THE EMPLOYMENT SITUATION IN SME IN THE ROMANIAN TEXTILE AND CLOTHING INDUSTRY

MARIUS BOTA¹, CARMEN GUT²

ABSTRACT. It is well-known that the development of a country, the improvement of man’s material and moral well-being, in one word his freedom and happiness depends on work.

This problem is more urgent for the Romania, because of the fact that the adherence to EU structures supposes to create an efficient framework of approach the problems of the labour market, according to the predictable evolutions of the national and European economic area.

In present, a very important issue is the employment problem in manufacture industry, especially in textile and clothing industry. This sector is very important for our country because it contributes almost with 20% from the Romanian total export and absorbs 1/5 from the total employment in Romanian industry.

Keeping in mind the above-mentioned facts, the present paper aims to analyze the matter of Romania’s employment in textile and clothing industry for the time span of 1991-2005, attempting to observe the dimensions and evolutions of the problems our country faces under these aspects. The paper is structured as it follows:

In the first part, we are going to analyze the changes that have appeared in Romania’s employed population structure throughout the country’s transition period towards the market economy.

The second part covers the matter of employment in textile and clothing industry, analyzing the main causes that have lead to the decrease of the employment in that sector. In the same time, we are going to analyze the structure of employment both in textile and clothing sector by size of enterprises and time periods.

At the end of the paper, we are going to analyze the perspectives of the employment in these sectors in the context of the European Integration.

KEYWORDS: employment, textile and clothing industry, labour force.

JEL CLASSIFICATION: J21, L67, M12.

Introduction

The textile and clothing sector is one of the oldest in the world. The oldest known textiles products, which date back to about 5000 B.C., are scraps of linen cloth found in Egyptian caves. The activity was primarily a family and domestic one until the early part of the 1500s when the first factory system was established.

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It wasn’t until the Industrial Revolution in England, in the 18th century, that power machines for spinning and weaving were invented.

According to a GfK study made for Wall Street Journal Europe\(^3\), four out of five Europeans and Americans buy clothes because they need them. So we can notice that the clothing industry is a very old and important industrial sector all over the world. The clothing industry is a very global industry, with constantly increasing trade flows all over the world.

In 2005 the world trade in textile and clothing products with a value of 479 billions dollars represent 4.7 % from the world merchandise trade and a share in total manufactures world trade of 6.6 percentages.

The Romanian clothing industry has a long tradition and experience from the 19th century, as well as a good fame around the world as its products are present in many countries of the world.

This was possible 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 clothing factories. This effort, though considerable, is far from ensuring a satisfactory system of technical equipment in the Romanian factories.

**Material and methods**

To realize this paper we used information from Romanian Statistical Yearbook, from WTO for International trade statistics and Eurostat for European statistics.

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.

**Results and Discussion**

The Romanian industry is composed from three big parts:
- mining and quarrying industry with a quota of 4.6% in total industry in 2004;
- manufacturing industry with a quota of 79.4% in total industry in 2004;
- electric and thermal energy, gas and water with a quota of 16.0% in 2004.

In Romania, the evolution of the process of changes in employment evolution appears as in the following graph:

\(^3\) http://www.gfk.com/group/press_information, “We buy clothes because we need them”, 2006
As one may observe in the figure above, the evolution of the GDP growth has been fluctuating – decrease (1990-1993), followed by a short period of positive growth (1993-1996), and decrease again until 2000, which is the first year of real economic recovery. The general trend of the employment has been of decreasing.

The employment evolution also varies by sectors: generally, in the transformation economies, certain sectors are more dynamic (e.g. services), while other sectors decline concerning the employment (e.g. agriculture, industry).

In Romania, employment in the industry sector, including manufacturing industry, has registered the highest decrease (e.g. between 1990-2004, chemical industry, -72.1%; machines and electrical equipment, -49.6%; food and drink industry, -37.8%). This decrease of employment means that the job destruction rate prevailed over the job creation rate during the whole period 1990-2004.

The textile and clothing industry is a major part of the manufacturing industry and has two components: the textile industry and the clothing industry. It can be say
that the majority of the textile products are the raw material for the companies from clothing industry. In order to establish the role of the textile and clothing industry for the Romanian economy it is sufficient to look at the following statistics.

In 2005 Romania takes the 11 position in TOP 15 World suppliers in clothing with a 1.7% of the world market. The UE-25 is, by far away, the most important Romania’s partner in clothing trade. The clothes made in Romania are present on UE-25 market and take a 6.7 market share. With exports in value of 3.6 billion EURO in 2005, Romania is the third clothing UE-25 supplier after China and Turkey.

With a value of 4.218 million Euros in 2005, the exports of the textile products and clothing represented almost 19% of the Romanian total exports. Another important fact is the high capacity of the textile and clothing industry to absorb the workforce. Having 344.000 employees, the companies from that industry absorb 20% of the total employees from the Romanian industry.

In Romania, the evolution of the of average number of employees in textile and clothing sector appears as in the following graph:

![Graph](image)

**Fig. 3.** The evolution of average number of employees in textile and clothing sector, during the time span 1990-2005

A main characteristic of the textile and clothing industry is the fact that using a huge number of employees, especially in clothing companies, the cost of labor force represents a big quota of the total production cost.

