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Textiles in Central Eastern Europe and Russia: A comparative analysis in the European context

Doris Hanzl and Peter Havlik

The Vienna Institute for International Economic Studies (WIIW)¹

Abstract

This paper deals with the situation of the textile sector in Russia and Central Eastern Europe, as well as with their EU trade in textiles. It gives a comparative analysis of the main sectoral economic trends, in particular regarding production and employment, factors affecting the competitiveness and the key features of the trade with the EU. The sector plays a relatively important role in economies of most CEECs (especially regarding employment and foreign trade), but is much smaller in Russia. There is also a significantly lower output per employee in Russia: the labour productivity is about 20% below the CEECs' level.

Textile sector exports from the CEECs take a prominent position on the European market, whereas those from Russia are extreme small. While the sector records trade surpluses with the EU in the CEECs, Russia has a large trade deficit in this

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field. The price and quality of Russian textile exports to the EU are worse than in most other CEECs, and generally worse than average EU imports of this industry. Recently, prices of textile exports from the CEECs have improved, whereas those from Russia deteriorated. The sector is not very much affected by EU's *acquis communautaire*, except for parts of the environmental *acquis*. Russian textile sector does not seem to have a great growth potential; it is also not very interesting for foreign investors.

KEYWORDS: Transition economies; textiles; Russia; Central and Eastern Europe

JEL classification: F13, F21, L67

Introduction

Under the command economy, the textile sector was - on the one hand - generally neglected due to the systemic bias towards heavy industry. On the other hand, the Central and East European Countries (CEECs) and Russia were linked by the Council for Mutual Economic Assistance (CMEA) through the exchange of finished products from CEECs (mostly engineering products but also clothing) versus cheap raw materials from the Soviet Union. However, these ties broke up with the collapse of communism in 1990. Since then the CEECs re-oriented their trade towards the European Union (EU) and were - more or less - forced to change their industrial policies, especially regarding foreign direct investments (FDIs). FDI inflows contributed to active industrial restructuring and helped the CEECs to move up the 'quality ladder' towards more sophisticated industrial segments, such as electrical engineering or transport equipment. However, the textiles sector has not been a prominent target for foreign investors as other forms of international production integration - that is outward processing (OP)² - are preferred.

² *Outward processing (OP) is a form of international co-operation on a contractual basis between independent firms from different countries. The contractor exports mainly semi-processed goods (fabric, cuttings or semi-finished garments) to the subcontractor, who refines, assembles or finishes the product which is then re-imported to the contractor's country. Trade for this purpose is called outward processing trade (OPT). OPT benefited from special, softer regulations in trade between the EU and the CEECs: First, tariffs were levied on value added only. Second, beginning in March 1992, the Europe Agreements abolished tariffs for most categories of textiles and clothing imported after outward processing, which was then extended to all products in December 1994. Consequently, imports related to non-OP co-operation agreements (mainly subcontracting) and to FDI were at a disadvantage. These different regulations for OPT clearly benefited EU producers and discriminated against genuine Eastern European products. The differences vanished by 1 January 1997, when tariffs*

The CEECs have rapidly become the tailor's shop for Western Europe (especially Germany, France and Italy), whose textile sector had been in the process of restructuring already since the 1970s. Troubled by high wages, stagnating demand and strong competition from low-wage countries in Asia, Western companies have shifted labour-intensive production stepwise to the East, thus helping to slow down the decline of the sector in the CEECs. Bulgaria and Romania, the less advanced countries among the CEECs, still benefit from low wages and hence OP is gradually shifting there. Although Russia has even lower wages, OP has not moved there (yet?), as the institutional and market conditions are still unfavourable. The pressure for change was generally lower in Russia than in the CEECs. The overall industrial restructuring was largely passive and hence the Russian economy remains dominated by resource-intensive sectors (metals, fuels), while labour intensive branches play a negligible role.

This study provides a comparison of the 'textiles and textile products' sector, in short textile sector,³ between Russia and the seven Central and Eastern European Countries (CEECs), including Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia.⁴ It gives a comparative analysis of the main sectoral economic trends, in particular regarding production and employment, factors affecting the competitiveness and the key features of their trade with the European Union (EU). Data come from the WIIW Industrial Database - Central and Eastern Europe (IDB-CEE), from Russian Goskomstat (detailed Russian data are currently available only until 1999) and from the EUROSTAT Comext Database (EU foreign trade statistics).

Textile sector: an overview

The textile sector plays a relatively important role in the economies of the CEECs: in the year 2000 it turned out a total production volume of EUR 11.4 billion (at

on non-OP imports were removed as well. After the elimination of trade barriers between EU and CEECs the advantages associated with OPT were reduced – see Revue Elargissement (2002).

³ In the NACE rev. 1 classification system (Statistical classification of economic activities in the European Community) the textile sector denotes the sub-section 'DB', which consists of two industries: 'textiles' (17) and 'wearing apparel; dressing and dyeing of fur' (18), in short termed the textiles industry and the clothing industry. Russian statistics also distinguish between 'textiles' and 'wearing apparel'. 'Dressing and dyeing of fur' is subsumed together with the leather and footwear sector. For a more detailed analysis of the textile sector in CEECs see Hanzl (2002).

⁴ The textile sector plays a major role in the Baltic states, especially in Estonia and Lithuania – see Havlik et al (2001).

current exchange rates) and employed a workforce of slightly more than 1 million persons. On the other hand, the Russian textile sector is significantly smaller, with a production volume of EUR 1.4 billion (year 1999), but it still employs about 730,000 workers and is highly concentrated in the Ivanovo region of Central Russia. Simply comparing the levels of production and employment between the CEECs and Russia reveals a significantly lower output per employee in Russia. With about 1.9 th EUR per worker in 1999, the Russian nominal labour productivity in the textile sector was below 20% of the CEECs level (*Table 1*).

