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Textile and Apparel Industry in Armenia: The Former Potential and the Perspectives for Future Development of the Industry

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Abstract

The Armenian textile and apparel industry has showed very sharp ups and downs throughout its history. During the Soviet era, it was a leading branch of Armenian industry and a major supplier for the whole Soviet Union. Since the early 90s, the situation has dramatically changed. Analysis showed that during the transition from centrally planned to a market-based economy, Armenia's textile and apparel industry was nearly destroyed. Nowadays the industry, especially the apparel industry, is regarded as one of most promising sectors of the Armenian economy. This potential has also been discovered by Western and Russian institutions and enterprises, which have begun to invest heavily in this sector.

Key words: *Armenian industry, textile industry, apparel industry.*

Historical overview of textile and wearing apparel manufacturing in Armenia

Armenia has ancient and rich cultural traditions in textile and apparel industry. From ancient times Armenia was famous for its carpets, delicate silk fabrics and natural carmine dye, which were exported to many countries, as Armenia was at the crossroads of trade routes to the West, between the North and South [1]. Excavations of the medieval city Ani suggest that weaving, carpet, textile and apparel production were quite developed crafts in Armenia. The well-known merchant and explorer Marco Polo, as was recorded in his book, admired Armenian carpets, saying that they were "the most beautiful in the world."

After the establishment of Soviet rule in Armenia, the textile and apparel industry became one of the leading branches of the industry. The development of this sector was conditioned by such important factors as the availability of raw materials and labour force, the multiple and broad support of Soviet Russia, energy bases, etc. During the Soviet period, a number of major textile and apparel factories were established in Yerevan and other cities (Gyumri, Vanadzor, Charentsavan and other places) [2].

One third of the economy of Soviet Armenia was light industry. The sector provided the largest employment for about 115.000 people (which was 25-30% of the workforce involved in the industry). Armenia was one of the largest suppliers of textile and apparel products in the Soviet economy. After the collapse of the Soviet Union the textile and apparel production sector, as all other sectors, declined by 60-70% [3]. Large factories were unable to obtain needed raw materials and supply markets, hence they had to work using only a little capacity or had to stop completely. But unlike many other sectors which have not operated up to now, the textile and wearing apparel industry started to reactivate beginning from the late 1990s due to orders from abroad and growth in its own production. So far, some companies have often worked with a 25-35% capacity, underutilizing both their equipment and space [1].

The textile and apparel industry is considered one of the priority areas for potential development. The successful operation of newly opened and re-launched enterprises shows that this sector can be developed further if basic prerequisites are not completely lost.

Current situation of the developing industry

Light industry has an important social role in Armenia. Being one of the most labor intensive sectors, its development can contribute significantly to the job creation problem. The textile and wearing apparel industry consists of approximately 90% female employees. The textile industry includes all types of fabrics, and the production of goods from cotton, wool, linen, silk, synthetic and artificial fibers. Most of the major companies operating in the country provide sewing services to foreign customer firms as well as sell their own products in the domestic and foreign markets. The once strong light industry sector currently maintains a realistic development potential and growth prospects. Small and medium-sized companies which have on average 20 employees make up a small share of the industry. The majority of the companies have more than 300 workers and the number is growing. The equipment in the companies is generally of German, Japanese, Italian and East European brands. The industry mainly consists of the following areas:

1. Textile manufacturing,
2. Apparel manufacturing,
3. Manufacturing of leather and leather products [4].

The share of the first two subsectors comprises about 85% of light industry. The textile and wearing apparel manufacturing sector is relatively well developed and is represented by 94 large and small companies, out of which 21 operate in textiles and 73 in the wearing apparel industry. 2/3 of the total financial volume of the sector is concentrated in eight major manufacturers, which are located in Yerevan and Vanadzor [5]. Nowadays there are about 3000 workers involved in the textile industry.

Currently light industry faces the following problems, which need quick solutions:

- High transportation costs associated with importing and exporting of raw materials,
- Low level of protection for local producers in the domestic market,
- Tax and customs administration,
- Low level of capabilities of local companies to do marketing, insufficient promotion,

- The need of compliance of local product quality with the international standards,
- Lack of qualified personnel and low level of professional education,
- Low labour productivity,
- Lack of affordable crediting,
- Unfair competition,
- Lack of personal approach to different companies by the relevant authorities,
- Lack of local brands.

