

GLOBALIZATION AND THE COMPETITIVENESS OF THE EUROPEAN TEXTILE AND CLOTHING INDUSTRY

Adriana Girneata, Cosmin Dobrin

Management Department, Faculty of Management, The Bucharest University of Economic Studies, Bucharest, Romania

adriana_girneata@yahoo.com

cdobrin@yahoo.com

Abstract: *The aim of the paper is to analyze the competitiveness of the European textile and clothing industry under the influence of globalization and recent economic crisis. The textile and clothing industry is an important part of the European manufacturing industry, playing a vital role in the economy and social welfare in many regions of Europe. The European textile and clothing industry has undergone significant changes in recent decades due to the technological advances, developments in production costs, the emergence major international competitors and the elimination import quotas after 2005. In response to the competitive challenges, this sector of activity has undertaken a lengthy process of restructuring and modernization. Globalization and technological progress have led to rethinking the strategy of the companies in the industry. In a competitive global market, European organizations producing textiles and garments have as main competitive advantage research and continuous innovation. Using methods of qualitative research, this paper analyses the evolution of the main financial indicators concerning this sector of activity in the period 2007 – 2013, including domestic consumption, turnover, number of employees, number of companies, imports and exports. The globalization of markets, international outsourcing and development of the Internet had a major impact on the structure and dynamics of the textile and clothing industry in Europe, and in particular on small and medium enterprises. Also, relocation, subcontracting and outsourcing of large brands in this domain have contributed significantly to the increase of imports from low-cost countries. A growing number of apparel retailers have emerged on the market, organizing supply chains globally. At the same time, producers have transferred part of their activities to low-cost countries in order to maintain market competitiveness. This was determined by the major differences in salaries across the global labour markets and high profits obtained from trade. Based on the results of the analysis undertaken, the paper suggests that in recent years, the competitiveness of the textile and clothing sector fell significantly, causing restructuring and downsizing.*

Keywords: textile and clothing industry, competitiveness, European garment sector, globalization

JEL classification: F60, M20, O19

1. Introduction

Textile and garment industry has become a global phenomenon, and, due to its complex connections with many other areas including manufacturing, advertising, production of raw materials, transport and retail, the enormous profits that lie ahead in the fashion industry determine companies to expand worldwide and constantly seek new markets. Technological progress and development of information and communication technologies have caused major changes in the world economy. Creating a large number of economic agreements and various economic communities has resulted in numerous heterogeneous markets integrated in a single market worldwide. The socio-cultural factors have acquired

a new dimension, a consumer society being outlined.

Current production of textiles and clothing is characterized by the existence of several actors of different sizes, in geographically dispersed locations. It also includes production stages and various activities to be carried out in a well known order, in a limited period of time (Fernandez-Stark, Frederick, Gereffi, 2011). Textile and clothing industry is characterized by high volatility, low predictability (Bruce, Daly, 2006), as well as generally low profit margins. Subcontracting is a frequent action in this industry. By lowering production costs, intermediates reduce time prices, as lower production time it is very important in this industry (Rossi, 2013; Masson, 2007). Industry experts consider that brands, which are also and retailers will get lower margins and will face increased costs (Kenneally, 2014). Therefore increasingly more retailers will exit the market or will be forced to reduce their operations (Stealing Share). Retailers and textile and apparel major brands seek greater flexibility in design, quality, and timeliness in delivery to maintain market competitiveness.

2. The Characteristics of the Textile and Clothing Industry

In the apparel sector, production can be dispersed in multiple locations inside or outside the country. In developed countries, it is associated with outsourcing production to developing countries. In the case of the latter, production is transferred to other localities and between countries in search of cheap labour or faster. Transnational corporations can move their capital across borders in order to reduce production costs, but small businesses and individual workers do not have this mobility, being forced to work in an increasingly uncertain market, characterized by an exacerbated competition.

Depending on the market to which it is addressed, it can be said that the textile and clothing sector is divided into two main categories, each with its specific characteristics:

- On **the market of quality products**, modern technology industry is characterized by a high degree of flexibility, and relatively well paid designers and workers. The competitive advantage of the firms in this market segment, excluding the cost effectiveness, is related to their ability to produce designs based on customer preferences, or influencing their choices. The basic functions of companies serving this market segment is largely found in developed countries and frequently in limited geographical areas or clusters in these countries (Girneata, Mascu, 2014).
- Firms oriented towards **mass production or standard products** are encountered particularly in developing countries. The labour force is usually semi-skilled or unskilled, poorly paid and mainly consists of women. These companies collaborate with retailers that have very high purchasing power. Also, retailers have developed their own brands and direct sourcing from suppliers, either foreign or local (Nordås, 2004).

