Introduction

Strategy for development of light industry of the Republic of Armenia (RA) defines the goals, objectives, priorities and ways of transforming it into a competitive and dynamically developing industrial sector. The strategy should be driven to innovative model of development, to increase the efficiency of production of modern competitive products, both to meet the needs of local market and increase exports.

There are many different theories of the formation and development of competitiveness. In practice, the most effective form of economic growth is the theory of cluster mechanism. Armenian light industry consists of three major sectors: wearing apparel, leather, products of leather, footwear and textile processing. Clothing has the opportunity of rapid development.

Short overview of Armenian textile and clothing sector

The light industry is one of the oldest branches of Armenia. In the Soviet economy, Armenia was the major supplier of clothing while the textile industry provided the largest number of jobs, employing 115,000 people, an estimated 25-30% of the total workforce.

The light Industry of the Republic of Armenia promotes harmonious development of regions, social issues - increases employment and improves their welfare, advancement and development of small business.

The Armenian light industry consists of three major sectors: wearing apparel-clothing (72%), leather, products of leather, footwear (22%) and textile processing (6%) (see graph 1).

The clothing sector has a great potential for rapid development. Companies operating in this field export up to 100% of their production. Most of the companies operating in this sector export their production to Canada, USA, Europe, and CIS.

The Apparel and Textiles Industry is one of the most labor intensive industries in Armenia, consisting of approximately 90% female employees. Overall manufacturing equipment is generally over 15 years old and there has been only marginal upgrading.

The number of registered enterprises in the industry was 154 in 2000. Number of organizations in 2005 was 177.It dropped down to 96 in 2009, and 69 in 2010 (see graph 2).

The huge plants that have 1,200 workplace capacities now employ on average 290 people. The SMEs (with average of 20 employees) are a small portion in enterprise structure of the industry. By the end of 2004 the number of the industrial personnel was 5,435 employees. In 2005 the number of employees was 4600, which dropped down two times reaching 2300 in 2009, and 2200 in 2010 (see graph 3).

Overall volume of sales remains very small. In 2002 the total apparel and textile sector output was about 6.4 billion drams. Output of 4.4 billion drams was registered in 2005, and 5.2 billion drams in 2006 and 2008, and the production was decreased in 2009 covering 4.1 billion drams, and 4.9 billion drams in 2010(see graph 4).

Armenia imports raw material; yarn, cotton, textile, wool, as well as some readymade apparel. Total sum of textile articles, apparel, raw material was imported 122 559 thousand USD, as to export, it equals to the amount of 6 751 thousand USD in 2010.

About 1 194 tons of textile articles, apparel and raw material were exported and imported 15 856 tons in 2010.

Detailed information on import and export of textile articles, wearing apparel and other articles you can see in graph 5 and graph 6.

Problems and risks of the sector

One of the risks of the apparel sector is dependence on subcontracting orders. Companies working on subcontracting bases have not sufficient income to cover the company's operational expenditure and it does not allow accumulation of necessary financial resources to organize their own production.

Being small and medium-sized, working separately, companies within the industry are facing serious difficulties at all stages of production and sales cycle, starting with the search for an acceptable price and quality of raw materials and ending with the realization of industrial goods. Companies within the industry are importing raw materials mainly from Turkey, in small batches, and therefore at a high price. Some of the companies import cotton and textile from Central Asian countries (Turkmenistan, Uzbekistan), but small quantities and high transport expenses result high ending cost.

Those enterprises that do not work on subcontracting basis and have finished goods designed themselves, are selling their product mainly in local market. But sales of imported goods are high more than 15 times, than the goods produced locally.

Thus summarizing the problems and risks of the sector we can highlight the following issues:

✓Technological gap between Armenian and international producers
✓Lack of the training programs for T&C sector
✓Dependence on subcontracting orders
✓Dependence on imported raw material
✓Investment requirements for modernization, raw material, marketing, design.

Strategy development

The strategy for T&C should be driven to innovative model of development, to increase the efficiency of production of modern competitive products, both to meet the needs of local market and increase exports. For integration of the international market and development of T&C sector the following operations should be carried out:

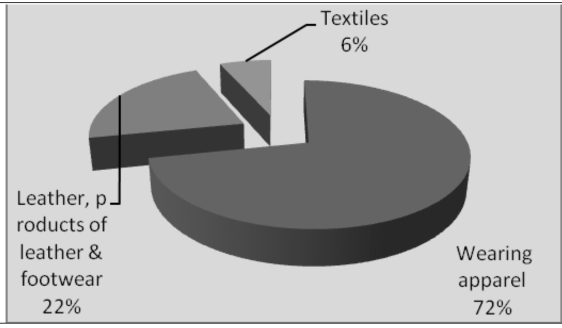
✓Market researches
✓Centralized import of raw materials for enterprises in the sector
✓Modernization/Technical re equipment of the production
✓Technological innovations, quality control
✓Access to finance
✓Government investment
✓Professional education, human resource management
✓Organization of increased sales of locally produced goods in local market. (Today, the local consumer has the opportunity to buy only rare type of the national product, because the companies which work on subcontracting basis are fully exporting their product. The local companies which work on local market need advertising and developing their product.)