Among the CEECs, Poland is the largest producer of textile products in terms of current production (EUR 4.6 billion in the year 2000), followed by the Czech Republic (EUR 2.2 billion) and Romania (EUR 1.4 billion – see *Table 1*). Romanian textiles production is thus of about the same size as in Russia. Regarding employment, the textile sector is of major importance due to its labour-intensive character. Romania takes the lead among the CEECs: about 360,000 persons were employed in the textile sector in the year 2000; in Poland about 310,000, and both countries together held slightly less employees than Russia. The sectoral labour productivity was highest in Slovenia and the Czech Republic (about EUR 26 th and EUR 21 th per worker, respectively).

In the CEECs, the textile sector takes a relatively small share in industrial production, but plays a major role in employment, while in Russia it plays a very small role in general: In the year 2000, the sector accounted for only 1.6% of total manufacturing production in Russia, the corresponding shares ranged between 3% to 4% in Hungary, the Slovak Republic, Poland and the Czech Republic. The sector only was slightly more important in Bulgaria, Slovenia and Romania, with production shares between 6% to 8% (see *Table 1*).⁵ In terms of employment, the

⁵ *The more capital-intensive textile industry (compared to the labour intensive clothing industry) accounts for 74% of the sector's production in the Czech Republic and 68% in Slovenia, the most advanced CEECs. In Romania, the least advanced-country, the textiles industry takes 39% of the sector's production. In Hungary and Poland, each industry accounts for approximately half of the sector's production (no detailed data are available for Bulgaria and Slovakia). See Hanzl (2002). In Russia, the share for the textile industry is 64% (1999).*

TABLE 1
Textiles and textile products in CEECs and Russia
 Overview on production and employment, year 2000

	mn EUR	Production ¹⁾ % of GDP	% of manuf. production	Employment ths. persons	% of manuf. production	Productivity th. EUR
Bulgaria	513,8	3,9	6,4	122,4	23,1	4,2
Czech Republic ³⁾	2177,5	4,0	4,6	102,0	9,6	21,3
Hungary	1324,2	2,6	3,3	101,6	13,5	13,0
Poland	4603,1	2,7	4,3	307,6	12,5	15,0
Romania ²⁾	1389,9	4,2	7,7	356,0	22,8	3,9
Slovak Republic	592,4	2,8	3,6	57,4	11,8	10,3
Slovenia ²⁾	814,1	4,3	7,3	31,0	13,8	26,3
CEEC(7)	11415,0	.	.	1078,0	.	10,6
RUSSIA⁴⁾	1374,5	0,8	1,6	732,0	6,4	1,9

Notes: 1) At current prices. - 2) Production data 1999. - 3) Production data estimated.

4) Russian data 1999. Total manufacturing estimated.

Source: WIIW Industrial Database, GOSKOMSTAT.

sector again has only a small share in Russian manufacturing (with a share of just 6.4%), whereas in the CEECs it is one of the largest employers in manufacturing.

In Bulgaria and Romania (as well as in the Baltic states) the sector ranked first in 2000, with shares of 23% and 21% respectively. In the other CEECs, the textile sector accounted for 10% to 14% and ranked second in manufacturing in Poland, Slovakia and Slovenia. In terms of GDP, the textile sector is less important and has shares between 3% and 4% in the CEECs, and of only 1% in Russia. The sector has not been an important target for FDI, some FDI went only to the Czech Republic (accumulated FDI stock of USD 204 mn as of end-2000), Hungary (USD 145 mn) and Poland (USD 250 mn).⁶ As far as the macroeconomic importance of the textiles sector is concerned, one can conclude that its current role is more important in the CEECs than in Russia (see *Table 1*).

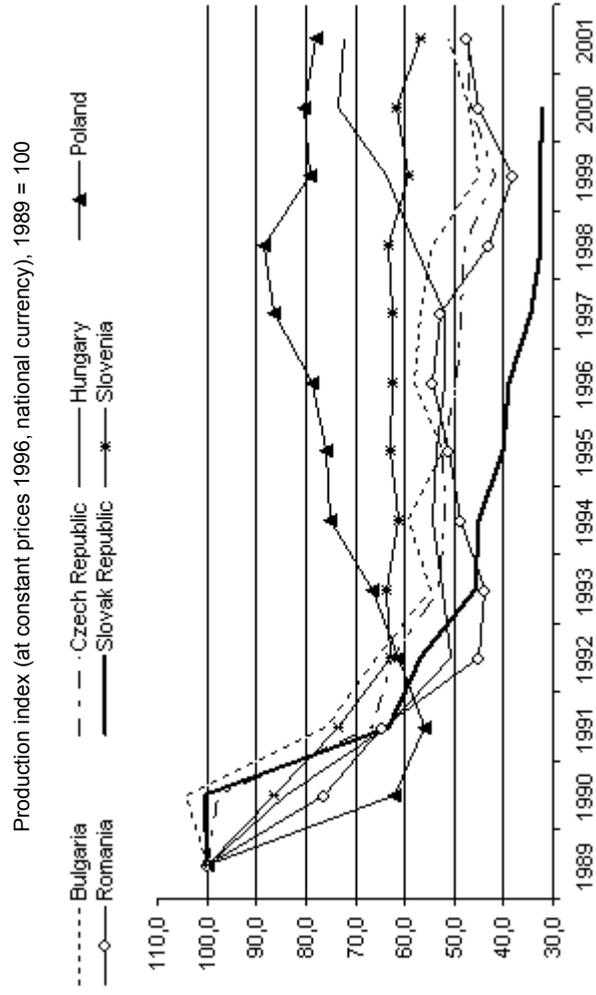
Developments of the textile sector during 1990s

