

THE IMPACT OF THE ACCESSION TO THE UE ON THE ROMANIAN TEXTILE INDUSTRY

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ABSTRACT. This paper deals with the impact of Romania's accession to the UE on the companies in the textile sector. At the moment of the EU accession and in the following period, the Romanian economic environment will be subject to a number of modifications that will most definitely affect the textile industry as well as the companies involved in this field.

I. Introduction

This study deals with the impact of Romania's accession to the UE on the companies in the textile sector. At the end of 2004, there were 7,211 textile companies of which 273 large ones, 1070 medium ones, 1.478 small ones and 4.390 small enterprises².

At the moment of the EU accession and in the following period, the Romanian economic environment shall be subject to a number of modifications that will most definitely affect the textile industry as well as the companies involved in this field.

The central part of present paper it is based on answering four questions:

1. Why was the lohn system introduced in Romania after 1990?
2. Why did the great international companies choose the lohn system and why did they choose the Romanian factories?
3. What changes will there occur in the Romanian economy upon the accession to the EU? Will these changes make the Romanian lohn system disappear?
4. What will happen to the Romanian companies after the disappearance of the lohn system?

II. Material and methods

In order to a closely identification for some problems and the specific ways to solve those it is been used exploratory research. To obtain information about situation already existing on the market it is been used descriptive research.

III. Discussions

According to the declarations of the people in the field (Maria Grapini, president of FEPAIUS), over 84% of the companies involved in the textile industry work exclusively in lohn and a great part of them produce under well-known international brands (Kenzo, Givenchy, Valentino, Versace and many others). The work performed in lohn is done according to the following pattern: the foreign company uses only Romanian workforce, the raw materials, technology and know-how are imported. The worldwide textile producers have preferred to bring the raw material to their Romanian lohn partners and to take the finished products after a certain period of time established in the agreements.

The Romanian textile industry has a long tradition and experience, as well as a good fame around the world as its products are present in many countries of the world. This was possible

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² Igor Drag, 345.000 de români în industria lohn-ului până în 2007, Atac 23 aprilie 2005, pag.8

due to an initial supply with modern machines and equipment most of which were imported. If, at the beginning, the technical equipment was the same as the one used abroad, during 1981-1990 there was a dramatic drop in the technology imports. On an international level, during the same period, the mechanical textile machines became completely automatic.

Only after 1990 was there a progress in the modernization of the Romanian textile factories. This effort, though considerable, is far from ensuring a satisfactory system of technical equipment in the Romanian textile factories.

The answer to the question „**Why was the lohn system introduced in Romania after 1990?**”, is quite simple: it was the only solution of survival for the Romanian textile industry. As mentioned before, the Romanian factories were retarded from a technological point of view in comparison to the western standards. The lack of financial resources necessary for the optimal performance, of human resources capable to manage the entire business, have determined the Romanian factories to adopt widely the lohn system.

There follows naturally the question „**Why did the great international companies choose the lohn system and why did they choose the Romanian factories?**”. Obviously, these companies look for advantages by contracting the production of other companies with lower costs. Below are the main advantages of the international companies that work in the lohn system in Romania:

1. The low cost of the workforce
2. The low costs of the utilities
3. Romania’s location near Western Europe

These advantages lead to a low production cost, which, beside the Romanian companies’ gain, add up to a final production cost that is much lower than the one that could have been obtained in Western Europe.