The main barriers of developing the textile and wearing apparel sector are the following:
- The vulnerability of Armenian textile and wearing apparel industries to external economic conditions and fluctuations,
- Limited skills in product design and costing, fabric purchasing and marketing. The former factory managers who took over the facilities through the privatization process are knowledgeable only in production [6],
- Low labour productivity,
- High logistics costs of incoming raw materials and outgoing ready product transportation,
- Inadequate level of company branding,
- Dependence on subcontracting orders,
- Small sizes of the companies,
- Technological gap between Armenian and international producers,
- Lack of training programs for the sector,
- Investment requirements for modernization, marketing and design.
- Export intermediaries.

There are problems connected with personnel, as in order to create new jobs there is a need to have appropriate specialists who have received advanced training. Another issue is also that there is still no properly equipped laboratory for the certification of products in this industry. It is noteworthy that the production of textiles and wearing apparel is not possible to organize on the basis of local raw materials only. One of the problems that companies face in this industry is the acquisition of raw materials, comprising about 60 percent of production costs. The fiber for producing goods is entirely imported. The import of raw materials is more profitable for companies than to produce it themselves. There are many famous companies that have become leaders using imported raw materials. As some specialists mention, it is not a hindering factor for companies [7].

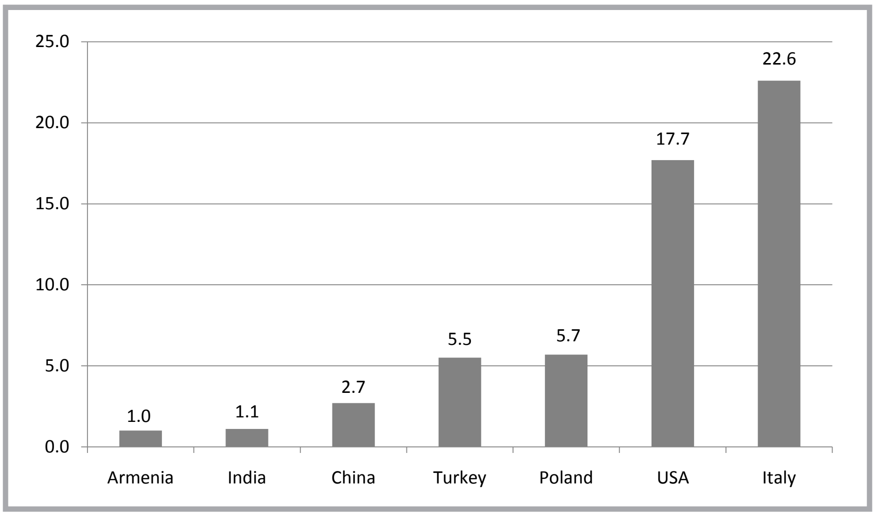

***Figure 1.** Comparison of labour costs of textile and wearing apparel sector in Armenia and other countries in 2014 (average wage (net), USD/hour). **Source:** Werner International, labor cost comparison; National Statistical Service of Armenia, Employment 2014.*

However, the sector has some competitive advantages, such as the low level of some production costs compared to international indicators, for example electricity, unused production capacities, reduced tariffs on Armenian products when importing to CIS markets, geographic proximity to Europe, experience in manufacturing premium quality products, and a very competitive workforce (an average monthly wage of 200 US dollars). The strategic potential of exports in Armenia comprises high volume and high quality products at low prices. In addition, the country has an abundant workforce and availability of machinery. For these reasons, local companies can quickly increase their volume production through collaboration with foreign partners [8].

Figure 1 shows a comparison of labor costs of the textile and wearing apparel sector in Armenia and in other global competitor countries. We can see that the above-mentioned indicator is very low in Armenia, which is a comparative advantage of the country.