After the collapse of communism, both the CEECs and Russia experienced a severe transformational recession, and the production of the textile sector declined as well. Production plummeted until 1992 in the CEECs, but it fell further until 1994 in Russia. Since then, the decline slowed down and the textile sector production stagnated in most countries, while it recovered slightly only in Poland and Hungary. Still, even in these two countries the textiles production reached only about 80% and 70%, respectively, of the 1989 level in 2000. Concerning the other CEECs, production in 2000 stood at 60% of the 1989 level in Slovenia, at 50% in Bulgaria and the Czech Republic, and was the lowest in Romania and Slovakia with just 45% and 30% respectively (see *Figure 1*).

In Russia, textile sector production dropped by nearly 80% between 1990 and 1994, and was hence one of the most severely affected segments of manufacturing. Afterwards, it stagnated at about 20% of the 1990-level until 1999. But during 1999-2000, the recovery of the textiles sector was impressive (annual growth by about 25% - see *Figure 2*). Nevertheless, Russian production decline in the textile sector during the last decade has been more pronounced than that in the CEECs – probably due to a near absence of OPT (see below).

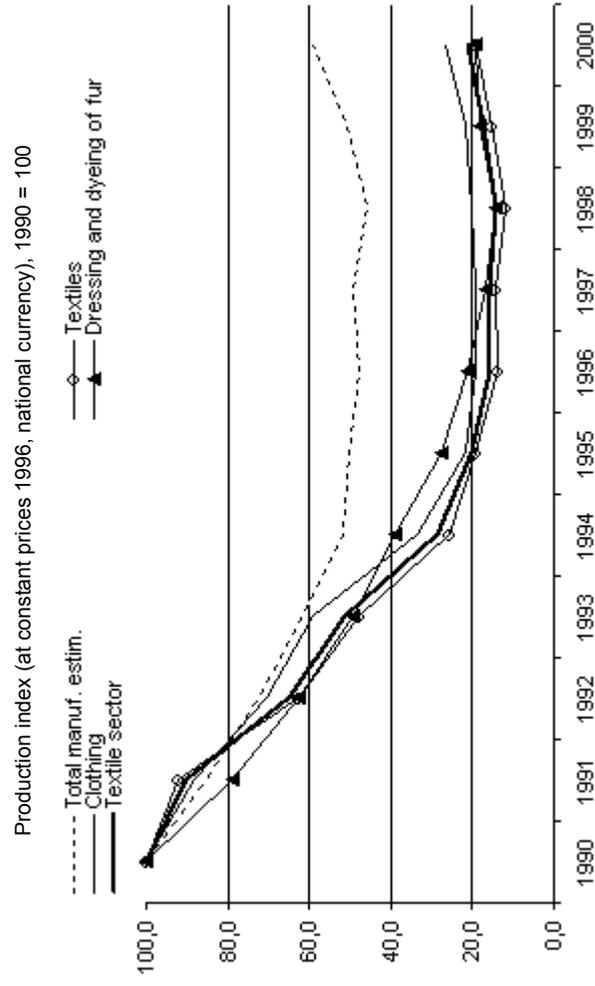
⁶ In all three countries this is less than 4% of total manufacturing FDI stocks – see *WIIW-WFO FDI Database*.

FIGURE 1
CEECs: Textiles and textile products



Source: WIIW Industrial Database.

FIGURE 2
Russia: Textiles and textile products



Source: Goskomstat, own estimates.

Compared to the performance of total manufacturing industry, the textile sector was less successful in both the CEECs and in Russia (its production declined more than total manufacturing), and hence it belongs to relative 'losers of transition'.⁷

Reasons behind initially falling and then stagnating textile production in the region include:

- In the whole region (both in CEECs and Russia), this was due to a dramatic fall in real incomes resulting in lower demand for consumer goods on the domestic market in general - whose purchase can easily be deferred. In addition, demand shifted to cheap, partly illegal imports (e.g. Vietnamese street markets, second-hand clothing, shuttle trade, etc.).⁸
- For the CEECs, the collapse of the CMEA market had a decisively negative impact on production as well, since this used to be an important target for their exports. Although trade reoriented towards the EU, market shares stagnated there due to the strong competition. In the future, competition will further increase with the removal of quotas until 1 January 2005 in the framework of the WTO Agreement on Textiles and Clothing (ACT).⁹ Especially large (and cost competitive) textiles and clothing producers such as India, Indonesia, Pakistan and above all China will challenge current CEEC suppliers to the EU.¹⁰
- In the CEECs, the clothing industry developed better than the textiles industry proper in all countries, except Slovenia (which already had too high wages for outward processing). This was due to the creation of new, private and more flexible small companies and the growth of outward processing in the clothing

⁷ 'Losers' of transition are here defined as industries that performed worse than total manufacturing in terms of production growth, 'winners' are those that performed relatively better - see Urban (1999), p.22.

⁸ See Die Presse (2002), 15 May, Trend Holding (2001), p. 48, NewsBase CEED (2000), 28 February.

⁹ In general the World Trade Organization (WTO), formerly GATT, embodies free trade. However, the Multifibre Agreement (MFA) – the only separate agreement on branch level – made the application of selective quantitative restrictions, in case of market disruptions, possible. The aim was to ease structural change and its detrimental effects on employment. The MFA set the multilateral rules under which bilateral agreements were concluded. These contained voluntary export restraints, quantitative restrictions and growth rates thereof. The MFA was in force from 1974 to 1994 and was replaced in 1995 by the WTO Agreement on Textiles and Clothing (ATC).

