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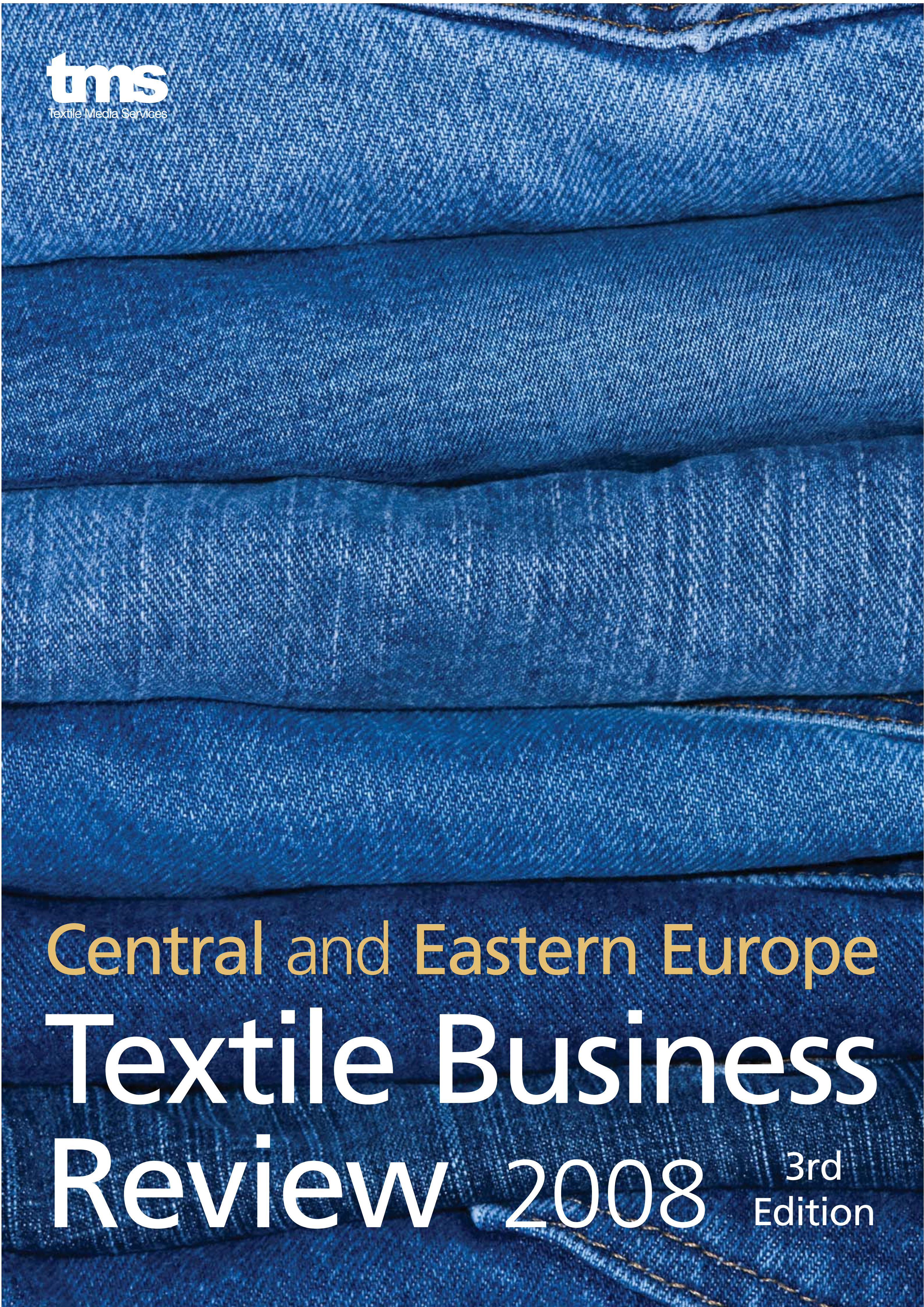

Central and Eastern Europe

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Introduction

The textile and clothing industry, which has a long tradition in Central and Eastern Europe, is both highly flexible and low-cost seeking, and has undergone extensive internationalisation over the past couple of decades. In order to produce at a low cost, many West European companies started 15-20 years ago relocating their labour-intensive textile production activities to the southern and eastern parts of Europe, where manufacturing costs were considerably lower than in northern Europe.