The initial course of the strategy will be driven to:

- Establishment of Commercial Company for promoting Armenian light industry sector
- Creation of light industry Cluster defined as an industrial complex formed on the basis of territorial concentration of networks of specialized suppliers, producers and consumers of the technological chain.
- Formation of “Armenian” brand, design, which will meet international standards, requirements and attract world market consumers.

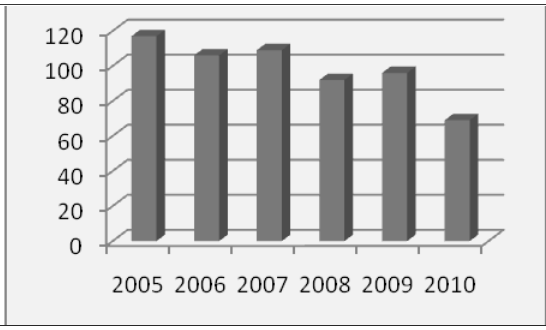
Graph 1:

Total manufacturing of light indeustry in 2010



Graph 2:

Number of organization



Following will result in:

- Establishment of Trade Centres firstly in Russia, later in other international markets, which will provide with the sales of light industry goods in large volumes, and find the opportunity for long-term contracts with commercial networks and provide centralized import of raw materials for enterprises in the sector.
- Foundation of laboratories designed to issue internationally recognized certificates, which will be applied to local and imported goods.
- Establishment of International Regional Fashion Institution. This institution will support cluster development and regional innovation systems though stimulating interactive learning and innovation processes in collaboration with research institutes in national and regional innovation systems
- Establishment of Light Industry Fund, which will improve

ARMENIAN TEXTILE AND CLOTHING SECTOR TODAY AND WAYS OF DEVELOPMENT

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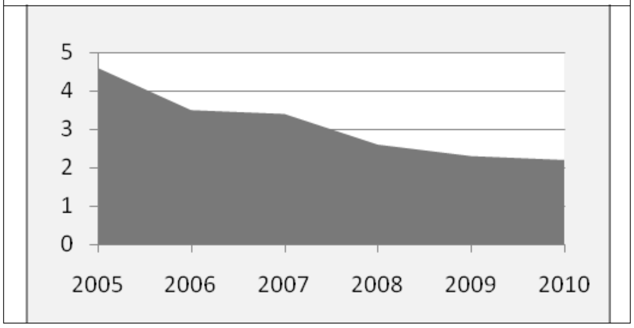
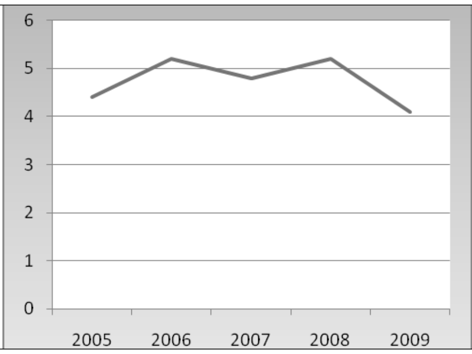
Average payroll number of industrial production personnel / 1000 persons

Graph 3:



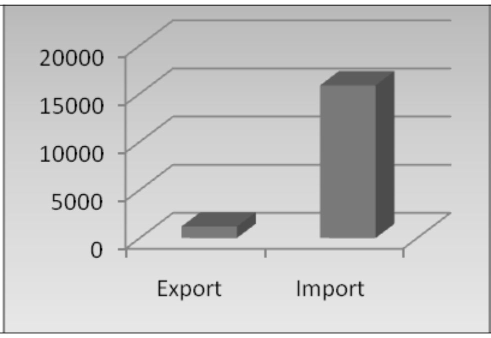
Output (bln. drams)

Graph 4:



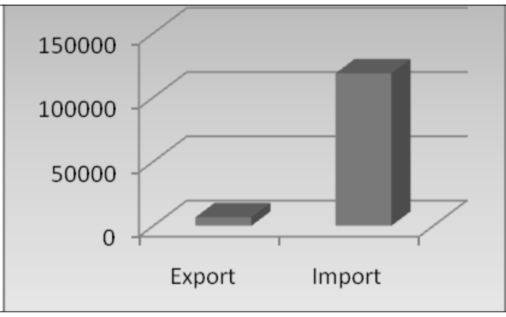
Tons

Graph 5:



Value in USD

Graph 6:



access to finance, skills, technology, information, best business practices and foreign markets by building up business partnership and alliances.

As a result of the above given

- Trade Centres will improve services and build up international, business linkages between countries, which will address trade facilitation issues such as harmonization of custom procedures and clearances and associated laws and regulations; to build adequate quality infrastructure (standards, metrology and conformity), physical infrastructure (roads, ports and transport corridors) and utilities.
- Issued certificates will be the evidence of high quality Armenian products manufactured, and goods imported.
- International Regional Institution will create linkages between countries thereby contributing to the improvement of international competitiveness of local industries; and support entrepreneurship and skills upgrading, especially in material sourcing and design; enhance productivity at factory level; stimulate leveraging of new skills, knowledge, technology and markets through linking with foreign partners in global and regional value chains. Comparable cluster of light industry producers will help Armenian companies to profile themselves on the Russian, European and other markets.

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