¹⁰ Strengg (2001).

industry, while in the textiles industry the privatization process as well as the modernization of the existing capital stocks was more difficult. In addition, imports for outward processing in clothing industry decreased the domestic market for lower quality textiles. Both industries are however lacking capital and hence investment for new technology, including foreign direct investment and are troubled by low productivity levels.

- In contrast to the CEECs, in Russia the decline was equally strong in the textiles and the clothing industry. In both sub-branches, production fell by 80% between 1990 and 1994 and has recovered somewhat only after 1998 (see *Figure 2*). The fall in clothing was not stopped by outward processing from EU countries, as CEECs (or even Belarus and Ukraine) have been the preferred partners for OPT agreements. This is due to their geographical closeness (keeping transport costs and delivery times at a minimum and providing better links and flexibility), longstanding relationships, and traditions in textiles and clothing production guaranteeing good quality. In addition, trade regulations were in favour of outward processing until 1 January 1997.
- In Russia, the improvement of domestic demand for clothing was interrupted by the Russian crisis 1998 and the purchasing power of the Russian population fell significantly. As the share of low income people increased, these turned to the cheaper open street markets (often supplied by shuttle-trade imports). In addition, import prices rose due to the rouble devaluation, thus imports decreased dramatically and customers again turned to cheap domestic products (import substitution). Production of the textile sector grew considerably only after the August 1998 crisis and achieved a rate of about 25% in both 1999 and 2000. In more detail, the textiles industry achieved higher growth rates than the clothing industry.
- The Russian textiles industry still has to cope with the problem of inadequate raw materials (e.g. cotton was formerly cheaply supplied from the Central Asian Republics, such as Uzbekistan and Kazakhstan, now import prices are rising), obsolete production equipment, the lack of capital and low disposable income levels of the population. The clothing industry is confronted with the customer's prejudice against domestic clothing designs, decreasing government orders, and a poor distribution network. In addition, barter still represents a special Russian problem.

Factors of international competitiveness

The Russian textile sector seems to have a natural competitive advantage mainly due to the low wages and hence apparently low unit labour costs (see *Figure 3*). In the year 1999, nominal wage rates of just EUR 30 per month (gross wages at exchange rates per employee) reached only 12% of the Polish level and hence were even lower than in other low-cost CEE countries like Bulgaria and Romania (30%).¹¹ In terms of labour productivity, the Russian textiles sector performs at about the same level as Bulgaria and Romania, although proper estimates are difficult.

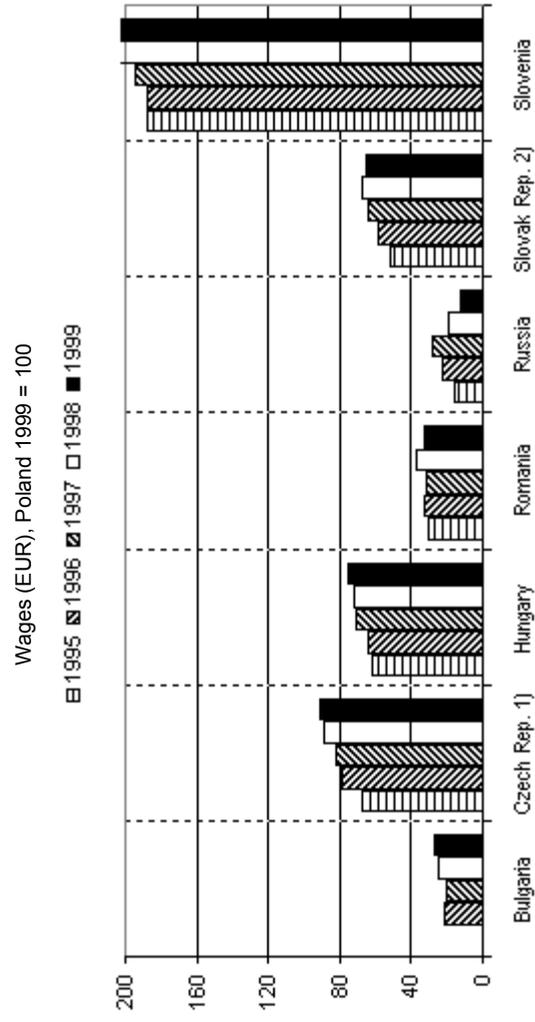
After correcting for the undervalued Rouble exchange rate (this is especially relevant in the year 1999 which is the last available for comparisons with Russia), and using the purchasing power parity for conversion of production values instead of current exchange rates, the Russian textile sector labour productivity was about 40% of the Polish level in 1999, and hence ranked at the lower end of all countries (see *Figure 3*).

