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Characteristics of the Polish Textiles and Clothing Market

Abstract
With the admission of a group of Central and Eastern European countries to the Community a new economic reality was created for the textile industry. The new Single Market players may become competitive not only by keeping their manufacturing costs low, but also via technological competitiveness. Another source of competitive advantage may be a skill allowing to define the new economic conditions and to adjust swiftly. The article attempts to assess the European textiles and clothing market using relevant trading data.

Key words: *european textiles market, single market, comparative advantage.*

The process of extensive changes taking place in the emerging single market has affected all manufacturing industry in the EU member states. The inclusion of Polish industry into that area requires an identification of the determinants that operate there. This article discusses the European textile and clothing market.

On 1 May 2004 Poland entered the European Union, and even though the new member states are subject to certain restrictions in the transition period, they have already attained one basic goal by joining a free intra-Union movement of goods. At the same time, they had to accept the obligatory external customs tariff that the EU has imposed on trade with so-called third countries. Because the new situation has significantly altered the operating conditions of Polish enterprises, it has become a matter of interest to analyse all the available sources of data on EU economic policy towards the European textile and clothing market. The information thus obtained may serve either as a source of opportunities available for domestic textile enterprises, or as an illustration of the extent of risks posed by their European competitors. Good knowledge of the European textile and clothing market, combined with operational strategies intentionally selected for this branch of industry, provide grounds for Polish textile and clothing enterprises to gain a competitive advantage in the single market [1].

The single market alone cannot spur economic upswing; it only provides the conditions for economic growth in the member states. A communiqué issued by the European Commission on 30 December 1996 entitled 'The impact and effectiveness of the single market' [2] highlights the positive interim effects produced by the barrier-removing programme implemented, such as:
- the enhanced competitiveness of business organisations,
- stronger restructuring and modernisation of the industry,
- lower prices and a richer assortment of products offered on the market,

Table 1. *EU-15 external trade with non-Union countries in manufacturing, 2000 (million €); denotations A - M are used in Figure 1.*

Denotation	Products	Exports	Imports	Trade balance	Comparative advantage, %
A	Manufactured goods, of which	859 793	804 889	54 904	3.3
B	Electrical machinery and electronics	183 319	248 154	-64 835	-15.0
C	Transport equipment	150 614	107 157	43 457	16.9
D	Chemicals, rubber and plastics	142 869	91 044	51 825	22.2
E	Machinery and equipment	124 795	66 067	58 728	30.8
F	Textiles, clothing, leather and footwear	52 500	84 598	-32 098	-23.4
G	Food, beverages and tobacco	46 475	37 868	8 607	10.2
H	Metals	37 008	54 787	-17 779	-19.4
I	Wood, paper, publishing and printing	31 844	29 811	2 033	3.3
J	Other manufacturing industries	29 262	36 256	-6 994	-10.7
K	Metal products	24 098	17 725	6 373	15.2
L	Coke, refined petroleum & nuclear	20 656	22 559	-1 904	-4.4
M	Non-metallic mineral products	16 352	8 863	7 489	29.7

Source: *Industrial Policy in an Enlarged Europe, Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions, Brussels 11 Dec. 2002.*

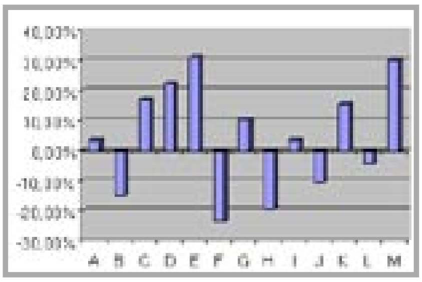

Figure 1. EU-15 Comparative Advantage for manufacturing sectors (2000); Source: data in table 1; denotations A-M according to Table 1.

- faster and cheaper cross-border services,
- more people moving between the member states.

