

The Textile and Clothing Industry in Bulgaria – before and after Bulgaria’s Accession to the European Union

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Summary: During the period of transition to market economy the different sectors of industry were affected to a different degree by the dramatic changes in the business environment. The majority of enterprises in the “Textile and clothing production” sector have resisted the pressure exerted by their competitors and have survived. The subject of this article is their development after 1990. The article shows their share in the structure of industrial production, country’s export, job creation in comparison to the other sectors of the Bulgarian industry. Special attention is paid to their state prior to and after Bulgaria’s accession to the European Union (EU). Some of the problems that these sectors currently face are defined with regard to that and options for their solution are suggested. These are addressed mainly to company management, though institutions whose activity is directed to business as a whole and in particular to the sector under discussion could and should participate.

Key words: textile, clothing, production, export, integration.

JEL: D21, L23, L67.

Introduction

Before the start of the transition to market economy, textile and clothing were not among the priority industrial branches of the Bulgarian industry like machine building, electronics and others. In terms of investment and development perspectives, they ranked considerably behind heavy industry. Furthermore, the textile industry suffered a continual shortage of workforce, which is due to the high labour-intensive operations, unfavourable environment and comparatively low remuneration. Despite all that, both industries achieved a very high degree of equipment and labour deployment. In 1989, 5.1 % of the entire industrial production was manufactured in the textile enterprises, which equals the production in the metallurgical industry as a whole. 2.1 % was manufactured in the clothing sector and this relative share is comparable to the production in non-ferrous metallurgy.

After 1990 textile and clothing industry became one of the industries most severely affected by the economic changes. Despite that the majority of Bulgarian textile and clothing enterprises managed to survive and adapt to the new economic environment. Bulgaria’s accession to the EU and the economic globalization, however, pose new problems for company management in this sector. That’s why the **aim** of this article is to reveal the importance and role of the Bulgarian textile and clothing industry for the national economy based on the

analysis of its development over the period, and to outline the problems which the industry faces in relation to Bulgaria's accession to the EU, as well as suggesting possible ways of solving them. The **hypothesis** is that the "Apparel and textile" sector in Bulgaria plays a significant role in the national economy and has a considerable share in the export of manufactured goods. The preservation and increase of this potential after the accession to the EU, however, requires the finding and use of new competitive advantages. In order to prove all that the following aspects will be considered: the dynamism of production, export, employment and payment, as well as the investment activity in the industry. To this aim official information from the NSI, Ministry of Economy and Energy and the Bulgarian Association of Apparel and Textile Producers and Exporters (BAATPE) will be used.

I. Production

At the beginning of the transition period there was a decline in the production of textile and apparel. In 1998 the production of textile accounted for only 2.8 % of the total production in the industry¹, and the cotton and woolen textiles produced in the same year were around five times less than the production in 1989. The decrease in textile production continued until 1999. Production in the clothing industry decreased from 2.8 % from the total volume of industrial production in 1990 to 1.4 % in 1993. After that, however, it started to grow and in 1999 it reached its 1990 level.

After 2000 a sustainable growth in production began and in 2006 it was 238.3 % compared to the year 2000 as a whole for the 'Textile and Apparel' sector, while compared to the preceding

year it was 9.6 %. In terms of commodity indices several types of apparel register considerable growth, as well as socks and pantyhose production, bed linen, carpets and other textile floor coverings, woolen yarn. As a result of all that the share in industrial production compared to 1989 has been restored and stabilized over the past years at 7 %. In terms of growth rate the industry outperforms the majority of other sectors of processing industry. For example, in 2004 the production of textile and apparel doubled in comparison with the year 2000 and in relation to this index it is placed along with metallurgy and the production of metal items with the exception of machines, and before production of machines and equipment, except for electro-optical, the production of electro-optical and other equipment, of vehicles, electric energy, gas and water etc. The increase continued during the following years, but at a slower rate. For the entire period from 2000 till 2006, however, they outstripped those in the industry as a whole. The production volume after the year 2000 is shown in figure 1.