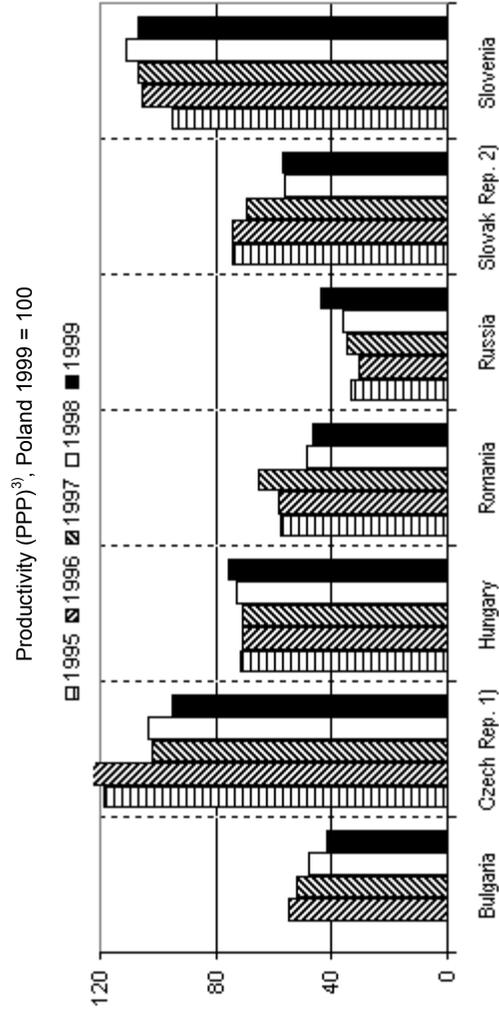
Combining relative wages and estimated labour productivity, the unit labour costs in the textile sector were lower in Russia than in CEECs, with less than 30% of the Polish level in 1999.¹² Presumably, Rouble appreciation since 1999 has eroded a significant part of Russian competitive cost advantage. In real terms, the Rouble has appreciated by about 50% between January 1999 and February 2002 (average nominal wages in EUR more than doubled), and the unit labour costs deteriorated (increased) accordingly.

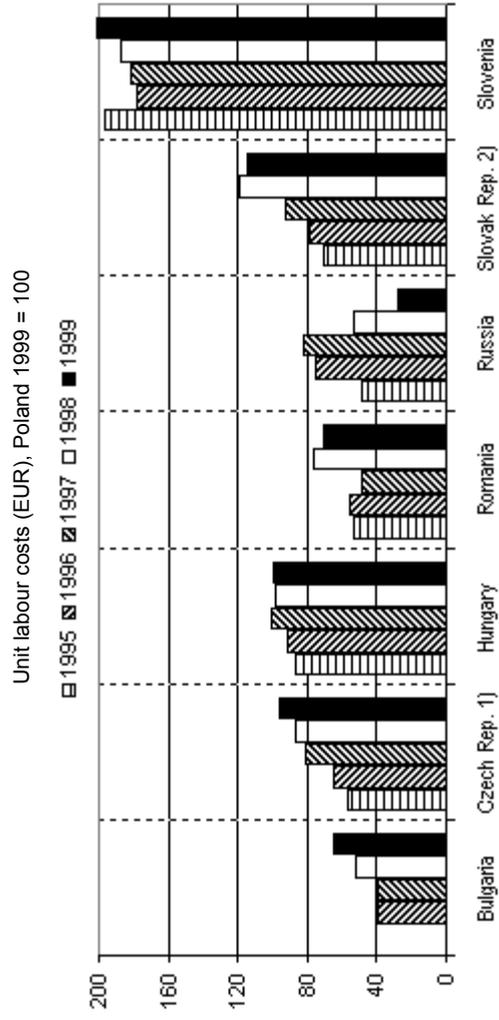
¹¹ Polish wages again are much lower than those in the West European countries. See Hanzl (2002), p. 10.

¹² In Slovenia, where wages are the highest in the region, unit labour costs reached almost 200% of the Polish level.

FIGURE 3
Textiles and textile products







Notes:

- 1) Coverage of Czech industrial statistics had a break in 1996/97 due to the size of enterprises included.-
 - 2) Coverage of Slovak industrial statistics had a break in 1996/1997 and 1997/1998 due to the size of enterprises included.- 3) PPP = Purchasing Power Parities for GDP.
- Source: WIIW Industrial Database.

Trade with the European Union

Textile sector exports from the CEECs take a prominent position on the European market, whereas those from Russia are extremely small. In the year 2000, CEECs textile sector exports to the EU(15) reached nearly EUR 10 billion and had a market share of 14% in the EU and hence were tremendously larger than exports from Russia (only EUR 290 million). Russian market share in EU textile imports was just 0.4% (all shares without intra EU-trade). The largest CEEC-exporters to the EU are Romania and Poland with market shares around 4% each, followed by Czech Republic and Hungary with a 2% market share in the EU. All other CEECs (as well as the Baltic states) held market shares of around 1%, and thus were still more important on the European textile market than Russia. Between 1995 and 2000, textile sector exports from Russia grew less (+39%) than those from the CEECs (+63%). As a consequence, the Russian market share in the EU continuously declined (from 0.5% in 1995 to 0.4% in 2000), whereas the CEECs market share slightly increased during this period (to above 14% in 2000 - see *Table 2*).

In total manufacturing exports to the EU, the textile sector is of major importance in several CEECs – but not in Russia. Especially in the less advanced CEECs (Romania, Bulgaria and Lithuania), the sector plays an important role, reaching 37% and 29% respectively of total manufacturing exports to the EU in 2000, and hence is by far the largest exporter in Romania and ranks second in Bulgaria (behind the metals sector). In the more advanced CEECs, the textile sector still holds an important position, with 11% in Poland and 9% in Slovenia and Slovakia. The export share is only slightly smaller in the Czech Republic and Hungary (7%). In Russia, the textile sector is very small and accounted for only 1.6% of total manufacturing exports to the EU in the year 2000 – as a consequence of an export structure which is still dominated by resource-intensive branches such as basic metals, coke, refined petroleum products & nuclear fuels (the latter account altogether for 75% of Russian manufacturing exports to the EU – see *Table 3*). Labour-intensive sectors – including textile, leather & footwear, and furniture – generally have only a very small share in Russian exports and hence are underrepresented.