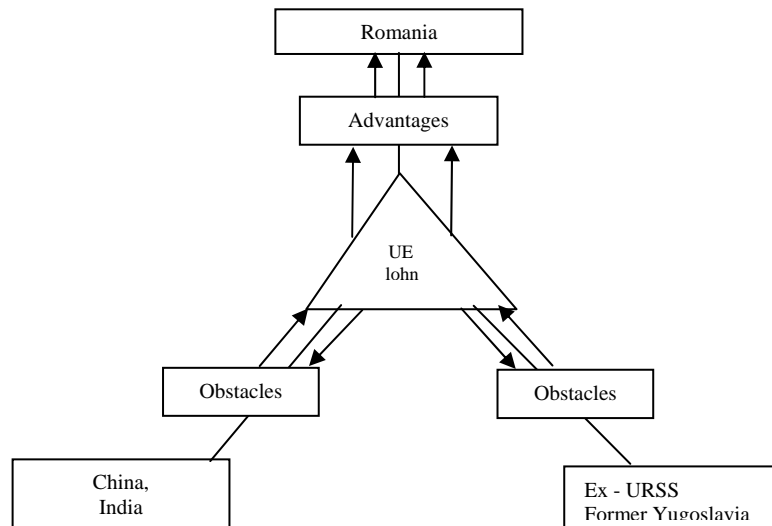


Fig. 1. Lohn migration

The advantages that Romania offers as well as the obstacles that hinder the lohn's migration to such destinations as China, India, the ex-soviet countries, Albania, Macedonia and others have made Romania the greatest textile lohn producer in Europe. This top position was occupied in the past by Yugoslavia who lost it because of the war.

Countries such as those mentioned above have certain advantages that the multinational companies search for the lohn application:

- The low cost of the utilities
- The low cost of the workforce.

The obstacles that were impeding the migration of the great companies to these countries are various. In the case of the Asian countries, the export quotas have kept for a long time the domestic production far from Europe. From this reason as well as because of the long distances to Western Europe, the big companies have avoided this area for a long time. We will see that this situation is about to change.

The other countries, members of the ex-URSS (Ukraine, Uzbekistan), as well as Albany, Macedonia, etc. Having lots of advantages for the lohn system, have been avoided due to the unknown character of these markets to the big companies and to the instability in these areas.

What changes will there occur in the Romanian economy upon the accession to the EU? Will these changes make the Romanian lohn system disappear?

The answer to this question is rather complex. Some tendencies can be clearly highlighted even this year. One may notice the tendency towards rising prices for the utilities, rising salaries due to the appreciation of the national currency in comparison to the European one. These tendencies will be more obvious around 2007 and after.

If these tendencies will be maintained and this is a sure thing, it can be easily noticed that Romania's advantages tend to disappear. It is possible that in a very short time, Romania will be forced to waive the lohn production leading position in favor of other countries where the working hours cost less. According to statistics, the Romanian employees are paid EURO 1,1 per hour, while the European average is EURO 18 per hour. Countries such as Poland with EURO 3 per hour and Turkey with EURO 2 per hour have already lost the lohn system. The most attractive countries at the moment seem to be China with EURO 0,47 per hour, India with EURO 0,43 per hour, Macedonia and Albany with EURO 0,3 – 0,4 per hour.³

It may be easily noticed a **general lohn migrating tendency** from the western to the eastern part of Europe according to the successive accession of the countries to the European Union.

The disappearance of the advantages offered by our country is not as sufficient reason for the lohn migration as it must be correlated with the total or partial disappearance of the obstacles from the destination countries.

As far as the Asian area is concerned, one of the obstacles represented by the export quotas disappeared on 1 January 2005 when, at a global level, there was implemented a measure stipulated for some time, that is the total abolishment of the quota system for the imports of textiles. This measure opened the way to the imports from Asia as well as to the interest of the big companies for the cheap workforce in these areas.

The other obstacle, namely the big distance from the production place to the sales point cannot be totally eliminated in the following period. All that can be done is the improvement of the transport systems.

³ Doicin Anca, Aderarea la UE fatală pentru firmele de lohn, Capital Nr. 45, 4 noiembrie 2004

All the above present the Asian area as a powerful competitor as concerns the implementation of the lohn systems in those areas.

For the ex-soviet countries as well as for those in the area of the ex-Yugoslav Republic one may notice a stabilization of the political situation; things are beginning to settle, the democracy is being instituted so that the barriers existing in these areas disappear gradually. The transport from these countries to Western Europe is not a problem caused by the distance due to the situation on the continental platform.

To sum up, it is considered that the lohn system will migrate toward these areas when the **costs of migration become lower than the gains obtained from this move.**

What will happen to the Romanian companies after the disappearance of the lohn system?

According to the analyses performed until now, it is certain that at the moment when the price of the Romanian market rises over the price that the western companies are willing to pay, the latter will look for other markets for their operations. What we do not know is when this migration starts and how long it will take, if it has not started already.

In order to be able to provide an answer concerning the future of the Romanian companies that used to work in the lohn system after its disappearance, one should analyze the pros and cons of the adoption of lohn.

