries;
- an active trade policy, intensively stimulating exports as a "locomotive" of economic growth.

3. What about internal market?

According to data presented in Table 1 share of clothing production for domestic market from 2004 to 2008 vary between 0.99% and 26.11%, the lowest value being recorded for 2005 - the year of global textile trade liberalization and clothing, when the Romanian market was invaded by Asian origin clothing.

A study conducted in 2006 by World Bank experts' reveals that products of domestic clothing companies made for internal market are characterized by a low degree of sophistication and, also, are very different in terms of price, quality and distribution circuit compared to those of products sold on international markets.

Weak competitiveness of Romanian clothing industry on the domestic market is reflected into its insignificant market share, with a downward trend in the period 2004-2008, while the total sales of clothing increased by 95% in the horizon of analysis (Table 3.). We must emphasize that production for domestic market, expressed in value terms, fell below second-hand imports in 2005 and 2008 - when taking into account the fact that second hand clothes imported regularly by pound are extremely low priced - we can estimate a quantitative difference of several ten times higher.

Table 4 – Domestic market share of Romanian clothing producers

Specification	M.U.	2004	2005	2006	2007	2008
Total sales (internal market), including:	thou. U.S. dollars	591933	650980	680341	907622	1159838
- imports	thou. U.S. dollars	590057	650727	678741	906485	1159229
- domestic output	thou. U.S. dollars	1647	46	1405	824	268
- „second hand” imports	mil. U.S. dollars	229	207	195	313	341
Domestic market share of Romanian clothing producers	%	0,27	0,007	0,20	0,09	0,02

(Source: author's calculations based on data from the Ministry of Economy and Trade and World Trade Organization)

The poor competitive nature of the internal market clothing companies is due both to the ineffective sales and marketing activities (according to FEPAIUS, there are only 500 romanian brands, sector being composed of over 6,000 enterprises) as well as to the decreased financial force of the population.

The National Institute of Statistics and Eurostat data highlights the fact that expenditure for purchasing clothing and footwear represents 4% of total consumption expenditure of Romanian household - an amount equivalent to the European average, but the population's purchasing power is reduced, so that, in 2006, according to a study by Euromonitor, the total expenditure on clothing per capita were only 76 euros in Romania, 16 times lower than those of Greece (1225 euro) and Italy (1224 euro).

In the last two years financial and economic crisis caused a decline of private consumption, as clothing costs per family decreased. According to the National Institute of statistics data, the largest decreases were recorded in the Western region (Timiș County, Arad County, Hunedoara County, Caraș-Severin County), where expenditure on clothing declined from 67.3 lei to 35,5 lei per family, a significant decline, from 73 to 42,3 lei being recorded also in the region of Bucuresti - Ilfov.

Thus, Romanian producers must face a fierce competition in which the price and not the quality prevail in the choice of buyer. According to the World Trade Organization, in the period 2005-2008 Romania imported apparel from various countries, presented in Table 5:

Table 5- *Clothing imports, in mil. U.S. dollars, by country of origin, in the period 2005-2008*

Country of origin	2004	2005	2006	2007	2008	Market share (2008)
Italy	229062	207056	194589	312668	340516	0,2936
China	37825	83504	113262	94478	149422	0,1288
Austria	21673	22461	20985	65631	96956	0,0836
Germany	36959	65700	59480	71389	87448	0,0754
Turkey	36106	63455	75674	73286	62742	0,0541
Greece	41796	17100	15533	40009	56080	0,0484
France	58219	47680	43501	39158	53981	0,0465
Czech Republic	897	903	1919	28024	44121	0,0380
Spain	2013	5674	5441	23343	42695	0,0368
Bulgaria	19763	19197	19248	39167	35712	0,0308
Hungary	20411	14251	12974	24047	32343	0,0279
Belgium	3606	5652	9974	17843	28290	0,0244
Poland	2982	6348	5567	9968	17693	0,0153
Bangladesh	3472	7647	8868	8025	17126	0,0148
England	2373	1431	1328	6197	15630	0,0135
Moldova	1049	747	3075	9036	12559	0,0108
Netherlands	2113	3830	3817	6825	11458	0,0099
Vietnam	1492	2809	5013	4620	9426	0,0081
India	660	1244	2559	3393	7600	0,0066
Portugal	4878	5853	7618	5932	5324	0,0046

(Source: author's calculations based on data from the World Trade Organization)

Data presented in the previous table should be interpreted with caution, in the context of alarm signals of the employers' representatives in the field to unfair competition made of Romanian products by cheap poor quality clothing (despite the fact that China is manufacturing also quality products, companies in our country import remnants of collections, per kilogram, which do not comply with the rules of European manufacturing, the only criterion being the low price), brought into the country through various forms of contraband (undervaluation of goods, imports of "ghost companies", use of statements counterfeit transit declarations, use of false documents, harnessing new products as "second - hand" and use "Duty-Free" shops for conducting illegal transactions).

The remarkable and insufficiently exploited potential of the internal market was observed, as the average prices of clothing in Romania are not only far below the

European average but below those in countries like Poland, Hungary and Portugal (Table 6):

Table 6 – Price indices for clothing (EU countries) in 2008

Country	Price indices for clothing in 2008 (EU27 = 100)
Norway	125
Switzerland	124
Finland	123
Croatia	122
Estonia	119
Sweden	119
Greece	118
Island	117
Malta	116
Belgium	113
Montenegro	113
Luxemburg	112
Italy	110
Denmark	110
Austria	108
Germany	107
Lithuania	107
Czech Republic	105
Serbia	104
Slovenia	102
Netherlands	101
EU27	100
Cyprus	96
Hungary	96
France	95
Portugal	95
Latvia	94
Bosnia -Herzegovina	94
Slovakia	92
Ireland	91
Poland	91
Albania	90
Turkey	89
England	86
Spain	86
Romania	86
Bulgaria	84
Macedonia	71

(Source: EUROSTAT, Statistics in focus, no. 50/2009, p. 2)

Romanian clothing producers should consider the capitalization at the highest level of potential of the internal market on top of their interest. Though, this remains an extremely difficult process, considering the modest financial force of the population, combined with the aggressive penetration of the foreign products on the internal market, many of them with equal or superior substitutes in the range of Romanian products.

Planning of production and marketing of clothing requires a series of capabilities and resources in regards to collection and correct interpretation of the information about market trends, a thorough knowledge and methods of distribution channels, the ability to promote brand awareness and to design and implement a policy of price likely to support modern manufacturing quality products (Brenton, P., Hoppe M., 2006). This type of knowledge is acquired and strengthens primarily through the disposal of the products on the internal market. However, in the conditions in which our country is, together with Bulgaria, among the poorest of consumer markets in Europe, it is difficult to anticipate when we attend a growing purchasing power. Achieving higher income induces a more sophisticated demand, which influences the offer. In other words, a sophisticated consumer creates a sophisticated producer – category which, on the internal market, it is extremely poorly represented.

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