The data for the year 2007 is preliminary and incomplete. According to data, provided by NSI² during the individual quarters of the year the quantity of production is characterized by the following dynamism: stable growth index was observed during the first quarter (compared with the respective period in 2006), during the second quarter there was a decrease in certain months, this decrease sharpened during the third quarter. During the last quarter the level remained approximately the same. Mainly growth in production is registered in terms of the index reflecting change in comparison to the previous month.

¹ The information given below is taken from NSI's publications 'Statistical Yearbook' and 'Statistical reference book' for the respective years.

² Statistical news, NSI, 2007.

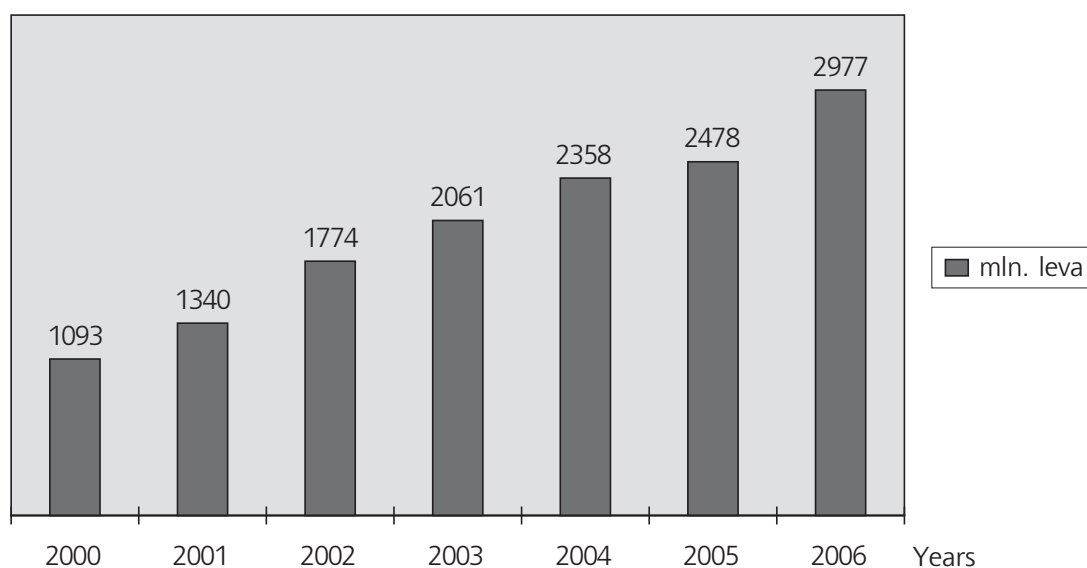


Figure 1

Table 1. Indices of production in industrial enterprises (2000 = 100%), %

Sector	2002	2003	2004	2005	2006
Textile and apparel	146.3	187.5	201.7	207.9	238.3
Total	108.2	123.4	140.5	154.5	167.2

Sources: NSI, *Statistical Yearbook, 2006*, p. 344 and *Statistical reference book, 2007*, p. 136.

II. Export

The textile and clothing industry managed to preserve and even increase its share in the country's export, which for most industrial branches and the industry as a whole registered considerable decrease after the year 1990. In 1989 the export of textile and apparel accounted for 3.1 % of the entire export. As early as 1991 there was an increase in the exported production of certain goods, mainly garments. After the initial decline in the export of certain types of fabric, it also began to grow and leveled off. As a result, the relative share of textile and apparel in the entire export during 1996 – 1998 increased from 8.86 % to 13.53 % respectively. In 2003 it reached 25 %.

It is extremely important that the sector is characterized by favourable trade balance. As early as 1989 the export of textile and apparel exceeded the import. This proportion was preserved, and even growth was registered. For the year 2004 the export of textile and apparel exceeded the import by 578.8 mln leva, for the year 2005 – by 564.5 mln leva, and for 2006 – by 604.4 mln leva³. In this way the textile and clothing industry contributed to the country's trade balance. The value of export and import of textile per year is represented in figure 2.