Advantages	Disadvantages
Offering certain contracts	Lack of own brand
Offering a constant gain	Dependence on a sole client in many cases
Certain sales	Lack of research departments
The benefit of modern technologies	Lack of contracts with the suppliers of raw materials
The provision of raw materials	
The provision of the capital necessary for the production as well as for the modernization of the production process	
Obtaining know-how from worldwide famous companies	
Educating and specializing the Romanian workforce	

A short time ago the Romanian textile factories functioned untroubled counting on certain contracts and depending on raw materials of good quality; the finished products were collected at the gate of the factory so that the sales were not a current issue, and the capital necessary for the production process as well as for the last minute technologies was provided, all these leading to a constant gain.

When the European partners leave, the Romanian companies will find themselves in the situation in which they will have no contracts and nothing to produce for. Having no collections of their own, no image, and the Romanian companies would have no customers even if they tried to produce something.

The Romanian companies will find it had to recover because they will have to take it all from the beginning. They will have to create their own purchasing system, create their own collections and find markets where they may construct a favorable image.

Certainly, many of these companies, especially the slams enterprises and the small companies will not be able to recover and will be shut down. For the surviving ones, there are still chances. Benefiting of modernized factories, of know-how obtained from famous companies

that act in the textile market for a long time, as well as of the qualified and educated workforce, they will have to build up a modern business that may compete with the EU companies.

The solution everyone agrees on is that the textile companies start producing under their own brand. It is easy to say, but hard to do for it takes time in order to impose a brand on the market and this is a resource that our companies do not really dispose of. Besides, the Romanian companies do not have the infrastructure specialized in acquisitions, market research, do not have the necessary capital for developing their own collections and brands and lack the possibility to procure quality fabrics on the domestic market because the factories were closed. According to official data, if in 1989 Romania had a production of 282.000 tons of threads for fabrics, in 2001 the production represented only 45.000 tons of threads, while the natural silk production that was of 90.000 tons in 1989, was stopped at the level of 2001.

The companies should create their own purchasing system of raw materials, should establish contacts with foreign suppliers, for the domestic ones are growing fewer, should create organized research and development and marketing departments.

There are some positives examples of Romanian companies which have a brand and seals on the commune market in UE. At the end of 2002, Tricotaje Someșul, together with Italian stylists, launched a new line of products for foreign markets and the domestic market. The new brand is called "Modo" – for a luxury class. About 70% of current production is being exported in Western Europe and Russia, and the lohn production was reduced to a small percentage of total exports. Another Romanian brands on European market are "Jolidon" in France and Italy, "Marion" and "Mary's Style", "Seroussi" and "IDSarrieri". After 1990 the companies that holds this brands, were producing in lohn but in time they created their own collections.

Since the great majority of the production at this moment is for export purposes, the domestic market is lost for these producers. Selling in the EU and USA markets implies the procurement of a number of quality and environment certificates.

The domestic market seems lost for these companies in the face of the Asian imports especially after the total liberalization of the world trade with textiles-clothing. There is no market in Romanian at this moment for the domestic products. Too many products are manufactured that the domestic market cannot absorb. The specialists maintain that, unless one has his own network of shops, one cannot adapt the price of the products according to the market conditions, cannot withdraw a product that does not sell; all in all, one does not have many chances.

The articles imported from Asia have a much lower price than those produced in Romania, however they are not of a very good quality. A few years ago the Japanese industry had a bad image making low quality goods. These days everybody will say that a product made in Japan, certainly is a good quality. If China and India will follow the Japanese example, they will become a strong competitor. They are addressed especially to the persons with low revenues. Another competitor on the domestic market is the second-hand market.

The EU accession will also bring about a series of advantages for the textile sector in Romania:

- ✘ The access from a market of 23 million to one of 450 million, which is on the first place in the world as concerns the import of textiles and clothing products.
- ✘ The access to other countries' markets with which the EU will sign preferential agreements.
- ✘ The access to the pre-access EU funds and, after the access, to the community funds.
- ✘ The foreign investments as a result of the EU member status.

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IV. Conclusions

- ✘ Sooner or later the lohn system will be moving from Romania to another countries;
- ✘ Some of the Romanian companies will disappear and the surviving ones should make a good business strategy;
- ✘ The Asian firms will become powerful competitors on both domestic and foreign markets.

And suggestions

- ✘ The solution everyone agrees on is that the textile companies start producing under their own brand;
- ✘ Under this new brand the companies should be present on both domestic and foreign markets;
- ✘ The companies should create their own purchasing system of raw materials
- ✘ The companies should create organized research and development and marketing departments.

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