The end of the Cold War made production in Central and Eastern Europe possible at an even lower cost. Poland and the Baltic states in particular became attractive places to invest in. As a result, the textile and clothing industry emerged as an engine for export and employment growth throughout these and other countries in the region.

In 1995, the World Trade Organisation's Agreement on Textiles and Clothing was signed to gradually phase out all import quotas by 1 January 2005. For the countries of Central and Eastern Europe, and particularly South Eastern Europe, these were years of opportunity. Bulgaria and Romania especially benefited enormously from the relocation of production that rapidly transpired. Companies in these countries started out with simple forward contracting — cut, make and trim (CMT). It is this ability to react rapidly and reliably to orders, even for smaller numbers of fashion items, and to produce specific special effects (from bleaching to printing) that provides Central and Eastern Europe with a competitive advantage to even cheaper producers in Asia.

With the European integration process and the most recent enlargement phases in May 2004 and January 2007, the EU has now increased to 27 member states, which include 10 countries from Central and Eastern Europe. Current candidate countries include Croatia, Macedonia and Turkey, while Albania, Bosnia and Herzegovina, Serbia, Montenegro and Kosovo are potential candidate countries.

The EU enlargement process and the gradual building up of the internal market has increased competition in the textile and apparel sector and provides an opportunity for retailers to source manufacturing activities to low-wage countries in the region. The new member states also represent significant markets for textile and clothing companies.

As a result, the economies of Central and Eastern Europe, including some of the former Soviet Union republics, are showing some of the highest growth rates among European and OECD member countries. Those that have already achieved EU accession are growing at a faster rate than the EU itself. External investors have been attracted by rapidly developing national and regional industries, highly skilled workforces and significant new consumer markets.

As part of the EU integration process, industries in this region, such as the textile and clothing sector, are being reformed, restructured and liberalised, bringing significant changes and opportunities — as well as major threats. In particular, EU enlargement has prompted another wave of corporate activity across the region and investment opportunities continue to be provided by privatisation, emerging groups of companies and rapidly developing capital markets across the whole of Central and Eastern Europe.

Latvia

The name “Latvia” originates from the ancient Latgalians, one of four eastern Baltic tribes that formed the ethnic core of the Latvian people (ca. 8th-12th centuries AD). The region subsequently came under the control of Germans, Poles, Swedes and, finally, Russians. A Latvian republic emerged following World War I, but it was annexed by the USSR in 1940 — an action never recognised by the US and many other countries. Latvia re-established its independence in 1991 following the breakup of the Soviet Union. Although the last Russian troops left in 1994, the status of the Russian minority (some 30% of the population) remains of concern to Moscow. Latvia joined both NATO and the EU in spring 2004

EU status: Member since 1 May 2004

Geography

Area: 64,589 km²

People

Population: 2.25m (July 2008 est.)

Population growth rate: -0.629% (2008 est.)

Languages: Latvian (official) 58.2%, Russian 37.5%, Lithuanian and other 4.3% (2000 census)

Government

Capital: Riga

Independence: 18 November 1918 (from Soviet Russia)

National holiday: Independence Day, 18 November; note – 18 November 1918 is the date Latvia declared itself independent from Soviet Russia; 4 May 1990 is when it declared the renewal of independence; 21 August 1991 is the date of *de facto* independence from the Soviet Union

Chief of state: President Valdis Zatlers (since 8 July 2007)

Head of government: Prime Minister Ivars Godmanis (since 20 December 2007)

Economy

Latvia’s economy experienced GDP growth of more than 10% per year during 2006-07. The majority of companies, banks and real estate have been privatised, although the state still holds sizeable stakes in a few large enterprises. Latvia officially joined the World Trade Organisation in February 1999. EU membership, a top foreign policy goal, came in May 2004. The current account deficit — more than 22% of GDP in 2007 — and inflation — at around 10% per year — remain major concerns.

Map provided by: www.worldatlas.com

GDP: US$39.7bn (2007 est.)

GDP real growth rate: 10.2% (2007 est.)

GDP per capita: US$17,400 (2007 est.)

Unemployment rate: 5.7% (2007 est.)

Inflation rate: 10.1% (2007 est.)

Currency: Latvian lat (LVL)

Exchange rate (per US$): 0.5162 (2007)

Source: CIA World Factbook

Latvia

Latvia's textile industry is highly export-oriented with 76.5% of the sector's output being exported in 2006. Historically based on a small number of large enterprises, the sector has evolved into a virtual cluster with many newly emerged, flexible and specialised small and medium-sized enterprises (SMEs) focusing on exports to other EU member states.