Enterprises operating in the member states are enhancing their competitiveness thanks to more effective management. The OECD defines improving competitiveness as the ability of organisations to rival international competitors, to earn a high rate of return on invested capital, and to maintain a relatively high level of employment. However, key importance is assigned not only to cost competitiveness, whose role is diminishing because of ongoing globalisation, but also to technological competitiveness arising from the ability to innovate. The developed countries continue to be the most competitive in world trade. However, their shares were steadily dropping, from 72.1% in early 1990s to 67.9% in 1998. At the same time, the developing countries enlarged their participation in world trade from 22.8% in 1990 to 28.1% in 1998. The CEE – Central & East European countries started to build up their position in the world trade as late as the second half of the 1990s [3]. Restructuring and modernisation of the industry also added to their competitiveness. As a result, prices of the manufacturing industry products went down, including textiles and clothing. This energised both intra-Union trade and exchange between EU- and non-EU countries [4, 5].

The amounts of trade by industry sector are illustrated in Table 1. An analysis of the data allows us to conclude that the overall trade balance in the member states is positive, but the textiles and clothing sector shows an export/import deficit totalling € 32 milliard €. This was produced by large imports of textile products and clothing, enabled by the removal of barriers to international trade. In this sector, the main supplier is China, whose 2001 share of EU imports of textiles and textile products accounted for 18.3% (11.1% in 1990). The EU's second largest partner in the sector is Turkey. In 2001, Turkish imports made up 9.2% (8.2% in 1990). The next two countries are India (6.3%) and Romania (5.3%) [6]. In the last decade, the European Union has also increased its imports from Vietnam and Bangladesh.

Numbers in the last column of Table 1 are the comparative advantage indexes calculated for the listed manufacturing industry sectors; Figure 1 is their visualization. The comparative advantage index is defined as a percentage share of the trade balance in total exports and imports of the i-th sector of the manufacturing industry, and it is given by formula [7]:

$$CAI = \frac{TB}{VA} \times 100\%$$

where:
CAI - comparative advantage index
TB - trade balance
VA - value added (total export & import values)

The above algorithm produced the lowest result (-23.4%) for the textile and clothing sector, and the highest for the sectors of machinery & equipment and non-metallic mineral products (+30.8% and +29.7% respectively).

***Table 2.** Textiles, clothing, leather and footwear. External trade, 2000 (million €); B - Belgium, DK - Danemark, D - Germany, EL - Greece, E - Spain, F - France, IRL - Irland, I - Italy, L - Luxemburg, NL - the Netherlands, A - Austrie, P - Portugal, FIN - Finland, S - Swiss, UK - United Kingdom.*

Country	Export	Import	Trade balance	Comparative advantage, %
B	12 682	9 900	2 781	12.3
DK	3 212	4 048	-835	-11.5
D	21 448	38 235	-16 787	-28.1
EL	2 010	2 357	-347	-7.9
E	8 077	8 927	-850	-5.0
F	15 658	22 686	-7 028	-18.3
IRL	817	2 247	-1 430	-46.7
I	39 579	18 059	21 520	37.3
L	491	518	-27	-2.7
NL	8 125	11 196	-3 071	-15.9
A	4 054	5 665	-1 611	-16.6
P	6 545	3 720	2 825	27.5
FIN	707	1 691	-985	-41.0
S	1 607	3 863	-2 257	-41.2
UK	10 071	25 021	-14 950	-42.6

***Source:** European business. Facts and figures, Office for Official Publications of the European Communities, Luxemburg 2002.*

***Table 3.** Textiles, clothing, leather and footwear. External trade for the EU, 2000 (million €).*

Propducts	Exports	Imports	Trade balance	Comparative advantage, %
Textiles and textile products; leather and leather products	52 595	84 561	-31 966	-23.3
Textile yarn and thread	2 415	3 454	-1 039	-17.7
Textile fabrics	10 892	5 328	5 564	34.3
Made-up textile articles, except apparel	1 705	4 825	-3 120	-47.8
Other textiles	5 923	3 735	2 188	22.7
Knitted or crocheted fabrics	1 899	883	1 016	36.5
Knitted and crocheted articles	2 173	7 310	-5 137	-54.2
Leather clothes	297	1 416	-1 119	-65.3
Clothing	13 319	40 967	-27 648	-50.9
Furs; articles of fur	543	370	173	18.9
Leather	3 921	2 596	1 325	20.3
Luggage, handbags and the like; saddlery and harness	3 014	4 342	-1 328	-18.1
Footwear	6 485	9 335	-2 850	-18.0

***Source:** European business. Facts and figures 2002, op. cit.*

Trading activities in the textile and clothing sector were next analysedin more detail. Table 2 presents the amounts of the sector's exchange between individual member states and non-EU countries. Partial results for individual member states provide the following findings.