European textile and clothing industry is diversified, being characterized by innovation and creativity. Production is divided into three categories depending on consumers which it addresses to: clothing and apparel, home textile and interior decoration and textile covering a wide range of technical uses, including transportation, construction, healthcare and furniture. In a competitive global market, European companies have as main competitive advantage research and continuous innovation. Because of their unique performance and durability, textiles replace increasingly traditional basic materials and technology in areas such as construction, transport and health, with significant potential for long-term growth (Euratex, 2011).

3. Changes Undergone in the European Textile and Clothing Industry

Textile and clothing industry has a strong tradition in Europe, with the highest production until 2010 (World Trade Organization, 2014). Reducing the number of employees in the industry began even before 2005, but it was accentuated by the 2008 financial crisis and the rising cost of transport and raw materials that caused the loss of jobs for about 50% of employees in the area over the last decade. The number of employees decreased by over 55% in Spain, France, Germany, the Czech Republic, the largest decrease was recorded in the UK: 67% (Adinolfi and Andersen, 2011). Nonetheless, the textile and clothing industry in Europe still over 1.6 million employees (Euratex, 2015). Companies with fewer than 50 employees represent more than 90% of the workforce in Europe, and the average number of employees in a company is 10 people (Adinolfi and Andersen, 2011).

The liberalization of the European market for textiles and apparel from 1 January 2005 allowed entrance on various markets, leading to increased exports and imports. Nevertheless, it was also a controversial action as this industry concentrates a significant number of employees, especially in regions where alternative work places would be difficult to find, making it a vulnerable category in relation to the permanent changes arisen. (Folcut et al, 2009). European textile and clothing industry has undergone significant changes in recent decades due to technological change, developments in production costs, the emergence of major international competitors and the elimination of import quotas after 2005. In response to competitive challenges, the textile and clothing in Europe has undertaken a lengthy process of restructuring and modernization. The globalization and technological progress of the industry have lead to rethinking the strategy.

Increasingly many apparel retailers have emerged on the market that organized supply chains globally. Producers, in parallel, have transferred part of their production to low-cost countries in order to maintain market competitiveness. This was determined by the major differences in salaries global labour markets and high profits obtained from trade activities. Most employees in the clothing industry are represented by relatively low-skilled young women, particularly in developing countries. Women represent on average 68% of the workforce in the clothing industry and 45% in the textile industry (ILO, 2014). Working conditions in the garment industry and some activities can be difficult for female workers (Fontana Silberman, 2013). Low salaries, reduced opportunities reduced collective bargaining and low equal remuneration creates increased vulnerability for workers in this field.

The main European producers of textiles and clothing are Italy, France, Britain, Germany, Spain, Greece, Portugal, Romania, Bulgaria and Poland. The production of the first five states mentioned account for about three quarters of EU production in the field. Regarding foreign trade, about 20% of EU production is sold outside the community, despite limited access to many markets outside the European Union (CIRCABC database).

4. Methodology

This study focuses on the competitiveness of the European textile and clothing industry in the context of globalization. This study has as main research objectives, the following:

1. To analyse the evolution of the European textile and clothing industry;
2. To examine the changes undergone by the sector anterior and posterior the 2008 economic crisis;
3. To describe the dynamics of the main financial indicators of the textile and clothing industry.

The research design predominantly uses qualitative methods. The author describes and synthesizes the evolution and competitiveness of the European textile and clothing industry during the period 2007 – 2013 using statistical data from Euratex reports and own calculation and interpretation of the data.

5. Relevant Findings

Textile and clothing industry is an important part of the European manufacturing industry, playing a vital role in the economy and social welfare in many regions of Europe (Girneata et al, 2015). According to data from Euratex, in this industry there are 172,755 companies, with a total of about 1.6 million employees. Most companies in the industry are small and medium enterprises, those with less than 50 employees representing over 90% of the workforce in the industry in Europe. In 2014, textile and clothing enterprises generated a turnover of 165.3 billion Euros (Euratex, 2015).

Table 1 shows the main financial indicators characterizing the situation of European Union textile and clothing industry during the seven years from 2007 to 2013, covering the period before the emergence the economic crisis so far. Both textiles and clothing were included in the same analysis, because they show similar characteristics and manifestations in times of turbulence. Data were taken from Euratex reports and calculations were made by the author. The figures for the textile section include also the synthetic fibbers sector.