The textile sector is the oldest branch of Latvian industry. Many enterprises were established after the abolishment of serfdom in the 19th century, and by 1854 there were four cotton manufacturers, 11 wool producers, three flax enterprises and three silk producers, which together employed around 2,000 people.

During the second half of the 19th century and the beginning of the 20th century, Latvia's textile industry developed further. In 1913, there were 29 textile factories, which employed 11,756 workers who produced 10.4m metres of cotton fabric, 3.6m metres of wool fabric and 1.4m metres of flax fabric. The first silk producers ceased to exist in 1885 and the production of silk was resumed only in 1932.

During the first Republic of Latvia (1918-40), the textile sector was one of the leading branches of Latvian industry. In 1938, production of cotton fabric reached 20.6m metres, double that of 1913. The maximum production of flax fabric was in 1935 when output reached 3.4m metres. At the same time, production of wool fabric never reached the level it achieved before the First World War. In 1938, the Latvian wool sector produced 2.9m metres of fabric — 700,000 metres less than in 1913.

During the Soviet period, the production of textiles and textile articles experienced remarkable growth and Latvia became an important supplier of these goods to the whole Soviet Union. In 1990, the year when the Latvian government passed the declaration of independence, the textile industry produced 57m m^2 of cotton fabric, 14m m^2 of flax fabric and 25.5m m^2 of acetate silk and viscose fabric. However, during the era of central planning when there was a shortage of most goods, quality issues had been neglected. As a result, most of the textile products could not be sold on the global market.

Beginning in 1991 the textile industry went through a difficult period of restructuring and downsizing. State-owned enterprises were privatised and new entrepreneurial companies appeared. During the first years of independence the exports of Latvian textile companies were still almost entirely directed toward the markets of the CIS. However, the gradual worsening of the economic situation in the CIS forced these companies to look for other markets, in particular, that of the EU.

At present, there are around 700 companies in Latvia's textile and clothing industry. In 2007, the production volume of the textile sector increased by 3.6% compared with the previous year, while output from the clothing sector fell by 4.0%. In 2006, the textile and clothing industry employed around 20,600 people, of which more than 7,500 were in the textile sector and almost 13,100 in clothing manufacture.

In 2007, total textile and clothing exports were valued at LVL271.0 (US$525.0m), compared with LVL269.3m (US$482.0m) the previous year. The EU-25 accounted for

69.2% of exports, with the main partners being Estonia, Germany, Denmark and Lithuania.

Total textile and clothing imports in 2007 were worth LVL335.6m (US$650.1m) compared with LVL297.0m (US$531.6m) the previous year. The EU-25 accounted for 84.0% of imports, with the main partners being Italy, Germany, Lithuania and Poland.

Latvia exported clothing worth LVL155m (US$327m) in 2007, compared with LVL160m (US$338m) in 2006. Clothing accounted for 3.8% of total Latvian exports last year, as against 4.9% of total exports the year before. Latvia imported clothing worth LVL154m (US$325m) in 2007, compared with LVL126m (US$268m) in 2006. Clothing accounted for 2.0% of total Latvian imports last year, the same figure as in 2006.

In 2007, the main exports by sector by value were: articles of apparel, not knitted or crocheted 33%; articles of apparel and accessories, knitted or crocheted 24%; synthetic fibre, thread and yarn 7%; knitted or crocheted fabric 5%; bed, table, bathroom and kitchen linen 4%; cotton thread and yarn 3%; and wool yarn 1%.

The Latvian Textile and Clothing Association predicts that over the next couple of years, imports and exports of Latvian textile companies will increase by 6-7%. However, production is expected to decrease by 2-3% with up to 5,000 people losing their jobs in the sector.

Sector advantages

The Latvian textile sector is already strongly export-oriented, but still has considerable potential for expansion in both Western and Eastern markets. The sector's main strengths are:

- a skilled and flexible workforce;
- experienced engineering and design staff familiar with the industry's newest trends;
- dedicated managers who have often become co-owners of the companies they lead;
- high-quality production and design equipment;
- substantial experience of working both in Eastern markets and with customers and partners from Western Europe.

Beyond pure manufacturing, a number of related subsectors, such as textile research and development and fashion design, are rapidly increasing their presence in domestic and export markets. Most often, these additional services are included in a complete product offer with manufacturing.