Export and import of apparel and textile is carried out mainly among the member countries of the European Union. The textile and clothing industry in Bulgaria produces mainly

³ Export calculations are based on the information published in 'Foreign Trade of the Republic of Bulgaria', NSI, 2004, 2005, 2006, 2007.

for the foreign market since a small part of its production is sold on the domestic market. The greater part of the export – around 80 % – is directed to the countries in the European Union. The list of countries we export to is topped by Germany, Italy and Greece. These countries held 55 % of the total export of apparel and textile in 2006. A great part of the import also belongs to countries from the EU, from where fabric and knitted fabric, used in the apparel industry in Bulgaria, are imported. Major importers are Italy, Germany, France, Greece and others. Outside the EU, we import raw materials and fabric for the textile industry from Turkey, Australia, South Africa, Egypt and others, and fabric and garments from Turkey and China.

In certain years during the period under consideration, for some regions in the world like USA and Canada the Bulgarian textiles and textile production come first on the country's export list. For example, of the entire export for USA in 1998 textile and apparel amounted to 39 %.

In 2005 the export of textile and apparel from Bulgaria remained almost unchanged – there was an insignificant drop of 0.8 % in comparison with the preceding year. In 2006,

however, it increased by 6.8 %. As far as 2007 is concerned, according to data, provided by BAATPE, during the first half-year there was a decrease of 10.5 % compared with the same period in 2006, but it referred mainly to apparel. Import, of course, also decreased. It is quite possible that these results are due to a methodological problem in recording import and export after Bulgaria's accession to the EU as enterprises work at full capacity and there are new clients. However, the relative share of export to the EU for the same period increased to 88.6 %. The final estimate for the year 2007, however, can be made after the official publication of the results.

During this period as a whole the export orientation of the Bulgarian textile and clothing industry has been preserved, as well as its favourable trade balance. Its relative share in the total exports declined – from 21.1 % in 2004 to 17.9 % in 2005. Our main partners remained the EU countries, but export to USA declined and now USA come third on the list of our trade partners. The export to Switzerland increased. It is extremely favourable that the value of export increases while keeping or lowering the volume in terms of commodities. This shows that the average price per unit has increased as a result of improved quality – price ratio.

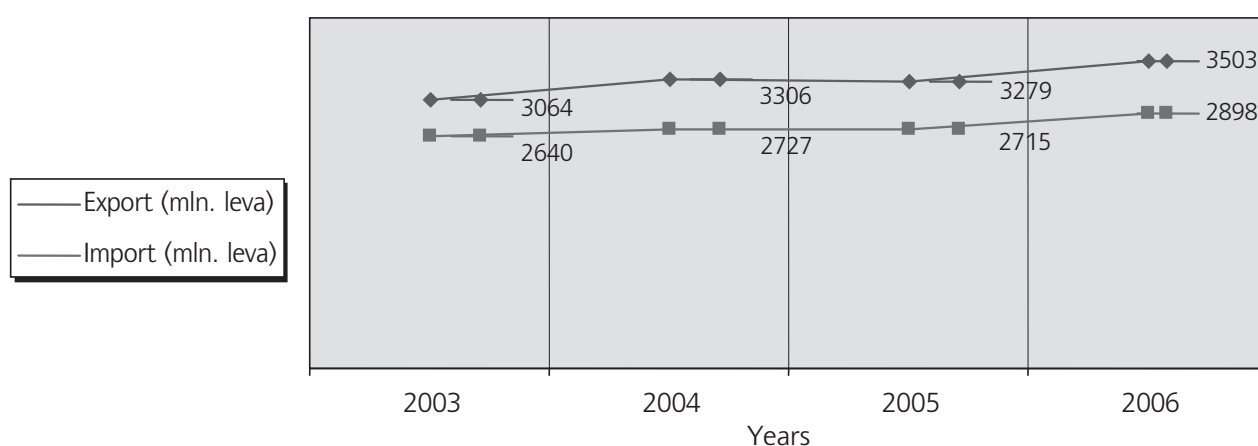


Figure 2

III. Employment and remuneration

Initially, a decrease in the number of employees in the sector was observed. In 1999 the employees were by 33 % less than in 1989. After the year 2000, however, this number began to increase and reached its peak in 2004. There were 180 000 people working in the sector, which represented around 30 % of those employed in the processing industry. In this respect it became the biggest employer in the country. At the same time the great number of employees means that this is a labour-intensive industrial branch. In 2005 a drop in the number of employees by nearly 7 % for the entire sector was registered. That was the result of closing down of nearly a hundred clothing factories and the decline in the opportunities for finding workforce. A similar situation was observed in 2006.