Table 1: European Union Textile and Clothing Industry Indicators 2007 - 2013

	2007	2008	2009	2010	2011	2012	2013	2013 / 2007 (%)	2013 / 2012 (%)
Household consumption (bil. €): T&C	492,7	481,7	451,1	470,1	481,6	482,9	483,9	98,21	100,21
Turnover (bil. €) : - Total	205,3	194,7	153,9	163,5	175,2	168,5	166,5	81,1	98,81
Textile	110,6	104,2	79,9	88,7	94,6	91,3	91,8	83,00	100,55
Clothing	94,7	90,6	74	74,8	80,6	77,3	74,7	78,88	96,64
Investment (bil. €): - Total	6,1	5,6	4,4	4,8	4,4	4,2	4,1	67,21	97,62
Textile	3,7	3,4	2,5	3	3	2,8	2,8	75,68	100
Clothing	2,4	2,2	1,8	1,8	1,4	1,4	1,3	54,17	92,86
Employment (1000 pers.): - Total	2.485	2.331	2.033	1.879	1.772	1.733	1.664	66,96	96,02
Textile	957	888	778	732	674	658	634	66,25	96,35
Clothing	1.528	1.443	1.255	1.146	1.098	1.075	1.030	67,41	95,81
Companies (nr):- Total	189.411	181.943	188.464	191.460	186.101	179.944	172.662	91,16	95,95
Textile	57.057	54.555	54.281	56.444	56.175	54.793	52.767	92,48	96,30
Clothing	132.354	127.388	134.183	135.015	129.926	125.151	119.895	90,59	95,8
Extra-eu trade balance (bil. €): - Total	-43	-44	-45,2	-51,3	-56	-48,9	-49,9	116,05	102,04
Textile	-2	-2	-1,9	-3,9	-5,6	-3	-3,8	190	126,67
Clothing	-41	-42	-43,3	-47,3	-50,3	-45,9	-46,1	112,44	100,44

Source: Author's calculations based on statistics provided by the Euratex Reports

Of the total number of 172,755 companies in the industry, about 120,000 are clothing companies (Euratex, 2015), employing 1.02 million people and generating a turnover of 75.6 billion Euros. The companies producing garments are mostly located in Southern and Eastern Europe, and for those countries, light industry plays an important role in the national economy. About 99% of these companies are small and medium enterprises (SMEs), which means that these firms are characterized by flexible organizational structures, creativity and rapid response capacity to market needs. However, their small size is an impediment in accessing loans for modernization or research and development and also makes them vulnerable to turbulence in the economic environment, which explains the difficulties faced by the sector during the crisis (Girneata, Potcovaru, 2015). European textile industry provides fabrics, knitting yarn, sewing clothing and other materials to garment producers. This totals approximately 53,000 companies that employed 614 000 people and generated a turnover of € 89.7 billion in 2014. The figures represent the calculations made by the author based on data provided by Euratex 2015 report, totalling textiles and synthetic fibers. Textile sector has similarities with that of clothing industry, meaning that there are mostly SMEs on the market, which have undergone significant changes during the crisis, reducing the number of companies, but also the number of employees in these companies.

According to data presented in Table 1, the domestic consumption of textiles and garments in the European Union has recorded a steady increase since 2010, reaching 483.9 billion Euros in 2013. It also reveals that there is a deficit of around 1.8% of this indicator in 2013 compared to 2007, the year before the outbreak of the economic crisis.

Turnover fluctuated during 2007 - 2013, registering a value approximately 20% lower in 2013 compared to 2007, of only 166.5 billion Euros. It can be noticed a more pronounced decrease in the case of the clothing sector, which, in 2013 recorded a turnover of 20 billion Euros less than the value in 2007.

One possible cause of the reduction in the European textile and clothing industry turnover may consist in the reduced investments in the field. In 2013, these were at about 67% of the level recorded in 2007. According to the data presented, in the case of the garment sector there is a dramatic decrease in investments in 2013: only 1.3 billion Euros compared to 2.4 billion Euros in 2007.

As a consequence of the decrease in investments, the number of companies in the textile and clothing sector was reduced with about 17,000 in 2013 compared to 2007. In percentage, the decrease was approximately 7.5% for textiles and 9.5% for clothing. The number of employees in industry also decreased constantly throughout the analyzed period. During the seven years for which data were collected, the number of employees decreased by 821 000 people, which represents about 1/3 of the total number of employees in 2007.

The extra European Union trade balance indicators show that throughout the 2007 - 2013 period, imports from outside the EU countries exceeded the exports of textile and clothing products. There is an enormous deficit of trade balance in the case of the garment sector, of approximately 46.1 billion Euros, while in the case of textiles the deficit was 3.8 billion Euros in 2013. Still, this represents nearly double the value of the indicator in 2007.