Latvian textile companies are known for offering short delivery lead times. The country's geographical proximity to its main markets ensures that deliveries can be made punctually. Some apparel companies and yarn spinners offer lead times as short as two weeks for small orders.

Some of the more prominent Latvian textile companies with increasing production and sales include Lauma, Valmieras Stikla Skiedra, Rita, New Rosme, Weri Spezials, Larelini and Mezroze.

Many Latvian textile producers have already proven their ability to produce goods with high value-added. Good examples are lingerie producers Lauma, New Rosme and Bogema, glass-fibre fabric producer Valmieras Stikla Skiedra, and cotton yarn and fabric manufacturer Juglas Manufaktura, which specialises in fine cotton yarn and lightweight fabric. Latvian designers also actively utilise state-of-the-art techniques in their work.

The majority of engineers and technologists possess degrees from Riga Technical University or other universities in the former Soviet Union, all of which provide technical education of high quality. Most production workers in the industry have completed vocational school or secondary school education.

As well as having skilled engineers and technologists, many companies have developed an impressive design capability. Local design facilities have been developed by lingerie producers New Rosme, Lauma, Vova, Bogema and Andre Stils, apparel companies Velme and Rigas Drebnieks, knitwear producers Rita and Viola-Stils, as well as plaid and blanket manufacturer Klippan Saule and home textiles producers Mezroze, Kokvilna and Rimako.

Brand names

The largest textile companies, such as Lauma, New Rosme, Rita, Ogre and Aurora Baltika, have brand names that enjoy high recognition and a good image in markets to the east of Latvia. Even smaller companies with a longer track record have managed to build a certain degree of brand recognition in Eastern markets.

After Latvia regained its independence in 1991, many companies chose to gradually break their relationships with customers in the CIS and switched to supplying Western markets. However, those companies that continued to work with the CIS, such as Lauma, Ogre and New Rosme, have accumulated substantial knowledge of local business conditions and practices, and have established a track record with reliable partner companies.

Wage trends

Competition from South East Asian countries, as well as other countries with labour cost advantages over Latvia, are a threat to Latvian textile producers, in particular to cut make and trim (CMT) sewing companies whose competitiveness depends almost entirely on wage rates and the ability to meet delivery deadlines. As a result of this competition, some activities with lower value-added, such as sewing T-shirts, have already been abandoned by most Latvian companies.

Wage growth outpacing productivity growth is another threat to the industry, particularly given the increasing activities of trade unions. However, this threat is also mainly faced by CMT sewing companies that focus on activities with relatively low value-added. Companies in other sectors of the industry that have invested in modern equipment and focus on production with higher value-added are much less vulnerable.

Latvia: production volume index[1], 2003-07

	2003	2004	2005	2006	2007
Textiles	103.6	96.8	115.5	142.7	146.3
Apparel	96.6	102.2	88.6	90.2	86.2
Total	**100.3**	**99.4**	**108.3**	**117.7**	**116.7**

[1] 2000 = 100

Source: Central Statistical Bureau

Latvia: textiles and textile products manufacturing, no. of employees, 2002-06

('000)	2002	2003	2004	2005	2006	06/05 (%)
Textiles	10.4	10.6	9.1	8.5	7.6	89.2
Apparel	14.6	14.3	14.5	13.8	13.1	94.9
Total	**24.9**	**24.9**	**23.5**	**22.2**	**20.6**	**92.7**

Source: Central Statistical Bureau

Latvia: sales of main textile and textile products, 2007

	Volume ('000 pcs)	Value (LVL'000)
Curtains and interior blinds, curtain or bed valances, of woven materials ('000 m²)	421.4	4,261.4
Cordage, ropes or cables of PE, PP, nylon or other polyamides or of polyesters measuring >50,000 dtex, of other synthetic fibres, excl. binder or baler twine ('000 kg)	2,068.3	4,185.3
Knitted or crocheted hosiery and footwear, incl. socks, excl. women's full-length/knee-length hosiery, measuring <67 dtex, pantyhose and tights, footwear with applied soles ('000 pairs)	10,212.4	4,506.3
Men's or boys' jerseys, pullovers, sweatshirts, waistcoats and cardigans, of wool or fine animal hair, excl. jerseys and pullovers containing ≥50% of wool and weighing ≥600 g	627.6	5,115.0
Women's or girls' jerseys, pullovers, sweatshirts, waistcoats and cardigans, of wool or fine animal hair, excl. jerseys and pullovers containing ≥50% of wool and weighing ≥600 g	581.9	4,400.0
Men's or boys' trousers and breeches of cotton or man-made fibres, for industrial or occupational wear	1,507.8	5,219.0
Women's or girls' suits, not knitted or crocheted	44.0	712,094.0
Women's or girls' briefs and panties of knitted or crocheted textiles, incl. boxer shorts	2,734.7	4,055.5
Brassieres	7,108.5	22,284.4
T-shirts, singlets and vests, knitted or crocheted	4,655.1	5,794.8