During the first years of transition the relatively low remuneration, typical for the production of textile and apparel, was preserved. In terms of level of average salary it traditionally occupies one of the last places in the economy. In 2005, for instance, there were only two economic activities after it – fishery and the production of leather and leather items. Despite that, however, in the structure of expenses for activities in subsectors and economic elements, the relative share of payment in the sector is twice as big as the one for all industrial enterprises. Thus, in 2006 the relative shares were 17.9 % and 8.2 % respectively⁴. One explanation for this is the high labour-intensive production in these sectors.

Over the past years there was a tendency towards an increase in the remuneration in the sector. This increase was more significant after

the year 2003. According to data, provided by BAATPE, for instance, there was growth of 9.4 % in 2005 in comparison with the previous year, and in 2006 – 11 %. In comparison with the year 2000, the index in 2006 was 155.1 %. The increase in remuneration was based on the increase in labour productivity. The value added, created by one worker in the sector, marked a sustainable growth. The growth during the first half-year of 2007 in comparison with the same period of 2005 is 30 %, and compared with 2006 – 20 %.

IV. Investments

The investment activity in the 'Textile and Apparel' sector over the past years is characterized by an unstable increase in costs for acquiring fixed assets. In the period between 2001 and 2005 there was an insignificant annual growth each year with the exception of 2004, when there was a decline. Their share in the total volume of expenses on fixed assets in terms of economic activities, however, marked a lasting decrease after the year 2002 – from 3.57 % to 1.93 % in 2005. In terms of acquired fixed assets, the dynamism is almost similar and in 2005 their value was equal to that in 2001. A more significant growth was registered in 2005. The values of the specified indicators were higher in sectors like production and distribution of energy, gas and water, food, drinks and tobacco and metallurgy and production of metal items, except for machines⁵.

According to data, provided by NSI⁶, the direct foreign investments in the 'Textile and Apparel' sector at the end of 2006 account for 3.57 % of their gross volume in the nonfinancial sector

⁴ Statistical reference book, NSI, 2007, p. 142.

⁵ The calculations are based on data, published in 'Statistical Yearbook', NSI, C, 2003, 2004, 2006.

⁶ <http://www.nsi.bg/Investments/Investments.htm>

in the country. By absolute amount for the same period it took fourth place among the industrial branches in the processing industry with \$ 442 817.5 thousand. Metallurgy and production of metal items, food production, drinks and tobacco and the production of other goods from other non-ferrous mineral resources rank higher. One of the big investors in the textile industry is the Italian group 'Mirolio', and in the clothing industry – the German one 'Rollman', the Greek one 'Demo' and others.

As a whole the data quoted is not particularly disturbing, considering the fact that on principle the investment expenses in these industries are lower in comparison with other industries. But in terms of investments per employee, the situation in the sector is not satisfactory, because of the high number of employees in the textile and clothing manufacture.

V. Overall assessment

As a whole the production of textile and apparel in Bulgaria after the year 1990 is characterized by the following:

1. Earlier, when compared to other sectors of industry, transition to entirely market environment. The reasons for that are: loss of traditional markets, strong competitive pressure exerted by garments smuggled from Turkey, China and other countries, as well as the decreased solvency of the population. This stimulates the companies for faster adaptation to the new economic conditions.
2. Privatization and restructuring of enterprises in this sector, which become entirely private and smaller.
3. Recognizing 'Textile and apparel' sector as being important to the Bulgarian economy as a result of the increase in the volume of production, its share in the country's export and

its ability to generate jobs. All that, however, is achieved in an environment with low investment activity.

4. Development of the industries under consideration related mainly to the export of production to the EU, long before the country's accession to the Union. That is why the beginning of the processes of integration in the 'Apparel and Textile' sector of the Bulgarian industry into the European economy was put during the 90s of the XX century. This means that the producers in this sector faced stronger competitive pressure and higher product requirements much earlier.