There are two main types of textile and apparel manufacturers in Armenia. The first ones provide sewing services to foreign companies, and the second produce own products. Sewing service providers are located in Vanadzor, Charentsavan and Yerevan. The production lines are located in relatively large factories inherited from the Soviet era. These companies provide sewing services to foreign customers using the "temporary import" customs regime of getting raw materials and sending back final products. The customer provides a technical model and design of the product to the manufacturer, and even monitors the quality of the final product. International customers order mainly textile products, umbrellas, coats, uniforms and so on. It is worth mentioning that customers are companies with well-known European brands, particularly from Italy and Germany. In this case, the country of manufacture is not written on the products. In order to simplify procedures related to the use of the custom regimes "temporary import" and "temporary import for processing" for companies which work using the tolling method, the Ministry of Economy has made corresponding changes in the Customs Code [9].

Manufacturers of own products are located in Yerevan and Gyumri. The production process is organized in both factories left from Soviet times and in new factories which were built after the acquisition of independence. The producers buy or import raw materials and make designs mainly by themselves. The vast majority of products manufactured by these companies are sold in the domestic market. Some manufacturers accept orders inside the country and from abroad. Manufactured are mainly textile products, hosiery and knitwear [10].

The stable working companies of the sector are "VKS Armenia", "Tosp", "Gloria" in Vanadzor, "Gevorg and Vahan" in Gyumri, among others. An impetus for the development of the sector will be the expansion of operations of the re-opened

Table 1. *Dynamics of volumes of the manufacture of textile and wearing apparel in Armenia in 2009-2014 (at current prices, in millions of dollars).* ***Source:*** *National Statistical Service of Armenia, Yearbooks 2009-2014, Industry.*

Years	Total industry	Manufacture of textiles	Manufacture of wearing apparel	Manufacture of textiles and wearing apparel
2009	1842.7	1.0	10.3	11.3
2010	2206.4	0.8	9.4	10.2
2011	2681.8	2.6	15.0	17.6
2012	2792.5	1.9	12.9	14.8
2013	3032.2	1.4	14.5	15.9
2014	3104.6	1.3	17.6	18.9

Table 2. *Volume indices of the manufacture of textiles and wearing apparel in Armenia in 2009-2014 (in % of previous year).* ***Source:*** *National Statistical Service of Armenia, Yearbooks 2009-2014, Industry.*

Years	Total industry	Manufacture of textiles	Manufacture of wearing apparel
2009	92.4	42.0	81.6
2010	109.7	86.1	112.5
2011	113.9	275.6	138.7
2012	108.8	69.9	88.8
2013	106.9	70.0	108.9
2014	102.7	34.7	115.0

Table 3. *Structure of textile and wearing apparel production in Armenia in 2009-2014 (in % of the value added to the whole industry).* ***Source:*** *National Statistical Service of Armenia, Yearbooks 2009-2014, Industry.*

Years	Total industry	Manufacture of textiles	Manufacture of wearing apparel	Manufacture of textiles and wearing apparel
2009	100	0.1	0.8	0.9
2010	100	0.1	0.6	0.7
2011	100	0.2	0.9	1.1
2012	100	0.1	0.7	0.8
2013	100	0.1	0.8	0.9
2014	100	0.1	0.8	0.9

Table 4. *Average annual number of personnel in textile and wearing apparel production in Armenia in 2009-2014 (1000 persons).* ***Source:*** *National Statistical Service of Armenia, Yearbooks 2009-2014, Industry.*

Years	Total industry	Manufacture of textiles	Manufacture of wearing apparel	Manufacture of textiles and wearing apparel	Percentage of textile and apparel production in total industry
2009	78.8	0.2	2.1	2.3	2.9
2010	81.4	0.2	2.0	2.2	2.7
2011	83.7	0.2	2.9	3.1	3.7
2012	83.8	0.2	2.6	2.8	3.3
2013	83.9	0.3	2.7	3.0	3.6
2014	83.8	0.2	3.0	3.2	3.8

Table 5. *Capital assets of the manufacture of textiles and wearing apparel in Armenia in 2009-2014 (at primary cost, in millions of dollars).* ***Source:*** *National Statistical Service of Armenia, Yearbooks 2009-2014, Industry.*

Years	Total industry	Manufacture of textiles	Manufacture of wearing apparel	Manufacture of textiles and wearing apparel	Percentage of textile and wearing apparel production in total industry
2009	4178.1	5.4	11.1	16.5	0.4
2010	4383.7	5.2	9.6	14.8	0.3
2011	5300.8	5.4	8.5	13.9	0.3
2012	5765.5	6.2	7.3	13.5	0.2
2013	6064.0	6.0	7.2	13.2	0.2
2014	6258.1	5.9	8.3	14.2	0.2

cotton-spinning company in Maralik in 2011.