Source: Central Statistical Bureau

Latvia: sales of manufactured textile products, 2003-07

	2003	2004	2005	2006	2007	07/06 (%)
Woven fabrics (m m²)	43.6	47.3	47.3	52.9	61.1	115.5
Blankets and travelling rugs ('000 pcs)	326	275	362	334	390	116.8
Bed linen ('000 pcs)	1,740	2,216	2,637	1,765	1,989	112.7
Table linen ('000 pcs)	337	3,098	522	312	..	..
Pantyhose (m pcs)	5.8	7.5	8.7	..	..	..
Socks and stockings (m pairs)	15.1	23.1	23.5	19.7	19.4	98.5
Men's and women's jerseys, pullovers, waistcoats and cardigans ('000 pcs)	1,946	2,044	2,637	2,101	1,780	84.7
Men's and women's apron's, overalls ('000 pcs)	4,034	3,221	3,436	3,014	4,257	141.2
Men's and boys' garments of knitted or crocheted textiles ('000 pcs)	347	405	362	294	240	81.6
Women's and girls' garments of knitted or crocheted textiles ('000 pcs)	356	592	554	756	1,597	211.2
Men's and boys' overcoats and car-coats, anoraks ('000 pcs)	344	341	165	198	208	105.1
Men's and boys' trousers ('000 pcs)	838	1,007	757	518	302	58.3
Women's and girls' overcoats and raincoats ('000 pcs)	179	208	132	137	99	72.3
Women's and girls' suits and ensembles ('000 pcs)	929	843	874	488	514	105.3
Women's and girls' jackets and blazers of textiles ('000 pcs)	771	683	643	292	232	79.5
Women's and girls' dresses and skirts of textiles ('000 pcs)	1,223	1,481	1,272	915	625	68.3
Women's and girls' trousers ('000 pcs)	1,664	1,621	1,489	1,113	522	46.9
Men's and boys' shirts, under-shirts of textiles and of knitted or crocheted textiles ('000 pcs)	343	362	336	236	479	203.0
Men's or boys' underpants, briefs and pyjamas ('000 pcs)	1,048	1,053	902	535	286	53.5
Women's and girls' blouses, chemises ('000 pcs)	1,398	1,464	1,621	1,533	1,456	95.0
T-shirts, singlets and vests ('000 pcs)	7,653	8,228	7,170	5,210	..	..
Sport suits ('000 pcs)	145.2	118.3	80.8	72.2	90.0	124.7

Source: Central Statistical Bureau

Latvia: principal textile and textile products, exports by volume, 2003-07

('000 t)	2003	2004	2005	2006	2007	07/06 (%)
Wool yarn	0.5	0.4	0.2	0.5	0.5	100.4
Cotton thread and yarn	2.5	1.5	1.3	1.7	1.5	90.6
Synthetic fibre, thread and yarn	10.6	11.2	10.2	13.5	9.9	73.4
Knitted or crocheted fabric	0.9	0.9	1.2	1.3	1.4	112.2
Articles of apparel and accessories knitted or crocheted	4.0	..	..	..	..	..
Articles of apparel, not knitted or crocheted	5.8	..	..	..	..	..
of which corsets and similar articles	0.3	..	..	..	..	..
Bed, table, bathroom and kitchen linen	2.9	2.6	2.2	2.2	1.9	86.4