Within the EU, Italy had the largest surplus of export over import that amounted to € 21.52 milliard in 2000. Other countries with a positive trade balance were Belgium and Portugal, around € 2.80 milliard . For Portugal, this number translates into a comparative advantage index of 27.5%, whereas in Belgium it is only 12.3%. So, similar absolute values of the trade balance do not explicitly guarantee that a given country holds ac comparative advantage in trade.

In the other member states, the trade balance was negative. In absolute terms, Germany and the UK had developed the largest deficits, € 16.78 milliard and € 14.95 milliard respectively. The comparative advantage index was the lowest (-46.7%) in Ireland, where limited exports were accompanied by relatively large imports. Low indexes, (below 41%), such as can also be found in the UK, Sweden and Finland, indicate a large disproportion in favour of import.

Table 3 enables a different type of analysis of the intra- and extra-Union trade within the textile and clothing sector. The table gives export and import values by the sector's branch based on data from the year 2000. The data suggests that textile clothing produced the largest deficit, € 27.65 milliard . This value is compounded by a deficit of € 5.14 milliard in the trade in knitted articles, and € 1.12 milliard in leather clothing. As both groups of products can be treated as substitutes for textile clothing, the total clothing export deficit adds up to € 33.90 milliard . The unfavourable results in absolute terms are confirmed by the corresponding comparative advantage indexes that range from -51% to -65%.

In addition, a branch analysis provides comparative advantages for individual groups of products. Crocheted fabrics produced the most favourable result (36.5%). Here the balance of trade was only € 1.02 milliard , i.e. significantly less than for textile fabrics, where the balance was € 5.56 milliard. However, the corresponding comparative advantage index is much lower (34.3%). A combined analysis of both the numbers therefore allows a suitable gradation of the manufacturing sectors or groups of products.

Expanding trading activities are not the only effect of removing barriers to the establishment of the single market. Another outcome of the implemented single market project is the intra-Union expansion of firms that multiplied the number of mergers and acquisitions. But concentration in the area of mass consumption goods (foodstuffs, clothing, domestic detergents, consumer electronics) is limited.

Uniform prices of the same products are deemed the most important effect of the integration process. This goal will be achieved when all factors of production in the member states become perfectly mobile and substitutive, equally priced and have identical marginal productivity in all their applications [8]. Price convergence will be closely connected to enlarging intra-Union trade and exchange with the third countries. However, the ongoing globalisation of economy will not impose unified consumption models in individual member states, as such models arise from tradition, culture and national identity.

Conclusions

1. In 2000, the balance of trade in textiles industry products in the member states amounted to €-32 milliard, and the comparative advantage index was -23.4%, the lowest result for the entire manufacturing industry in the single market area.
2. An analysis of results produced by textile sectors in individual member states shows that in 2000 Italy had the highest comparative advantage index (+37.3%). Combined with the highest trade balance of € 21.52 milliard, this index allows a very favourable assessment of Italian designs of textile fabrics, knitted fabric and clothing. Designs and long-standing tradition make the country a leader in the fashion markets.
3. Portugal and Belgium also performed well. With similar trade balances of around € 2.78 milliard , their comparative advantage indexes differed considerably: 27.5% in Portugal and 12.3% in Belgium. It is thus apparent that the trade balance cannot be the only criterion applied to assess the market position.
4. The other member states show negative results. For instance, Ireland had the lowest comparative advantage index (-46.7%).
5. A branch analysis reveals that, with a trade balance amounting to €-27.65 milliard, textile clothing produced the lowest comparative advantage index (-50.9%), because of substantial imports from outside theUnion.
6. The major suppliers of textile products to the Union were China, which in 2001 accounted for 18.3% of such imports, then Turkey –(9.2%), India –(6.3%) and Romania (5.3%).
7. The most advantageous comparative advantage indexes, +36.5% and +34.3% respectively, were shown by the trades in crocheted fabrics (a trade balance of €1.02 milliard) and textile fabrics (a trade balance of €5.56 milliard).

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