TABLE 2
Textiles and textile products imports of the EU
CEECs' and Russian exports to the EU(15) in EUR mn, market shares in %

Year	EU(15) extra-EU imports, EUR mn	Bulgaria		Czech Republic		Hungary		Poland	
		EUR mn	%	EUR mn	%	EUR mn	%	EUR mn	%
1995	43395,2	310,7	0,72	885,3	2,04	928,9	2,14	1911,0	4,40
1996	46012,7	357,0	0,78	903,1	1,96	1008,1	2,19	1946,8	4,23
1997	53184,8	468,9	0,88	997,4	1,88	1108,4	2,08	2016,8	3,79
1998	55854,1	576,4	1,03	1101,3	1,97	1250,5	2,24	2308,0	4,13
1999	58332,9	637,2	1,09	1165,3	2,00	1274,2	2,18	2258,1	3,87
2000	68099,1	843,8	1,24	1374,1	2,02	1322,9	1,94	2426,0	3,56

Year	Romania		Slovak Republic		Slovenia		CEEC(7)		RUSSIA	
	EUR mn	%	EUR mn	%	EUR mn	%	EUR mn	%	EUR mn	%
1995	1034,1	2,38	339,3	0,78	608,1	1,40	6017,4	13,87	209,3	0,48
1996	1214,9	2,64	379,8	0,83	580,2	1,26	6389,9	13,89	201,6	0,44
1997	1574,6	2,96	427,7	0,80	603,9	1,14	7197,6	13,53	217,5	0,41
1998	1964,7	3,52	489,0	0,88	576,6	1,03	8266,5	14,80	213,3	0,38
1999	2213,1	3,79	524,1	0,90	518,8	0,89	8590,7	14,73	225,8	0,39
2000	2724,5	4,00	577,2	0,85	535,4	0,79	9803,8	14,40	290,1	0,43

Source: Eurostat, WIIW calculations

TABLE 3
Shares of individual industries in total manufacturing exports to the EU(15), 2000, in %

	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovak Republic	Slovenia	Russia
D Manufacturing total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
DA Food products; beverages and tobacco	4,7	1,5	3,6	5,0	1,1	0,7	1,2	3,8
DB Textiles and textile products	29,0	6,7	6,3	11,2	36,8	8,5	8,8	1,6
DC Leather and leather products	5,1	0,9	1,8	1,1	12,3	4,0	1,6	0,3
DD Wood and wood products	1,9	2,7	1,1	4,9	3,4	2,4	4,0	3,8
DE Pulp, paper & paper products; publishing and printing	0,9	2,9	1,0	2,8	0,5	3,4	4,4	2,5
DF Coke, refined petroleum products & nuclear fuel ¹⁾	1,9	1,2	1,3	2,0	0,4	3,5	0,0	32,6
DG Chemicals, chemical products & man-made fibres	8,0	4,6	4,7	5,4	3,5	6,1	5,0	8,3
DH Rubber and plastic products	1,0	4,8	2,4	3,1	1,2	2,6	3,8	0,1

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DI	Other non-metallic mineral products	2,2	3,9	1,1	2,4	1,9	2,7	2,7	0,3
DJ	Basic metals and fabricated metal products	31,7	13,2	6,3	14,7	12,3	13,6	14,0	42,0
DK	Machinery and equipment n.e.c.	6,0	12,5	6,5	6,3	5,2	10,3	13,9	1,0
DL	Electrical and optical equipment	3,8	18,6	37,9	11,9	11,7	14,2	12,7	0,9
DM	Transport equipment	1,5	21,6	23,9	19,8	3,4	25,1	19,1	0,8
DN	Manufacturing n.e.c.	2,2	5,0	2,1	9,4	6,3	3,0	8,8	2,1

Source: Eurostat, WIIW calculations

Finally, a detailed comparison of CEECs and Russian export gains and losses on the EU market during the period 1995-2000 is telling. Russian export gains were impressive in refined petroleum and nuclear fuel, precious and non-ferrous metal and also in basic iron and steel, again reflecting the country's bias towards resource-intensive industry branches and the low competitiveness of manufacturing. Referring to the textile sector, only 'textile weaving' enjoyed a competitive gain, its share on the EU-market is however tiny (1.8%). This compares with an overall Russian share in EU manufacturing industry imports of 2.4% and an export growth of 9.6% per year on average. In contrast, the CEECs' manufacturing exports expanded by nearly 18% per year during the same period (twice as fast as Russia's), their market share in the EU reached nearly 12% in the year 2000, with the textile sector – that is especially 'other wearing apparel and accessories' – playing a relatively important role in this export growth (18% market share). However, the main drivers of CEECs' exports to the EU are motor vehicles (including parts), TV, radio and recording apparatus, office machinery and other electrical equipment. These exports are fostered by substantial FDI inflows from leading world multinational companies like Volkswagen, Ford/Opel, Siemens, Nokia, Sony, Matsushita, General Electric, etc. who located their export production plants in the CEEC region. As mentioned above, FDI inflows in textile industry have been very small and in Russia virtually non-existent.

At this more detailed level another additional characteristic features of the textile sector trade can be identified:

- Russian textile exports to the EU are almost equally divided between 'wearing apparel; dressing and dyeing of fur', accounting for 56% of all Russian textile exports to the EU in the year 2000, and 'textiles' with 44%. On the other hand, CEEC exports are heavily concentrated on 'wearing apparel; dressing and dyeing of fur' (between 60% and 84% of the sector's exports; exports after OPT!), except in the Czech Republic (36%). The concentration on 'wearing apparel; dressing and dyeing of fur' was most pronounced in Bulgaria and Romania (slightly more than 80%) and least in Slovenia (60%) and of course in the Czech Republic.
- In Russia, textile exports are concentrated on 'other wearing apparel and accessories' with 55% of total textile exports to the EU, followed by 'textile weaving' with a share of 32%. In the CEECs, exports from the sub-branch 'other wearing apparel and accessories' dominate as well and exports from 'knitted and crocheted articles' -including socks, hosiery, or pullovers etc. - play a role in some CEECs.