5. Right before the country's accession to the EU, the textile and clothing industry marked sustainable growth and met 1.1.2005 without any shocks. It was then that the quotas applied by the EU to third countries were removed in accordance with the Agreement on Textiles and Clothing of the World Trade Organisation, signed in 1995. Thus, the European market became much more accessible for Chinese goods which are relatively cheaper because they are subsidized by the government. That is why the year 2005 was a turning point for the world trade in apparel and textile. Reflux in orders and loss of positions for the Bulgarian producers in the industry were expected. But as a whole the expectations for a serious collapse in the industry were not matched. What is more – the interest shown to Bulgarian producers by West European companies has not declined. The reason for that is the partial reintroduction of import quotas on goods from China until the beginning of 2008 along with the companies' competitiveness and their good market adaptability. Besides, there was an increase in sales on the domestic market, which at the end of 2005 was 215.7 % compared to the year 2000.

6. The strengthening of the industry's export orientation increased its importance to the Bulgarian economy. However, the production and export of Bulgarian textile and apparel is based mainly on work done with client's materials. This was the only possible way out during the first years

of the transition, considering the fact that some of the enterprises had worked in this way until then and had the necessary contacts and experience. Another important reason was the restructuring of production in Western Europe after 1995 and the result was that the production of apparel and textile moved to the east in order to optimize costs. It is well known that during that period the competitive advantages of the Bulgarian 'Production of apparel and textile' sector were: the lower labour cost, good quality guarantees, tradition and highly-qualified workforce, meeting deadlines, flexibility in terms of range of products, geographical proximity to markets. All that explained the improved opportunities for production and export for enterprises as well as the increase in their competitiveness.

It was in this state that the "Production of Textile and Apparel' sector "greeted" the official accession of Bulgaria to the EU. As a result the development of the industry in the future will be carried out along the following **terms**:

1. Customs control has changed which leads to facilitating companies' performance.
2. There are new opportunities for export outside the EU in accordance with the agreements signed, concerning trade with third countries. This refers primarily to import duties, some of which are preferential.
3. Quotas applied on import from China are removed from the beginning of 2008 and the adopted system of dual control is applied on eight categories of goods from the group of textile and apparel. It will be in force until the end of 2008. The purpose of the dual control is to carry out the gradual transition to a completely liberalized market of apparel and textile.
4. Bulgarian companies can rely on smaller and more complex orders with high requirements for quality, which are to be carried out in short time. In this niche they will not compete Chinese producers, but those in the region and even producers from Central and Western Europe.

5. A possibility exists that part of the orders might again be directed to West European enterprises. There are already similar examples with newer member-countries. In 2000 many west European firms left Hungary and placed their orders in Romania, Bulgaria and the Far East because of the lower labour costs there. Several years later they returned there but with smaller orders, which required special knowledge and skills. Besides, according to data from Euratex, during the first nine months in 2007, for the first time since the year 2000, production of textile and apparel registered increased in most member-countries. Among these are the ones with which Bulgaria trades.

6. Companies' management realize the necessity to reduce the work done with materials of the client and expand the so called 'semi' inward processing transactions. In this case more functions are performed and the enterprise takes part in preparing the production of the ordered product, finding the necessary materials and others, thus increasing the value added. Some companies make efforts and design their own collections, which they sell under their own or somebody else's trademark. The bigger and financially stronger companies combine both working methods. For the time being 10 – 15 % of their capacity is involved in producing their own products.

7. There is depletion of some of the competitive advantages of the Bulgarian producers of apparel and textile. Years ago these advantages attracted companies from West Europe who placed their orders here. These advantages were: the low labour cost and the availability of the necessary highly-qualified labour force.

VI. Main problems

The main problems that the textile and apparel sector in Bulgaria is experiencing are the following:

1. Shortage of labour force. There was shortage of labour force in textile enterprises even prior to 1990, but recently this shortage has sharpened in the clothing enterprises. The reasons for that are:

- the excessive enlargement of production capacity in the clothing sector which is incompatible with the existing labour potential. This exacerbates internal competition in recruiting labour force – at the moment demand for seamstresses exceeds supply. Besides the grey sector of the economy is being stimulated. This results in increased labour turnover and decrease in the level of qualification;
- unfavourable conditions and high labour-intensity in the textile industry;
- the relatively low level of remuneration in the majority of firms.