According to the Ministry of Economy, a growth trend was registered in the sector beginning from 2005, with the exception of the years 2009-2010. The decline was mainly due to the sharp decline in textile production volume. The sector recovered quickly after the fall in growth due to outsourcing from Europe. In 2012 the production of outer garments amounted to 46% of the total volume of production of textiles and apparel. Despite the small volumes, on average 39% annual growth was recorded in the production of hosiery. It is gratifying that the increase was mainly due to the substitution of import [11].

Table 1 shows the dynamics of the textile and apparel industry in Armenia for the period 2009-2014. This period is specially selected to show the dynamics of the development of the textile and apparel industry after the global crisis and the fall in the economy of Armenia. As the data show, the overall manufacturing of textiles and wearing apparel had increasing trends. It is worth noting that the strongest increase was in 2011, which can be explained by the fact that from this year the government started to pay more attention to the development of this sector, strategies were made and financial resources were allocated to develop the industry [7].

The volume of textile manufacturing increased by 30 percentage points and the volume of wearing apparel manufacturing by 71 percentage points in 2014 compared to 2009. While the total monetary value of the textile and wearing apparel manufacturing industry increased by more than 67 percentage points, the monetary value of the total industry production showed an increase of more than 68 percentage points. This means that this sector is developing in line with the whole industry.

As we can see, a major part of the industry conducts the manufacturing of wearing apparel, which is more than 10 times more than the manufacturing of textiles. While analysing the data of ***Table 1***, we can see that the trends in the dynamics of both textile and wearing apparel production mainly had the same direction.

The volume indices of the manufacturing of textiles and wearing apparel are presented in the following ***Table 2***.

We can see that the industry recorded a yearly increase in general, but the textile and wearing apparel industry volume indices varied and the increases were followed by decreases, which means that situation was not stable in the sector.

Analysis of the data from ***Table 3*** allows to conclude that the percentage share of the manufacturing of textiles and wearing apparel in the total industry was very low. This indicator varied from year to year during the period studied, but it amounted to about 1 percent of the total industry.

In order to find out the changes in the average annual number of personnel working in the textile and wearing apparel industry, let us refer to ***Table 4***.

When examining the above-mentioned table, it is obvious that the average annual number of personnel had an increasing trend during the period studied, mainly due to the increase in personnel of wearing apparel production. In 2014, as compared to 2009, there was an increase in textile and wearing apparel production personnel by more than 39 percentage points. Official data affirm that there were nearly 3000 people involved in textile and wearing apparel manufacture in 2014.

As for the capital assets of textiles and wearing apparel in Armenia, there was a decline during the period studied (***Table 5***). We can see that while the capital assets of the total industry evolved, those of this sector declined both in value and as a share of the total.