Source: Central Statistical Bureau

Latvia: principal textile and textile products, exports by value, 2003-07

(LVLm)	2003	2004	2005	2006	2007	07/06 (%)
Wool yarn	2.1	1.9	1.1	2.9	3.1	106.6
Cotton thread and yarn	12.1	7.1	5.3	6.2	6.7	108.2
Synthetic fibre, thread and yarn	15.7	17.5	19.6	25.7	19.7	76.8
Knitted or crocheted fabric	7.2	7.2	10.0	11.4	14.5	126.6
Articles of apparel and accessories knitted or crocheted	46.9	53.8	60.5	63.8	65.7	103.0
Articles of apparel, not knitted or crocheted	91.1	94.8	100.2	96.3	90.6	94.1
of which corsets and similar articles	15.1	17.1	19.2	23.8	26.2	110.2
Bed, table, bathroom and kitchen linen	11.8	11.6	10.9	10.9	10.5	96.3
Total	**208.7**	**230.0**	**249.0**	**269.3**	**271.0**	**100.6**

Source: Central Statistical Bureau

Latvia: textile and textile product exports, main partners, 2003-07

(LVLm)	**2003**	**2004**	**2005**	**2006**	**2007**	**07/06 (%)**
Estonia	11.9	14.4	25.6	30.8	37.5	121.6
Germany	39.5	39.0	34.8	29.3	19.6	66.9
Denmark	24.9	25.4	23.4	22.8	19.2	84.3
Lithuania	6.9	8.1	10.7	15.5	18.7	120.0
Italy	20.3	15.1	14.6	16.0	14.1	88.0
Finland	9.7	10.8	8.9	10.3	9.7	94.1
Netherlands	10.2	8.9	7.6	6.8	5.5	80.6
Poland	1.6	1.8	2.1	3.2	4.2	131.6
Total EU-25	*179.6*	*189.5*	*191.0*	*195.9*	*187.6*	*95.7*
Russia	6.3	12.6	20.9	27.2	25.6	94.1
Total CIS	*13.2*	*24.1*	*37.0*	*48.9*	*52.4*	*107.2*
USA	*6.6*	*4.4*	*5.0*	*5.6*	*4.2*	*74.4*
Other	*9.3*	*12.0*	*16.0*	*18.9*	*26.8*	*141.8*
Total	**208.7**	**230.0**	**249.0**	**269.3**	**271.0**	**100.6**

Source: Central Statistical Bureau

Latvia: textile and textile product imports, main partners, 2003-07

(LVLm)	**2003**	**2004**	**2005**	**2006**	**2007**	**07/06 (%)**
Italy	24.3	23.8	27.4	38.4	46.2	120.2
Germany	24.6	28.4	33.7	38.6	39.1	101.2
Lithuania	8.8	12.7	19.1	2.5	25.9	110.2
Poland	9.3	10.5	13.3	20.5	24.0	117.0
Estonia	8.1	10.3	14.8	18.1	23.4	129.1
Sweden	25.8	23.1	19.9	22.0	20.1	91.0
Denmark	18.1	18.9	16.6	19.1	19.4	101.2
Finland	8.0	13.5	16.2	17.9	17.8	99.2
Netherlands	3.3	6.1	7.3	9.5	10.5	111.2
Total EU-25	*159.0*	*182.1*	*201.9*	*252.2*	*282.7*	*112.1*
Russia	3.6	3.3	2.4	3.3	4.1	124.9
Total CIS	*9.8*	*10.5*	*8.9*	*12.6*	*15.7*	*124.9*
Other	*25.1*	*24.0*	*25.8*	*32.2*	*37.2*	*115.5*
Total	**193.9**	**216.6**	**236.6**	**297.0**	**335.6**	**113.0**

Source: Central Statistical Bureau

Latvia: principal textile and textile products, imports by volume, 2003-07

('000 t)	**2003**	**2004**	**2005**	**2006**	**2007**	**07/06 (%)**
Textiles and textile articles	48,931	..	..	..	..	..
Synthetic fibre, thread and yarn	3,608	3,849	3,924	4,551	5,309	116.7
Articles of apparel and accessories knitted or crocheted	2,551		..	..	..	..
Articles of apparel, not knitted or crocheted	2,832		..	..	..	..

Source: Central Statistical Bureau

Latvia: principal textile and textile products, imports by value, 2003-07

(LVLm)	**2003**	**2004**	**2005**	**2006**	**2007**	**07/06 (%)**
Textiles and textile articles	193.9	216.6	236.6	297.0	335.6	113.0
Synthetic fibre, thread and yarn	12.0	13.0	14.3	15,7	18.3	119.8
Articles of apparel and accessories knitted or crocheted	25.2	31.7	37.9	53.8	65.9	122.6
Articles of apparel, not knitted or crocheted	32.7	41.4	54.9	71.7	91.2	127.3

Source: Central Statistical Bureau

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