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<tr>
<th>Table No.1</th>
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<table>
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<tr>
<th>The evolution of average number of employees in textile and clothing sector</th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
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<tbody>
<tr>
<td>Textiles</td>
<td>414</td>
<td>185</td>
<td>95</td>
<td>98</td>
<td>91</td>
<td>84</td>
<td>78</td>
<td>67</td>
</tr>
<tr>
<td>% textile in total T&amp;C industry</td>
<td>61.6</td>
<td>49.5</td>
<td>26.7</td>
<td>25.3</td>
<td>23.2</td>
<td>21.7</td>
<td>21.7</td>
<td>20.6</td>
</tr>
<tr>
<td>Clothing</td>
<td>258</td>
<td>189</td>
<td>261</td>
<td>290</td>
<td>302</td>
<td>303</td>
<td>281</td>
<td>259</td>
</tr>
<tr>
<td>% clothing in total T&amp;C industry</td>
<td>38.4</td>
<td>50.5</td>
<td>73.3</td>
<td>74.7</td>
<td>76.8</td>
<td>78.3</td>
<td>78.3</td>
<td>79.4</td>
</tr>
<tr>
<td>Textile + clothing (T&amp;C) industry</td>
<td>672</td>
<td>374</td>
<td>356</td>
<td>388</td>
<td>393</td>
<td>387</td>
<td>359</td>
<td>326</td>
</tr>
</tbody>
</table>

As we can see from the Table No. 1, in 1990 the average number of employees in textile and clothing enterprises was about 672,000. In 2005, we can notice that this number has decreased to half of the number registered at the beginning of the transition time (1990). The principal cause of this situation is the decrease of the national production in textile sector. 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.

In 1990, the textile enterprises had 61.6% from total employment in textile and clothing industry, remaining for the enterprises involving in clothing sector only 38.4%. In 2005, we can observe that this situation is different from the beginning of ‘90s, the total employment in textile industry representing only 20.6%.

At the end of 2006, there were 9,487 textile and clothing companies of which 9,166 SMEs (Table No. 2), these companies representing almost 97% from total enterprises in this sector.

<table>
<thead>
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<tr>
<td>Romanian textile and clothing enterprises in 2006</td>
</tr>
<tr>
<td></td>
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<tr>
<td>Textile industry</td>
</tr>
<tr>
<td>Clothing industry</td>
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<tr>
<td>T&amp;C industry</td>
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Due to the companies from clothing sector, the Romanian textile and clothing industry has survived in the transition years.

According to the declarations of the people in the field, over 80% of the companies involved in the clothing industry work exclusively in outward processing trade system – OPT (in Romania OPT is called “lohn system”), 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 clothing producers have preferred to bring the raw material to their Romanian partners and to take the finished products after a certain period of time established in the agreements.

OPT was an established practice in the Northern European countries at the beginning of the 1990. During the nineties OPT has expanded massively in Germany, Belgium and French companies at the beginning and later in Italian, British and Greek firms. Only for Portuguese and Spanish firms the OPT is a recent practice.

There follows naturally the question „Why did the great European companies choose the “lohn system” (OPT)?” Obviously, these companies look
for advantages by contracting the production of other companies with lower costs (the low cost of the workforce and the low costs of the utilities).

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

Another question is: „Why was the “lohn system” introduced in Romania after 1990?”. It is quite simple: it was the only solution of survival for the Romanian textile and clothing industry. 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 Romanian factories?”. Obviously, these companies look for advantages by contracting the production of the Romanian 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.

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.

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.

Since 1 January 2005, The WTO Agreement on Textile and Clothing no longer exist. There was implemented a measure stipulated for some time, that is the total abolishment of the quota system for the imports of textiles and clothing.

Before the Agreement took effect, a large portion of textiles and clothing exports from developing countries to the industrial countries was subject to quotas under a special regime outside normal GATT rules. Under the Agreement, WTO
Members have committed themselves to remove the quotas by 1 January 2005 by integrating the sector fully into GATT rules. The sector was fully integrated into normal GATT rules, and importing countries are no longer being able to discriminate between exporters.

The total liberalization of the world trade with textiles and clothing 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 Asian firms (Chinese, Indian) and the companies from Turkey became powerful competitors on both domestic and foreign markets. China is the biggest player on the UE-25 market with a share of 31.5% in the European market. China is the most competitive production base for the time being due to an immense oversupply of labor in the rural provinces and young educated workers who make possible the keeping of the wages at very low levels.

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

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 become 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.

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 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 and 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 a 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.

**Conclusion**

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. Sooner or later the “lohn system” will be moving from Romania to another countries and some of the Romanian companies will disappear and the surviving ones should make a good business strategy.

Most certainly, many of the Romanian clothing companies, especially the slams enterprises and the small companies will not be able to recover and will be
shut down. The specialists from the clothing sector consider that 40% of the Small and Medium Size Enterprises involving in this sector will disappear from the market in 2007. For the surviving ones, there are still chances.

One of the main advantages for the Romanian enterprises, which worked in "lohn system”, is the educating and specialization of the labor force. The most visible problems of the textile and clothing industry seems to be:

- The imminent disappearance of the “lohn system”
- The increasing cost of the workforce and utilities
- The strong competition on the UE market from domestic firms and Asia’s firms
- The lack of the specialists and non-specialists because of the emigration
- Faked products.

By using their own strength and benefiting of know-how obtained from famous companies that act in the clothing sector for a long time, as well as of the qualified and educated workforce, the Romanian companies will have to build up a modern business that may compete with the EU companies.

The companies should create their own purchasing system of raw materials and create organized research and development and marketing departments.

The solution everyone agrees on is that the clothing companies start producing under their own brand. Under this new brand the companies should be present on both domestic and foreign markets.

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