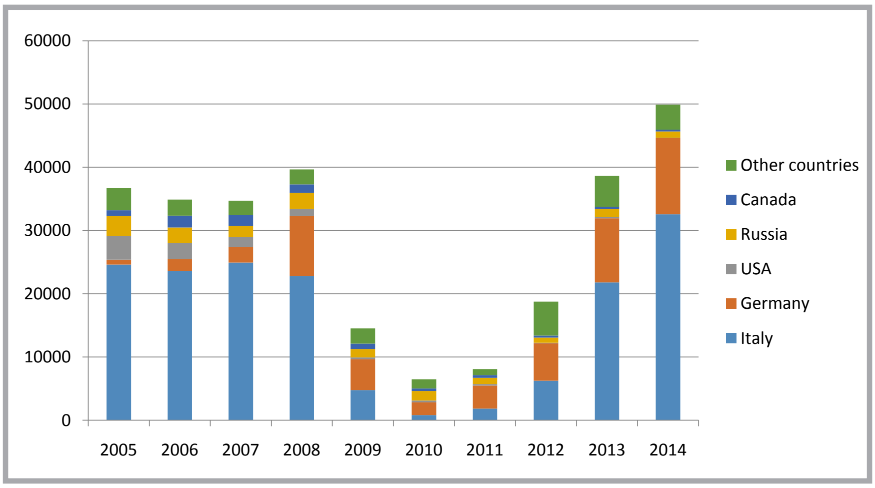

Figure 2. *Export of textile and clothing sector of Armenia in 2005-2014 (monetary value, in thousands of US dollars).* ***Source:*** *World Integrated Trade Solution, wits.worldbank.org, Export of textiles and clothing sector of Armenia 2005-2014.*

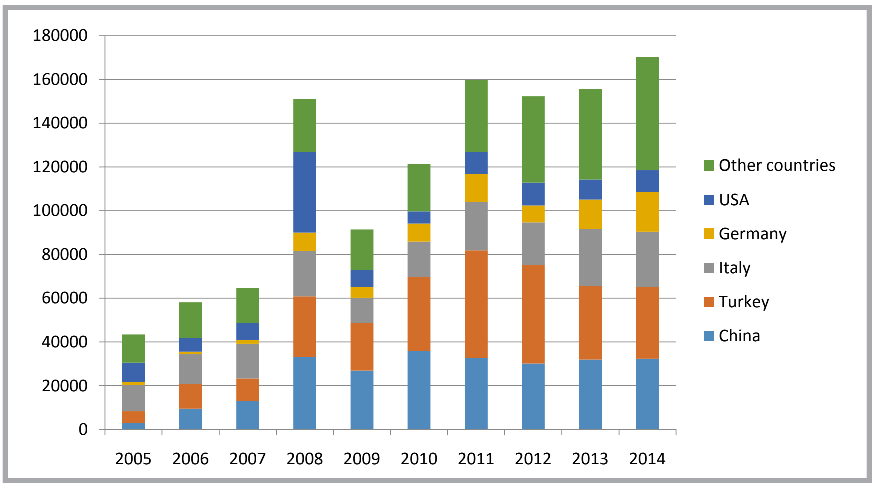

Figure 3. *Import of textile and clothing sector of Armenia in the period 2005-2014 (monetary value, in thousands of US dollars.* ***Source:*** *World Integrated Trade Solution, wits.worldbank.org, Import of textiles and clothing sector of Armenia 2005-2014.*

Export and import of Armenian textile and wearing apparel

As for exports, 75-80% of the textile and wearing apparel industry of Armenia was outsourced in 2005-2014. The main reasons for the sharp decline in the export volume in 2008-2009 were the high level of concentration (mainly exporting to Italy) and the global crisis. Before 2009, the textile and apparel export of Armenia depended on orders from Italy. The main reason for the decrease was a sharp decline in orders from Italy, which was due to the global market crisis and problems of the client companies. A year later, however, Italian export orders recovered and there was also a diversification in the geographical structure of export, which reduced Armenia's dependence on the Italian market [5].

Apart from Italy, other major countries of export for Armenian textile and apparel production are Germany and Russia. In 2012, 46% of the total monetary value of textile and apparel export were men's suits, briefs, coats and similar products, while 35% were men's coats and raincoats. In 2012 the share of export to Italy amounted to 37% of the total volume. The textile companies carry out orders mainly from European countries, where there is cooperation with such companies as Eurodress, Moncler, La Perla and others. A number of new contracts have been signed with European companies. Without the development of export, companies are unable to achieve normal growth and competitiveness [12].

Armenia imports mostly textiles, yarn and cotton wool, as well as some ready-made apparel. Duties in the country for textiles and garments vary from 0 to 10%, depending on the product. The share of local sales in the domestic market is estimated at around 10%, which has considerable potential for expansion [6].

The main export countries are Italy and Germany. CIS countries are the main exporting countries for own production [5].