- In Russia, the import structure is balanced too, while in the CEECs it is heavily concentrated on 'textiles' (necessary inputs for outward processing!). In comparison to the CEECs, Russia has a larger share of 'other wearing apparel and accessories' imports, 'dressing and dyeing of fur', and 'knitted and crocheted articles' but a smaller share of 'textile weaving' and 'other textiles' imports.
- Between 1995 and 2000, 'textiles' exports to the EU grew more dynamic than 'wearing apparel; dressing and dyeing of fur' exports in both Russia and the CEECs. Looking at the gaining and losing industries in exports to the EU during this period in more detail, 'textile weaving' was among the main gaining export industries in Russia, 'other wearing apparel and accessories' in Bulgaria, Romania and Slovakia, but was indeed a large competitive loser in the more advanced CEECs.¹³ In addition, 'textile fibres' was among the 10 biggest losers in Russia.
- While the textile sector is recording a small sectoral trade surplus in the CEECs (except in Slovenia), Russia has a large trade deficit with the EU in this field. The sectoral trade surplus in the year 2000 ranged between EUR 30 mn in Poland and EUR 240 mn in Bulgaria, and was remarkably larger in Romania, with EUR 700 mn. In Russia, on the other hand, the trade deficit in textiles trade with the EU reached EUR 900 mn in the year 2000.
- The price and hence the associated quality of Russian textile exports to the EU is comparable to that of Bulgaria. It is worse than in other CEECs, and it is generally worse than average EU imports of this industry in 2000.¹⁴ In the year 2000, the price/quality gap indicator was only slightly negative for CEECs' 'textiles' exports, but very large negative for the Russian ones. At the same time, the price/quality gap was positive for 'wearing apparel; dressing and dyeing of fur' exports from the most CEECs, except Bulgaria, Romania and Russia, reflecting their role as low price/low quality producers. Between 1997 and 2000, prices (and hence presumably also quality) of textile exports from the

¹³ Measured by a 'shift and share analysis' of developments in market shares during 1995-2000. A competitive gain (loss) is defined as an increase (decline) of market share, weighed by the volume of industry exports in the base period (1995). See Havlik et al. (2001).

¹⁴ These gaps are estimated by the price/quality gap indicator, which shows the difference between CEECs and Russian average export price compared to the average EU import price of a particular product. A positive value of this indicator suggests that these exports are more expensive, and thus presumably have a better quality, than average EU imports. A negative figure suggests that the exported products are cheaper, and therefore presumably have a lower quality.

CEECs have improved, whereas those from Russia have deteriorated. The latter can be possibly associated with the elimination of trade barriers for CEEC exporters – see *Revue Elargissement* (2002).

Textile sector and the eu acquis communautaire

Textiles and textile products sectors are not very much affected by EU's *acquis communautaire* (see Box), except for parts of environmental *acquis*. In general, the full compliance with *acquis* requires additional investments, changed production processes, changes in working conditions frequently leading to increased indirect costs. Nevertheless, investments made to comply with the *acquis* by the CEE candidate countries will lead to improved competitiveness for many enterprises in the medium and long term as regulations will be simplified and the doors to the European Single Market will open. On an aggregate level, the CEECs' industry should benefit from the common standards introduced. Products will only be subject to one conformity assessment procedure even when they are exported, as opposed to different procedures for the national and international markets. This will in many cases reduce production and transaction costs considerably. Positive effects associated with the introduction of the single market already observed in the EU will become visible in the CEE candidate countries as well.

Acquis communautaire is the common name for the European Union's legal and institutional framework. The notion of *acquis* goes well beyond the notion of binding Community law under Article 249 of the Treaty. The Community patrimony is the body of common rights and obligations that bind all the Member States together within the European Union. It comprises:

1. the content, principles and political objectives of the Treaties;
2. the legislation adopted in application of the treaties and the case law of the Court of Justice;
3. the declarations and resolutions adopted by the Union;
4. measures relating to the common foreign and security policy;
5. measures relating to justice and home affairs;
6. international agreements concluded by the Community and those concluded by the Member States between themselves in the field of the Union's activities.

Thus, the Community *acquis* comprises not only Community law in the strict sense, but also all acts adopted under the second and third pillars of the European Union and, above all, the common objectives laid down in the Treaties.

Reviewing industry information, it has been estimated that textiles sector is not affected by the Single Market legislation.¹⁵ However, the compliance with EU's Integrated Pollution Prevention and Control (IPPC) directive would require some pollution control investments, especially in dressing and dyeing of fur.

The main part of the *acquis* that relates to labour markets is made up of the European Social Charter, which sets out minimum standards in areas of the institutional bargaining system, social welfare, migrant workers' rights, conditions of work, severance protection, protection of workers' claims in the case of bankruptcy, and right of workers' representatives. The candidate countries have some choice about how far above the minima they pitch their labour market policies. In this regard, several studies have critically investigated the potential impact of rigorous adoption of the Social Charter on flexibility.¹⁶ In particular, it has been emphasized that since the candidate countries continue to require significant adjustment, labour market policies should rather be defined in the context of what the candidate countries need to and can realistically accomplish. Moreover, the enforcement of EU-style regulation of labour markets may have adverse consequences on the formation of new firms and industries, and therefore on competitiveness. High start-up costs may lead to fewer new firms than would otherwise have been the case. And such slower business formation due to excessive costs of hiring, employing, and firing labour may inhibit the transition towards a private-sector-based economy and may ultimately slow the process of CEECs' income levels catching up with those in the EU. All these reservations apply to Russia as well.