6. Conclusion

Phenomena such as globalization, including liberalization, relocation, international outsourcing, and development of the Internet have had a major impact on the structure and dynamics of the textile and clothing industry in Europe, and in particular on small and medium enterprises. Also, relocation, subcontracting and outsourcing of large European textile and clothing brands have contributed significantly to increased imports from low-cost countries. The competitiveness of the textile and clothing sector fell rapidly determining the restructuring of the sector and reducing the number of employees.

ACKNOWLEDGEMENT

This paper was co-financed from the European Social Fund, through the Sectorial Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/138907 "Excellence in scientific interdisciplinary research, doctoral and postdoctoral, in the economic, social and medical fields - EXCELIS", coordinator The Bucharest University of Economic Studies.

References

- Adinolfi, R., Andersen, T., (2011), *Task 1: Survey of the situation of the European textile and clothing sector and prospects for its future development*In-depth assessment of the situation of the T&C sector in the EU and prospects, final report ENTR/2010/16 prepared for the European Commission, Enterprise and Industry DG, Brussels
- Fernandez-Stark, K., Frederick, S., Gereffi, G. (2011), *Skills for Upgrading: Workforce Development and Global Value Chains in Developing Countries*, Duke University, North Carolina
- Bruce, M., Daly, L., (2006), *Buyer behaviour for fast fashion* *Journal of Fashion, Marketing and Management*, Vol. 10(3), pp. 329–344.
- Euratex (2011), *Responses from the European Textile and Clothing Industry, represented by EURATEX, to the consultation on the EC Green Paper on a common strategic framework for EU research and innovation funding*, Bruxelles
- Euratex (2015), *The EU-28 Textile and Clothing Industry in the year 2014*, Available online at:
http://euratex.eu/fileadmin/user_upload/documents/key_data/fact_and_figures_2014.pdf
- Folcut, O., Pociovalisteanu, D.,M., Despa, R., Mustea, R., Ivanscu, I., Ivanescu, M.M., (2009), *Industria de textile și confecții din România*, *Analele Universității "Constantin Brâncuși" din Târgu Jiu, Secțiunea Economie*, Nr. 3/2009, pp 239 – 256
- Fontana, M., Silberman, A., (2013), *Analysing Better Work data from a gender perspective: A preliminary exploration of worker surveys with a focus on Vietnam*, *Better Work Discussion Paper Series No. 13*, Geneva
- Giurgiu, A. (2008), *The leading economic sectors building comparative and competitive advantages in Romania's foreign trade*, **Economie teoretică și aplicată/Theoretical and Applied Economics**, no. 5(522)/2008, București, 2008, pp. 11-44
- Girneata, A., Giurgiu, A., Dobrin, C., O., Popa I., Popescu I. D., Cuc S., Voicu L., (2015), *Performance management practices in Romanian textile and clothing companies*, *Industria Textila*, Vol. 66, Nr. 2, pg: 108 – 113
- Girneată, A., Mașcu, M., (2014), *Development Discrepancies Between Western and Eastern EU Countries, A Statistical Analysis of Textile and Apparel Clusters*, *Proceedings of the 8th International Management Conference "Management Challenges for Sustainable Development" November 6th-7th, Bucharest, Romania*, pp: 434 – 442, Available online at: <http://conferinta.management.ase.ro/archives/2014/pdf/43.pdf>
- Girneată, A., Potcovaru, M., (2015), *The Influence of Organizational Culture in Increasing the Performance of Textile and Clothing Companies*, *The 4th Multidisciplinary Academic Conference in Prague, Czech Republic, "Proceedings of The 4th MAC 2015"*,
- ILO, (2014), *Wages and Working Hours in the Textiles, Clothing, Leather and Footwear Industries*, *Issues Paper for discussion at the Global Dialogue Forum on Wages and Working Hours in the Textiles, Clothing, Leather and Footwear Industries*, Geneva
- Kenneally, I., (2014), *New Sourcing Survey: Expect Rising Costs and Narrowing Margins*, in (online) *Sourcing Journal*, 24 Mar. 2014
<https://www.sourcingjournalonline.com/tag/merchandise-margin>
- Masson, R., (2007), *Managing complexity in agile global fashion industry supply chains*,

International Journal of Logistics Management, Vol. 18(2), pp. 238–254.
Nordås, H.K., (2004), *The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing*, World Trade Organization Geneva, Switzerland,
Rossi, A., (2013), *Does Economic Upgrading Lead to Social Upgrading in Global Production Networks? Evidence from Morocco* World Development, Vol. 46, pp. 223–233