Figure 2 represents the dynamics and structural changes in the export of the Armenian textile and wearing apparel sector during the period 2005-2014. The major countries to which Armenia exports textiles and wearing apparel are Italy, Germany, Russia, the United States and Canada. During the last decade the total volume of exports of the textile and apparel sector of Armenia increased by

36 percentage points. In the years 2009-2011 there was a sharp decline because of the global crisis and lack of outsourcing from abroad. Afterwards the situation started to improve gradually. Exports to Italy comprised about 65-70 percent of total exports before 2009 [13]. After the crisis the structure of exports began to be more diversified, although the exports to Italy still have a big share. In 2014 the exports to Italy and Germany amounted to almost 90 percent of the total exports of textiles and wearing apparel. This mainly includes coats, raincoats, jackets and similar products exported to Italy and outwear exported to Germany.

The key contributing factors for the decline in outsourcing throughout 2005-2010 include the appreciation of Armenian dram and the continuously increasing labour compensation [5].

Figure 3 (see page 13) shows the dynamics and structural changes in the import of the Armenian textile and wearing apparel sector during the period 2005-2014. The major countries from which Armenia imports textiles and wearing apparel are Turkey, China, the United States, Germany and Italy. During the period under study there was a nearly fourfold increase in the total volume of import of textiles and wearing apparel of Armenia. The structure of imports is more diversified than the structure of exports; there are no one or two main countries which have the biggest share. In 2014, the big share in the total textile and wearing apparel import was shown by China, Turkey and Italy [14].

The export/import study shows that after the global crisis Armenia began to export more without decreasing the volume of imported goods. Analysis of the situation in the textile and apparel industry for the period 2005-2014 affirms that although there was an increasing trend in production and export volumes, the share of this sector in the total industry is still very low, but there is a prospect for further development, which will include government support as well as foreign investments and programs.

Strategies for further development of textile and apparel industry in Armenia

Given the fact that light industry was once one of the leading industrial sectors in Armenia and there is still a strong potential, the industry was included in the list of 11 sectors which have prospects for the development of export potential. The strategy for the textile and apparel sector should be driven towards an innovative model of development and increasing the efficiency of production of modern competitive products both to meet the needs of the local market and increase exports [6].

It is difficult to assess the impact of Armenia`s withdrawal from the Association Agreement and Deep and Comprehensive Free Trade Area with the European Union in July 2013. These agreements, however, were not signed because Armenia decided to join the Eurasian Customs Union on September 3rd and the integration process with the EU slowed down. In our opinion joining the European Common Market could intensify foreign trade, capital and technology movements with the European partners playing a crucial role in this sector of the Armenian economy. In the short term there is a low probability that the loss resulting from the withdrawal could be compensated by a radical increase in the volume of foreign trade with Russia or Belarus – countries which face serious economic problems at present.

The Ministry of Economy of Armenia has prepared development programs, one of which is created for the textile and wearing apparel industry. On December 6, 2013 the Industrial Council of the Prime Minister of Armenia approved a strategy and action plan for developing light industry. The action plan is presented by two main sections, that is textile-wearing apparel and shoe manufacturing. The strategy is planned up to 2023. The action plan is made for the period 2014-2016. The goal of the strategy is efficient use of the existing potential [11].

The strategy provides the following:

1. Tenfold increase in export volumes – The textile and wearing apparel manufacturing development strategy plans to have a 7% increase in annual sales for 2018, and 11% annual increase for the period 2018-2023. Exports are presented as the cumulative of 2 branches: outsourcing and own product sales. So far the income from outsourcing is many times more than from selling own products. The strategy plans to have an export amounting to 60-70 million dollars in 2018, while in 2023 the volume will rise up to 120-140 million dollars. At this stage Armenia will mainly export wearing apparel, mostly at the expense of outsourcing.
2. Doubling workplaces – Nowadays about 3200-3900 people are employed and working in the industry. The strategy envisages to increase this number to 6000-7500 in 2018 and to 9000-11000 in 2023. This is only for the textile manufacturing sector.
3. Developing of the industry using local raw materials – 9 destinations of the actions are planned which will ensure an increase in production sales both in local and international markets. It suggests that there should be corresponding working groups which will examine the industrial conditions for importing raw materials and production equipment and make appropriate proposals that will be presented to the Industrial Council, where the latter will regulate issues related to the process.
4. Improving professional education – The strategy intends to solve professional education, workforce training and training related issues. Programs are also being developed in this direction. It is expected that the government will assist companies by providing professionals. Other programs like this exist in other spheres. The other important issue is financial assistance which also exists as a form of subsidy of interest rates on loans.
5. Development of Armenian brands – It is important to engage in outsourcing and to expand existing programs. There is a need to promote export. The development of import will significantly reduce dependence on foreign customers, which is why this direction is highly important. Moreover prior target markets are selected within this program and some mechanisms are developed which will facilitate the implementation of these projects as soon as possible. Within the program of developing Armenian brands, the foundation of design schools is very important. In this direction it is planned to implement international educational programs in design schools, as well as organizing fashion events in Armenia, and the participation of Armenian companies in international exhibitions. This will contribute to the formation of brands.
6. Culture of buying local products – One of the directions is the promotion of sales of local products in the