Comparing the enterprise structure of an industry to its FDI/production share, it is generally found that industries dominated by large enterprises receive a higher share of FDI than their contribution to the manufacturing sector's output.¹⁷ FDI enterprises have, in general, more resources and know how for complying with *acquis*' requirements. For the textiles sector the inverse applies (it attracted less FDI) and the sector is thus less prepared for the *acquis* takeover. Textiles sector belongs to a group of 'footloose' industries which are very sensitive to changes in labour costs and can easily move in and out of the country. In both CEECs and Russia, the sector is still characterized by great structural difficulties as well as excess capacity with little foreign interest in investing. In Russia, about 90% of

¹⁵For a more detailed analysis related to CEE candidate countries see Havlik et al. (2001). Downloadable as a PDF-file at http://europa.eu.int/comm/enterprise/enterprise_policy/enlargement/doc/composite_paper.pdf.

¹⁶ IMF (2000b).

¹⁷ Compare Havlik et al. (2001), Figure 3.7a and Table 3.9.

enterprises in the textile sector are private and these enterprises account for about two thirds of the sector's production and employment.

Overview and policy conclusions for Russia

The key economic indicators for the textile sector in the region are summarized in Table 4. In Central and Eastern Europe today the textile sector takes a relatively small share in production but plays a major role in employment and, in less advanced CEECs Bulgaria and Romania (and the Baltics), also in exports. It has none of these two latter roles in Russia, where the sector is negligibly small in all respects. During transition, further downsizing of the sector occurred in the region, which was, however, slowed down a bit by outward processing in the CEECs. The sectoral productivity and overall efficiency is very low (productivity has been growing only in Poland and Hungary, but recently also in Russia). The sector did not attract much FDI, its exports are strongly oriented on the EU and is – except for Russia – relatively important for exports (and for the trade balance). The existing CEECs' revealed comparative advantage in the textile sector (relative to the rest of manufacturing industry) has been gradually eroding. On the other hand, export prices have improved, except the Russian ones. Bulgaria and Romania can be identified as low price/low quality producers of clothing. In the second half of 1990s the textile sector has recorded growing surpluses with the EU in these two countries. In the other CEECs, the surplus has been small/declining or stable. Only in Slovenia and especially in Russia, the textile sector has registered growing trade deficits.

The Russian textile sector does not seem to have a great growth potential, despite the large domestic market. It is also not very interesting for foreign investors and even OPT will probably not develop since other equally cheap (and closer) production locations are more attractive (e.g. Belarus and Ukraine). On 1 May 1998, EU-Russia agreed to liberalize trade in textiles and clothing, no quotas any more on both sides are applied. No effects on mutual trade have been observed so far. In any case, movements in the exchange rate and the regulations affecting shuttle imports are probably more important for the development of Russian textiles industry than any formal international trade agreements.

TABLE 4
Textiles: Overview and selected indicators of competitiveness for CEECs and Russia

	BG	CZ	HU	PO	ROM	SK	SLOV	RUSSIA
Share in manufacturing output in %, 2000	6,4	4,6	3,3	4,3	7,7	3,6	7,3	1,6
Share in manuf. employment in %, 2000	23,1	9,6	13,5	12,5	22,8	11,8	13,8	6,4
Productivity change in %, 1996-2000 ¹⁾	-4,3	2,5	6,8	8,6	-1,6	-2,7	5,5	6,7
Avg. monthly gross wages in EUR, 2000	78	262	208	284	98	185	571	30
ULC, change in %, 1996-2000 (EUR basis) ¹⁾	14,6	6,8	0,0	-0,2	6,8	10,5	-1,6	-13,0
FDI stock, 2000, (share in manuf. FDI), in %	.	3,0	3,8	1,4	.	1,5	2,7	0,0
EU-share in total exports in %, 1999	77,2	74,2	83,7	89,5	91,7	81,9	80,2	51,5
Share in manufact. exports to EU in %, 2000	29,0	6,7	6,3	11,2	36,8	8,5	8,8	1,6
Sectoral trade balance, EUR mn, 2000	237	212	72	34	743	114	-77	-936
Relative RCAs, average 1998-2000	0,21	0,12	0,04	0,23	0,22	0,08	0,07	-0,51
RCA improvement (2000-1995 value)	-0,01	-0,12	-0,14	0,01	0,02	-0,06	-0,12	-0,18
EU market-share in %, 2000	1,2	2,0	1,9	3,6	4,0	0,8	0,8	0,4
Export price gap in %, 2000, textiles	-34	-13	0	-9	-21	-14	-3	-34
Export price gap in %, 2000, wearing apparel	-15	28	40	13	-4	27	79	-11
Production, 2000 level in % of 1989	47,2	46,7	73,6	80,4	45,1	32,1	61,6	21,0
Employment, 2000 level in % of 1989 ²⁾	68,5	54,5	68,2	60,6	53,0	86,5	53,5	37,3

Trade competitiveness evaluation, 1995-2000

ppp pp p p pp mmm

Notes: 1) Bulgaria 1997-2000, Russia 1995-1999, - 2) Russia: 1999 level in % of 1990;

ULC: Unit labour costs; FDI: Foreign direct investments; RCA: Revealed comparative advantage.

Legend for trade competitiveness evaluation:

- mmm (rising deficits)
- mm (low or stable deficits)
- m (declining deficits)
- p (small or declining surplus)
- pp (stable surplus)
- ppp (growing surplus)

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