2. Low level of labour productivity. Despite the increase that we have recently observed, it remains much lower than the levels in the EU. According to data of employers' organisations it is 50 – 65 % from the productivity in other countries, with which there is competition⁷.

3. The lowered organization of processes in the enterprise. Presently there is lack of organizational specialists who can deal with these issues.

4. The slow introduction of certain standards, which could lead to gaining image and an advantage over their competitors. Only 72 firms in the sector are certified according to ISO 9001, 2 – have ISO 9002, 3 – have ISO 14001, 2 – have OHSAS 18001, and none has ISO 14000⁸.

5. The lack of own resources.

VII. Ways of solving the problems

Solving the greater part of these problems depends on company's management. That is why managers' attention and actions should be aimed at:

A. Increasing labour productivity, especially when considering the high labour intensity of production in these sectors. The main areas where this can be achieved are:

1. Active actions towards improving qualification through providing adequate training for the personnel. Relying mainly on external education and training at professional high schools on apparel and textile would be insufficient. On principle this sector is not attractive to young people and few of them start work there. The efforts of managers and employers' organisations and contacts with educational institutions are praiseworthy, but they would hardly be sufficient to solve the problem. Considering the factories' needs for workers and direct managers, as well as the conditions in which they will work in the future, their education should be in accordance with the following requirements:

- as far as direct managers are concerned (shop-floor managers, supervisors, line managers, or field managers), it is appropriate for them to receive sufficient amount of knowledge on process management. They are closest to the work places and the personnel and can quickly identify problems, and subsequently solve them on time within their competence. In the complex and exacting environment that Bulgarian firms will work in the future, it is not sufficient to rely only on intuition and gained experience. What is more, in order to achieve absolute perfection of organization in the company it is necessary

⁷ www.bg.textiles.org

⁸ [http://www.mi.government/ind/econ/docs.htm/?1d=214824\(*.pdf 5,99mg\)](http://www.mi.government/ind/econ/docs.htm/?1d=214824(*.pdf 5,99mg))

to use consultancy firms or to set up a special department to this aim;

- training of workers, especially of those in clothing enterprises, should be based on building skills for quick adaptability to new models, i.e. achieving labour flexibility. This is determined by the niche where Bulgarian manufacturers will be doing business. The speed of adaptability to job changes is mainly a personal quality, but it can also be a subject of training since some of the reactions can be standardized.

2. Tightening labour discipline. According to managers in enterprises there are certain things that can be done in this field, too. Work efficiency is not at the required level, though these sectors are in principle differentiated by high labour-intensity.

3. Improving labour environment. This will have direct impact on productivity and will make the sector more attractive to free labour force. The introduction of labour safety standards will also contribute.

B. Looking for new competitive advantages.

The problems with labour force, discussed above and the increase of labour cost will affect negatively the attractiveness of Bulgarian firms. That is why it is necessary to look for new competitive advantages. The prestige of Bulgarian manufacturers would increase, if European safety standards are strictly maintained,

which for the textile industry involve banning the use of dangerous substances. Furthermore, manufacturing ecologically clean products and the right to use European and Bulgarian eco-labelling contributes to the decrease in detrimental impact on the environment. These and some other characteristics of socially-responsible companies can become a competitive advantage and thus increase the interest of European consumers. Another advantageous thing in this respect could be the implementation of the standard of global responsibility in manufacturing textile products WRAP.

A positive change for enterprises in the country after its accession to the EU, are the new opportunities for financing. The use of operational programmes 'Human Resources Development' and 'Competition' could facilitate the solution of the above-mentioned problems in the textile and clothing firms.

In conclusion, it could once again be pointed out that as a result of all the achievements after the year 1990 in the 'Textile and Apparel Production' sector in Bulgaria, its importance to the Bulgarian economy was recognized. Its future in United Europe, however, will depend mainly on the purposeful efforts of company management towards finding and deploying new competitive advantages. **VIA**