domestic market. There is a need to encourage the sales of light industry products because it has serious potential. A number of programs are being developed in this direction. It is necessary to carry out some work to build a culture of buying local products. This should not be one-sided as both the consumer and producer should take part in this process. Local products must have uncompromising quality compared to imported products and the awareness of the population of local product quality and pricing should be risen.
7. Equal conditions, quality assurance and control – An action plan is being developed which will ensure equal conditions for local producers and importers. This will be realized during the period 2014-2016. Actions for quality assurance and control will be implemented, referring to the creation of relevant laboratories. It is very important for Armenian laboratories to be accredited by international organizations so that their conclusions be acceptable outside the country, which will enable Armenian companies to export products in easier modes. The action plan is dynamic so that it can be changed during the estimated period due to market changes.

Armenia will give a new impetus to the development of this sector. The Russian Federation with the help of United Nations Industrial Development Organization funds is going to provide financial assistance for the upgrading and modernisation of the textile industry. Armenia has set a goal to integrate into the global economy and ensure its leading position in the region. There is great importance in creating an Armenian textile industry brand, which will help to have regular export. The certification issue is also very important for Armenia, which is now done out of Armenia due to certain difficulties. There is an expectation that United Nations Industrial Development Organization will help to create a laboratory and provide services to the companies of the industry [8]. The new program of UNIDO aims to support Armenia's export-oriented industries to increase competitiveness and market access. The project will help small and medium-sized enterprises to develop and upgrade their technical capabilities and to enter the market with high quality and design products. According to the agreement, Russia has already provided 1 million US dollars to Armenia, via UNIDO, for implementation of the textile industry development program in Armenia [15].

There is also a project together with the government to gather Armenian specialists in this field from all over the world to create an Armenian brand and to make Armenia an international fashion center. In order to succeed in the domestic market, a permanent trade center is to be established for the goods of local producers and a chain of stores which will sell only local manufacturers' products not only in Yerevan, but also in other cities of Armenia [9].

Nowadays "Made in Armenia" shops are operating to help local companies enter the domestic market, where the products of a dozen Armenian companies are sold. Unfortunately the population mostly does not know local producers, but shops are expanding gradually.

Summary

Although the textile and apparel industry in Armenia is not competitive enough now, there are prerequisites to establish own production and there is a potential for growth in production and export volumes. Light industry, announced as one of the 11 priority sectors of the economy by the Armenian government in late 2011, is one of the sectors for which the development strategy and corresponding action program have already been adopted. The strategy for further development of the sector and the action plan were adopted in December 2013. An industrial council was formed for implementation of the adopted strategy. Apparel manufacturing is the most competitive among the three sectors of Armenian light industry, thus encouraging this sector will be more beneficial than investing in the textile and leather sectors.

It turns out that Armenian products of the textile and wearing apparel industry are more demanded abroad than in the domestic market. This suggests that Armenian textile production can be attractive for foreign companies, primarily for its high quality. Armenia is attractive for foreign markets due to low labor costs and price/quality ratio. The prior successful involvement of foreign companies in the sector of textiles and wearing apparel can act as an attractiveness factor for the involvement of other foreign companies [10].

In conditions of blockade, absence of the sea, being surrounded by unfriendly neighbors and a constant expectation of war, the development of the industry should be a priority for the government. The instruments available to the government for supporting the sector include assistance to access markets, development of exporting capabilities and accessibility of financial resources.

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